

**San Jose Unified School District**

**Final Measure F Bond Fund Performance Audit Report**  
**For the Fiscal Year Ended June 30, 2010**

**Prepared by:**

**MOSS ADAMS LLP**  
**3979 Freedom Circle, Suite 300**  
**Santa Clara, CA 95054**

November 3, 2010

Board of Education  
San Jose Unified School District  
855 Lenzen Avenue  
San Jose, CA 95126

Subject: 2002 Measure F Construction Bond Performance Audit Report  
For the Fiscal Year ended June 30, 2010

Dear Members of the Board:

This report presents the results of our performance audit of the San Jose Unified School District's (SJUSD or the District) 2002 Measure F Construction Bond (Bond Program) as required by California Proposition 39, the "Smaller Classes, Safer Schools and Financial Accountability Act" (Proposition 39), the California Constitution (State Constitution) Article XIII A and California Education Code (Education Code) Section 15272. These California State (State) requirements specify that the proceeds from the sale of school facilities bonds are expended only on the specific projects listed in the proposition authorizing the sale of bonds (Listed Projects). Both the State Constitution and Education Code require an annual independent performance audit to verify Bond proceeds are used on Listed Projects. An annual financial audit is also required by these rules. Finally, Senate Bill 1473, "School facilities bond proceeds: performance audits" (SB 1473), approved by the Governor on September 23, 2010, amended California Education Code to add Section 15286, which requires that the annual performance and financial audits are conducted in accordance with the Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States for financial and performance audits.

### **Executive Summary**

We conducted this Construction Bond Program performance audit in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides reasonable basis for our findings and conclusions, based on our audit objectives. The performance audit objectives, scope, methodology, conclusions and a summary of the views of responsible District Officials is included in the report body.

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The performance audit procedures applied provided reasonable assurance, in accordance with GAGAS, that the Fiscal Year ended June 30, 2010, Bond proceeds were expended only on the projects listed with 2002 Measure F which authorized the sale of the bonds.

Additionally, we evaluated the effectiveness and efficiency of internal controls to provide to the District an analysis of the School Construction Program so that those charged with governance and oversight could use the information to improve program performance and operations. We identified the following significant internal control deficiencies related to effectiveness and efficiency of operations:

- Consistent Documentation of Project Close-Out – As of the end of our field work on October 15, the District was unable to obtain supporting documents for a sampled project close-out. As the Construction Program winds down, it is increasingly important to collect and catalogue documentation for closed projects to ensure all project obligations are completed and the District has received all expected project deliverables.
- Construction Program Policies and Procedures Update – Per District Policy, an updated Construction Program Procedures Manual should be presented as an informational item to the Board of Education on an annual basis. The most recent version of the manual is version November 2008. As of October 2010, an updated version had not been presented to the Board.
- Change Order Controls – Opportunities exist to improve documentation of change order cost validation controls.

**We also identified several good practices listed in indicated areas as follows:**

Facilities Programming and Master Plan Approach

- 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.

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### Communication and Fulfilment of Site Expectations

- The Executive Committee typically met on a weekly basis to address cost, schedule, and quality issues for each project.
- Public meetings of the Citizens' Bond Oversight Committee (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 walk through 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.

### Cost, Schedule, and Budgetary Management and Reporting

- 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.
- 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.

### Change Management and Control

- 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.

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- 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.

### Program Staffing

- 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.
- The District is in the process of creating 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.

### Procurement Controls and Contract Administration

- 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 2002 Measure F Bond Program financial records to this inventory count was in progress.

### Contractor Liens, Claims, and Other Close-Out Issues

- 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 Division of the State Architect (DSA) has not certified the project.

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Management remains responsible for the proper implementation and operation of an adequate internal control system. Due to inherent limitations in 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 policies or procedures may deteriorate.

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

We would like to express our appreciation to you and all members of your staff for your cooperation throughout this performance audit. Please contact Curtis Matthews at (503) 704-6943 if you have any questions regarding this report.

Sincerely,

*Moss Adams LLP*

Moss Adams LLP

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## **BACKGROUND INFORMATION**

### **San Jose Unified School District Approved Bond Funds**

In 2002, voters approved Bond Measure F for \$429 million to provide improvements to the San Jose Unified School District's (SJUSD or the District) facilities. The Measure F School Construction Bond funds were to be used for school repairs, rehabilitation, technology upgrades, 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 eighth year of implementation.

