

San Jose Unified School District

Final Measure C Bond Fund Performance Audit Report
For the Fiscal Year Ended June 30, 2011

Prepared by:

MOSS ADAMS LLP
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October 21, 2011

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

Subject: 1997 Measure Construction Bond Performance Audit Report
For the Fiscal Year ended June 30, 2011

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) 1997 Measure C construction bond (Bond Program). Although not mandatory by State of California requirements, the District has voluntarily required application of the following standards to this performance audit:

- California Proposition 39, the "Smaller Classes, Safer Schools and Financial Accountability Act" (Proposition 39)
- The California Constitution (State Constitution) Article XIII A
- 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.

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, 2011, Bond proceeds were expended only on the projects listed with District 1997 Measure C which authorized the sale of the bonds.

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,

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, slightly slanted style.

Moss Adams LLP

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BACKGROUND INFORMATION

San Jose Unified School District Approved Bond Funds

In 1997, voters approved Bond Measure C for \$165 million to provide improvements to the San Jose Unified School District's (SJUSD or the District) facilities. According to the broad scope of the language in the Bond Measure, the Measure C School Construction Bond funds are to be used by the District "to repair its existing neighborhood schools, fix and replace deteriorating roofs, gas, sewer and water lines, heating, ventilation and electrical systems; wire classrooms and computer labs for technology; renovate, construct and acquire classrooms; remodel outdated toilet and science facilities; and improve safety and security of schools and playgrounds." Fiscal year ended June 30, 2011, Bond Program accounting records showed Measure C Bond Program expenditures of \$10,975,177.

SJUSD Performance Audit Requirements

The District has voluntarily required a construction Bond Program performance audit for the SJUSD 1997 Measure C School Construction Bond; this performance audit is to be performed under requirements specified 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.

- 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;

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- 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. Although the District created the 1997 Measure C bond fund prior to the passage of Proposition 39, the District has voluntarily required its construction program to meet Proposition 39 standards. These standards require the District to expend these Bond 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, 2011 (Fiscal Year 2011). Fiscal Year 2011 Measure C Bond Program expenditures totalled \$10,975,177.

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

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Plan list of projects, contracts executed, accounting for Bond proceeds issued, and payments made and recorded for Fiscal Year 2011. The documents analyzed to assess Bond Program risk and controls design included:

- 1997 Measure C 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 2011 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 1997 Measure C 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 2010-2011. These transactions included payments to contractors and vendors, and journal entries. The total Measure C expenditures sampled were \$7,662,551 of \$10,975,177 (70%). 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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AUDIT RESULTS

The performance audit procedures applied provided reasonable assurance, in accordance with GAGAS, that the Fiscal Year ended June 30, 2011, Bond proceeds were expended only on the projects listed with District 1997 Measure C which authorized the sale of the bonds.

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 Measure 1997 Measure C 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.