

SAN JOSE UNIFIED SCHOOL DISTRICT

**Final Measure F Bond Fund
Performance Audit Report
For the Fiscal Year Ended
June 30, 2005**

Prepared by:

MOSS ADAMS LLP

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EXECUTIVE SUMMARY

The San Jose Unified School District (the District or SJUSD) has implemented controls covering the use of school construction Bond proceeds that comply with Measure F requirements. The Measure F Construction Bond Program (Bond Program) is in the third year of implementation. Our review of the fiscal year June 30, 2005 Bond Program expenditures of \$64,897,372 found no discrepancies in the use of expenditures for approved Bond fund purposes. This expenditures amount is based on the District books and records and has not been subject to the District financial statement audit procedures. The District primarily uses Lump Sum Contracts for its construction projects. For these types of contracts, our review of costs included verification that the costs and payments complied with the agreed upon contract terms.

The District has implemented plans for the prudent use of Bond Program funds and has properly considered the students' need for a safe and secure learning environment. The District's use of Bond Program proceeds has properly considered classroom space requirements and technology needs. The scope of the Bond Program has been defined and communicated to District stakeholders in developing and deploying the Measure F Facilities Construction Implementation Plan (Implementation Plan).

Construction program control practices have been improved and are properly documented in the Revised 2004 Implementation Plan to help ensure consistent and efficient application of best school construction practices. The Implementation Plan prepared in 2003 had budget discrepancies between the Master Budget and Individual Schedules. In addition, more complete assessments of individual school needs indicated different repair and replacement than originally envisioned. The net amount of these differences was a reduction in projected spending of \$4,746,716. The Project Manager (PM) corrected these discrepancies by using the individual site schedule as the baseline for all costs. The Implementation Plan was modified, changes to the Implementation Plan were communicated in the 2004 Revision, and modifications to the Implementation Plan were adopted by the Board of Education (Board).

The District has drafted a plan that addresses deferred maintenance needs to protect the Measure F facilities investment. This plan should identify both facilities maintenance needs as well as funding available to meet those needs for fiscal years 2005-2009.

The District should ensure that all Implementation Plan project funding sources are specifically identified within the Implementation Plan. This 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 Implementation Plan activities will be facilitated by specific identification of funding sources for each Implementation Plan project work scope.

Objectives and Scope

Our performance audit evaluated the bond program's compliance, effectiveness, program performance controls, and efficiency. In order to do so, we reviewed key documents, conducted in-depth interviews, and focused on the expenditure for the fiscal year to determine if funds were

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being used for specified Bond Program purposes. The key documents we received from the District included:

- Voter materials and Bond documents
- Procurement bid and award documentation
- Implementation Plan and workflow scheduling documentation
- Cash flow forecasts
- A sampling of actual contracts
- A sampling of actual payment applications and invoices
- Relevant policies and procedures
- District Facility Standards
- Student headcount planning documents
- Relevant financial records and transaction support
- Board and CBOC reports (including those from the District and County Counsel, etc.)

We evaluated Bond Program financial records and expenditure cost support to verify that funds were used for approved Bond Program purposes. 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 Bond Program purposes.

Background Information

In 2002, voters approved a \$429 million bond Measure F to provide additional improvements to the District’s facilities. The Measure F school construction bond funds are to be used for school repairs, rehabilitation, and health and safety needs at the District’s 48 local schools over the next seven to eight years. Bond programs of this size and complexity require appropriate financial processes and operational controls to ensure that 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.

As of June 30, 2005, the District has spent a cumulative \$95,439,397 of Measure F funds. Fiscal year 2005 expenditures were \$64,897,372. This amount is based on the District’s books and records and has not been subject to the District financial statement audit procedures and any related adjustments. A summary of fiscal year 2005 expenditures is as follows:

Capital Outlays	<u>\$ 61,887,233</u>
Materials and Supplies	1,916,137
External Program Management	768,675
Internal Program Management	307,327
Total Expenditures	<u>\$ 64,897,372</u>

KEY OBSERVATIONS

3.1 CONSTRUCTION PROGRAM PLANNING AND PERFORMANCE CONTROLS

A. Project Plans and Use of Funds in Compliance with Bond Program Objectives

During the latter part of 2004, the District, along with its program management organization, completed a reconciliation of construction plans to the various funding sources. The Measure F Implementation Plan was updated as the 2004 Revision. The new plan differs from the original budget by a \$4,746,716 decrease in spending. The net decrease in spending was driven primarily by updated assessments of each school's needs, increased revenue estimates, and the closing of three schools. The 2004 Revision, which was adopted by the Board of Education on February 17, 2005, was used as the baseline for our review.