Fiscal year ended June 30, 2010, Bond Program accounting records showed Measure F Bond Program expenditures of \$23,779,974 and total use of Measure F Bond Funds of \$22,328,040. The difference between expenditures and use of Bond Funds was \$1,451,934. The \$1,451,934 was transferred out of Measure F into the Deferred Maintenance fund to obtain matching funds from the State.

Additionally, expenditures of \$2,919,951 paid by Measure F in prior years were transferred in the current year as expenditures paid out of different District funds. The net result was a \$2,919,951 reduction of total Measure F expenditures to date.

### **California State Requirements**

A Construction Bond Program performance audit is required for SJUSD 2002 Measure F Construction Bonds as required by California Proposition 39, the "Smaller Classes, Safer Schools and Financial Accountability Act" (Proposition 39), the California Constitution (State Constitution) Article XIII A and California Education Code (Education Code) Section 15272. These California State (State) requirements specify that the proceeds from the sale of school facilities bonds are expended only on the specific projects listed in the proposition authorizing the sale of bonds (Listed Projects). Both the State Constitution and Education Code require an annual independent performance audit to verify Bond proceeds are used on Listed Projects. An annual financial audit is also required by these rules. Finally, Senate Bill 1473, "School facilities Bond proceeds: performance audits" (SB 1473), approved by the Governor on September 23, 2010, amended California Education Code to add Section 15286, which requires that the annual performance and financial audits are conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States for financial and performance audits.

Proposition 39, "Smaller Classes, Safer Schools and Financial Accountability Act" (Proposition 39) was passed by the California voters on November 7, 2000. Proposition 39 amended provisions to the California Constitution and to the California Education Code. The purpose and intent of the initiative was "to implement class size reduction, to ensure that our children learn in a secure and safe environment, and to ensure that school districts are accountable for prudent and responsible spending for school facilities." It provided for the following amendments to the California Constitution and California Education Code.

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- a) “To provide an exception to the limitation on ad valorem property taxes and the two-third vote requirements to allow school districts, community college districts, and county offices of education to equip our schools for the 21st Century, to provide our children with smaller classes, and to ensure our children’s safety by repairing, building, furnishing and equipping school facilities;
- b) “To require school district boards, community college boards, and county offices of education to evaluate safety, class size reduction, and information technology needs in developing a list of specific projects to present to the voters;
- c) “To ensure that before they vote, voters will be given a list of specific projects their bond money will be used for;
- d) “To require an annual, independent financial audit of the proceeds from the sale of the school facilities bonds until all of the proceeds have been expended for the specified school facilities projects; and
- e) “To ensure that the proceeds from the sale of school facilities bonds are used for specified school facilities projects only, and not for teacher and administrator salaries and other school operating expenses, by requiring an annual independent performance audit to ensure that the funds have been expended on specific projects only.”

**OBJECTIVE, SCOPE AND METHODOLOGY**

The objective of this performance audit was to verify that SJUSD was compliant with Proposition 39, which required that Bond proceeds only be used for school facilities projects that were listed with the Bond. The District created the 2002 Measure F Bond funds under Proposition 39 and as such, have been required to expend these fund proceeds only on specific projects that were authorized with the sale of these bonds (Listed Projects), and not for school operating expenses for the District Fiscal Year ended June 30, 2010 (Fiscal Year 2010). Fiscal Year 2010 Measure F Bond Program expenditures totaled \$23,779,974.

We conducted this Construction Bond Program performance audit in accordance with GAGAS. As required by GAGAS, we planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. The evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objective. Because GAGAS performance audit procedures require reasonable assurance, and these audit procedures did not require detailed examination of all transactions and activities, there is a risk that compliance errors, fraud or illegal acts may exist and not be detected by us.

Management remains responsible for the proper implementation and operation of an adequate internal control system. Due to inherent limitations in 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 policies or procedures may deteriorate.

This performance audit did not constitute an audit of financial statements in accordance with Government Auditing Standards. Moss Adams was not engaged to, and did not render an opinion on the District's internal controls over financial reporting or over financial management systems.

To achieve the performance audit objective, we assessed Bond Program risks, controls design, controls operation and tested expenditures for compliance. The performance audit methodology applied included the following:

- **Program Risk and Controls Design Assessment**

We observed evidence and conducted interviews to assess the effectiveness of the design of internal controls over the Bond Program expenditure process. We interviewed District and Bond Program personnel and analyzed key documentation to assess the design of controls over Bond expenditures, including review, authorization and oversight of the District's Implementation Plan list of projects, contracts executed, accounting for Bond proceeds issued, and payments made and recorded for Fiscal Year 2010. The documents analyzed to assess Bond Program risk and controls design included:

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- 2002 Measure F Bond language and Project Lists
  - The District's Implementation Plan
  - SJUSDs Board of Education (Board) Meetings Agendas and Minutes
  - Applicable Construction Program contract documentation
  - Accounting for Bond Program proceeds and expenditures taken from the District's books and records
  - Citizens' Bond Oversight Committee (CBOC) Meetings Minutes
  - Relevant policies, procedures, reports and key correspondence
- **Review of Bond Program Controls Operation and Expenditures Compliance**  
Verification of Fiscal Year 2010 Bond Program compliance controls operation and expenditures compliance included the following procedures:
    - Comparison of the Bond Program Master Plan to projects listed with the District's 2002 Measure F Construction Bond
    - Analysis of Board budgetary approvals for Implementation Plan expenditures
    - Verification of Bond Program Implementation Plan contract Board approvals
    - Analysis and validation of accounting for Bond proceeds issuance, receipts and use on approved Bond Program Listed Projects
    - Walkthrough and testing of the Bond expenditure cycle and a sample of the supporting documentation to validate internal controls. Testing procedures included the use of Audit Command Language (ACL) to select a random, monetary-unit sampling of 60 expenditure transactions from the Bond Program for Fiscal Year 2009-2010. These transactions included payments to contractors and vendors, and journal entries. The total Measure F expenditures sampled were \$7,098,013 of \$23,779,974 (30%). We conducted tests on sampled transactions to verify the following:
      - Expenditures were for Listed Projects
      - Approval of payment applications and invoices
      - Expenditure compliance with properly approved contract, purchase order or other procurement documentation
      - Were recorded in a current, accurate and complete manner on the District's books and records

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In addition to evaluating compliance with the State Constitution, the Education Code and Proposition 39, we evaluated the effectiveness and efficiency of Bond Program internal controls. The results of this evaluation are provided in this report so that those charged with governance and oversight could use the information to improve program performance and operations to increase program effectiveness and efficiency, to facilitate decision making by Management, to oversee or initiate corrective action, and to contribute to public accountability. 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. The following areas were covered by these performance audit procedures:

- **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 were 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.

- **Communication and Fulfilment 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 and their maintenance staff at Lincoln High School, Anne Darling Elementary School, Empire Gardens Elementary School, and Gunderson High School. We also interviewed the Kitchell Project Manager and Program Director, the Director of School Construction and Maintenance and other personnel to better understand the specific types of information flow that were occurring on campuses and in the surrounding communities. This analysis included an assessment of whether an ongoing level of communication was 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.
- **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.
- **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.
- **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.

- **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.

- **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.

- **Interviews**

- We interviewed key personnel responsible for administering the Bond Program, including senior management and staff from the District and Bond Program Management Team responsible for overseeing the work associated with the Bond Program. The individuals interviewed are listed in Appendix A of this report.