We compared the projects projected in the 2004 Revised Implementation Plan against the projects approved by Measure F. This analysis indicated that some of the work being performed at some schools was not specified as a part of the Measure F Bond. We provided the list of exceptions to the District. The District reviewed the list, and informed us that not all the projects in the 2004 Revised Implementation Plan were funded by Measure F. The District stated that some of the projects were funded out of deferred maintenance funds, and others were roofing repairs driven by Measure F projects. Program Management and the District Construction are taking steps to clearly identify which projects are funded by Measure F. The details of our review and the District response are contained in Attachment A.

We performed analysis of the bond expenditure cycle and sampled supporting documentation for 78 expenditures totaling \$14,102,132 to validate internal controls for the total \$64,897,372 Bond Program funds expended in fiscal year ending June 30, 2005.

Good Practices:

- Measure F requirements are included in the 2004 Revised Bond Program Implementation Plan.
- The District spent \$64,897,372 of Measure F funds in the fiscal year ending June 30, 2005, and has implemented expenditure management processes to comply with Bond Program requirements. Bond fund expenditures had proper supporting documentation and were properly approved. We found no discrepancies in the use of Measure F funds for approved Bond Program purposes.
- The Measure F Construction Bond Program is addressing current curriculum needs and objectives as stated in the Bond materials.
- Plans for projects cover work scopes and priorities established by the Board of Education, and include priorities as intended in Proposition 39. The plans for projects, as stated in the Implementation Plan, have changed slightly from the prior year. We found no spending activities outside the Implementation Plan. The District controls this by using the Implementation Plan as the master schedule for projects to commence. Only projects on the schedule qualify for either a bid process or purchase order approval.

Improvement Opportunity:

The District should ensure that all Implementation Plan project funding sources are specifically identified within the Implementation Plan. The Implementation 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 Implementation Plan projects will be facilitated by specific identification of funding sources for each Implementation Plan project work scope.

B. Schedule, Quality, Scope Management, and Performance Controls

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. This analysis covered approvals required before performance of Bond Program activities and expenditures and the application of a Bond Program delivery model that requires appropriate scope, documented actions, and approvals before the design, construction, and closeout project phases. We reviewed the definition of deliverables for each project phase and requirements for approvals. We reviewed the School Construction Procedures Manual to determine that appropriate approvals are in place and documented. This analysis included the review of tools and support processes for each project phase, comparing them to other projects and good industry practices.

Good Practices:

- The District’s Revised 2004 Implementation Plan provides an approved basis for the Bond program scope and project time phasing.
- Changes to the Implementation Plan were documented and properly communicated.
- Policy and procedure performance controls from the ongoing facility improvements program are being applied to the Measure F Construction Bond Program.
- The District, PM and individual project Construction Managers (CM) have weekly meetings to address cost, schedule and quality issues for each project. The detailed program reports and other relevant information are presented in the monthly reports to the CBOC. The program status report emphasizes the status of issues needing resolution. These activities provide for proper communication of program activities and expenditures.

3.2 PRUDENT BOND FUND SPENDING

A. Cost, Schedule, and Budgetary Management and Reporting

We reviewed Bond Program reporting as needed to provide current, accurate, and complete cost, schedule, and budgetary information to Program stakeholders. Based on the 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 has defined program performance reporting requirements that include a running total of the budget, changes, spending, commitments, forecast, and variance to budget.
- The District applies a cash flow planning process to identify the expected spending requirements and to match the issuance and use of Bond proceeds with these spending requirements.
- The CM provides project level reporting which is sent to the Project Manager (PM) for District use in overall program accounting. These program accounting reports are sent monthly to the District.
- The management of the cost, schedule and budget reporting that is done by the PM is prepared monthly and regularly compared with Fiscal accounting's Measure F Bond reporting to reconcile any differences or discrepancies that could impact the reliability of program reporting.
- The PM prepares a detailed project-by-project analysis on status of cost, schedule and, budget, which highlights any specific issues on each project. This report is provided to the CBOC.

B. Procurement and Contracting Controls

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 help protect the District from exposures related to project cost, schedule, and scope. Our review covered 45 contracts and purchase orders totaling \$64,681,687, including change orders.