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**AUDIT RESULTS**

1. The performance audit procedures applied provided reasonable assurance, in accordance with GAGAS, that the Fiscal Year ended June 30, 2010, Bond proceeds were expended only on the projects listed with District 2002 Measure F which authorized the sale of the bonds.
2. We also identified the following significant internal control deficiencies related to effectiveness and efficiency of operations as detailed in the improvement opportunities below:
  - **Consistent Documentation of Project Close-Out** – We provided the District a list of five sampled projects on August 23, 2010, for which to provide detailed documentation to support the performance audit analysis of close-out procedures per the Construction Manual. As of the end of our field work on October 15, the District was unable to obtain supporting documents from the construction management company for one of three projects. As the Construction Program winds down, it is increasingly important to collect and catalogue documentation for closed projects in order to ensure all project obligations are completed and the District has received all expected project deliverables.
    - Recommendation: The District should begin to focus resources on collecting and cataloguing documentation for closed projects in order to retain project information for future use that is complete and accessible.
  - **Construction Program Policies and Procedures Update** – Per the Construction Manual (p.3), “The updated Construction Program Procedures Manual will be presented as an informational item to the Board of Education on an annual basis.” The most recent version of the manual is version November 2008. As of October 2010, an updated version had not been presented to the Board. Construction practices applied have not consistently matched Construction Manual requirements. For example, in 2008 testing, Moss Adams had observed that several Payment Applications lacked the inspector’s or architect’s signature as required by the Construction Manual. The Director of Construction had resolved this issue by telling his staff that projects without structural requirements, such as paving or athletic field renovations, would not require an inspector or architect’s signature. This would be included in an updated version of the Construction Manual; however, the Construction Manual has not been updated since the observation in the previous year.
    - Recommendation: The District should update the Construction Manual to ensure the documentation reflects current, accepted practices, and present it as an informational item to the Board.

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- **Change Order Controls** – While project costs have been controlled initially through competitive bidding, documentation of District cost validation was not consistently evident for change orders sampled. As a result, the District was exposed to change orders that exceeded industry benchmarks.
  - Recommendation: The District should be more rigorous in documenting the basis for pricing acceptance, especially with costs related to pricing of materials, the cost of labor and forecasted hours, and any additional costs related to overtime work and changes in schedule sequencing.
  
- **Follow-Up on Previous Measure F Audit Recommendations**  
 There were 30 issues identified in the prior years’ audits; 26 issues have been resolved, and 4 are being implemented.

Source	Issues Identified	Implemented Items	Solutions Being Implemented
Moss Adams 2009	3	1	2
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>
<b>Total</b>	<b><u>30</u></b>	<b><u>26</u></b>	<b><u>4</u></b>

**REPORTING VIEWS OF RESPONSIBLE OFFICIALS**

Management concurs with the audit results. These audit results are consistent with the report we have issued under California Government Code Section 53410 and our assertion of compliant use of local 2002 Measure F Bond funds. To achieve these ends, we have instituted specific policies, procedures and other internal controls to ensure accurate and compliant approval, recording and reporting of Bond-related expenditures. We are committed to strong internal controls in order to deliver the required facilities and infrastructure to support the educational needs of our community, now and in the future, as defined in our current Implementation Plan. Management agrees that we will develop an action plan to address the deficiencies identified in this report.

**APPENDIX A – INTERVIEWS PERFORMED**

The following key personnel were interviewed:

- SJUSD, Director, School Construction and Maintenance
- SJUSD, Manager, School Construction
- SJUSD, Administrator, School Construction
- SJUSD, Director, Internal Audit
- SJUSD, Director, Technology
- SJUSD, Principal, Lincoln High School
- SJUSD, Principal, Empire Gardens Elementary School
- SJUSD, Principal, Anne Darling Elementary School
- SJUSD, Principal, Gunderson High School
- Kitchell CEM, Project Manager
- Kitchell CEM, Program Director

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**APPENDIX B – 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. Previous year audits were performed under American Institute of Certified Public Accountants (AICPA) consulting standards. Through inquiry and review of documents, we confirmed that 26 of the original 30 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 (2009)	High	Punch list items were not cleared prior to building occupancy.	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 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 Division of the State Architect (DSA) certification and arguably, impracticable to receive certification prior to occupancy of a public school construction project.	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	Program Staffing (2009)	Medium	There was no detailed transition plan.	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 agrees and will continue efforts in detailing and documenting the transition planning.	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
3	Contract Close-Out (2009)	Medium	Payment Applications lacked required and appropriate signatures.	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 recognizes the importance of the Construction Manual and its controls. Further, 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.	Director of School Construction and Maintenance	Closed	Oct-2010

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No.	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Planned Resolution Date
4	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	
5	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

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No.	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Planned Resolution Date
6	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	
7	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

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No.	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Planned Resolution Date
8	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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9	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
10	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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11	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
12	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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13	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
14	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
15	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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16	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
17	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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18	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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19	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
20	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
21	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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22	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
23	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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24	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
25	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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26	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
27	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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28	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
29	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

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30	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