Good Practices:

- The District has competitive bidding procedures that address construction project bidder prerequisites, pre-qualification requirements, and selection criteria. The District procedures require competitive bids, rates, and fees.
- District competitive bidding practices provide for objective verification of bidder compliance and comparison of bidder qualifications and pricing.
- The work to be performed is confirmed by the Project Manager, cost estimates are reviewed, and there is an appropriate approval process implemented for contractor selection.
- We found no instances of work performance prior to procurement approval.
- The District has implemented financial controls to manage the expenditure of Bond funds. The District compares budget to actual expenditures, changes, commitments and forecasts.
- Controls are in place for approval and comparison of amounts billed to work performed and contractual requirements. All supporting documents are attached and complete before payment is made to the contractors.
- Controls have been implemented to prevent the work performance before contract execution and Board approval. On some occasions, to prevent work performance before Board approval, the District has been able to obtain "Delegation of Authority to Approve

Bids” from the Board of Education. This delegation enables the Board to delegate authority to the Superintendent or a designee to award bids without having to wait for Board approval. The Board reviews approvals for ratification.

- The San Jose Unified School District School Construction Procedures Manual (the manual) was completed in September 2004 and is fully implemented. The first revision to the manual was implemented in April 2005. The manual provides a significant advancement in the District’s policies and procedures documentation and shall act as a baseline for future performance measurement. We have reviewed the manual and found that it contains good practices and will provide controls needed to help the District achieve its Bond Program scope, schedule and cost controls. This manual documents project delivery procedures by project delivery phasing (pre-design, design, bid, construction, and post-construction phases) inclusive of reference documents, flowcharts, and general contract policies.
- The District has and applies standard terms and conditions. These terms and conditions provide: 1) well defined responsibilities and accountabilities, 2) proper work activity approval requirements, 3) pricing and billing requirements, 4) insurance provisions, 5) schedule requirements, and 6) other appropriate provisions covering project scope and quality.

The District Construction Office uses primarily Lump Sum Contracts in building and improving the schools and district facilities. Other types of contracts could result in more efficient use of funding under certain circumstances. The Construction Office should consider the feasibility of using other types of contracts, particularly in very large contract awards.

C. Change Order 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 that helps prevent excessive expenditures. Our review covered 47 separate change orders totaling \$499,515.

Good Practices:

- The District has defined control processes to identify change order causes and to evaluate change order costs.
- We have reviewed a sampling of change orders in various projects and found that there was appropriate change order documentation, identification of the reasons for the changes, cost summaries, documentation of review and appropriate approvals.
- Change orders are properly accounted for, and documented in, each contract file. The project cost accounting includes the original contract amount, change order amount, necessary signatures, Board approvals, and the applicable cost codes.
- The Construction Manual prescribes the required review and approvals required, including when changes must be approved by the Board of Education.
- Changes tested in this performance audit were properly reviewed and approved.

Improvement Opportunities:

The Construction 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 will design and implement a checklist to document that change orders meet the specific criteria required by the Construction Manual.

D. Contractor Cost Control

District control processes to review and approve contractor cost charges were analyzed. Interviews were conducted to 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.

Good Practices:

- The District and its Construction Management firms review and approve contractor costs for signed contracts.
- Applications for payment and schedule of values are reviewed and checked to ensure that fees and rates charged match actual contract amounts.
- Percentage of completion is reviewed and approved to prevent early payments for work not performed (front-end loading). This control helps the District to pay only on actual work performed and to manage Bond fund cash flow.
- The Construction Management, Architects, Inspectors of Record, District Facilities Management Staff and District Fiscal Services Staff all review payment applications.

E. Construction Contract Protections

We reviewed contracts used by the District. SJUSD primarily uses lump sum contracts for construction projects. These lump sum contracts combine cost elements into one overall fixed charge. Billing for lump sum work is generally based upon percentage of contracted schedule of values work completion rather than actual cost charges for each element of project cost. SJUSD has developed standard language for its contracts.

Good Practices:

- The District uses standard terms and conditions that require relevant cost control and reporting.
- The District requires specific Project Performance Bonds for construction projects.
- The Construction Manual prescribes well-defined responsibilities and accountabilities.
- The contracts specify project reporting and backup documentation required with payment applications.
- The contracts provide for specific inspection and closeout requirements.

3.3 DEFERRED MAINTENANCE

Given the emphasis provided by the C and F Bond Measures, other specific deferred maintenance projects were almost non-existent in 2004-05 with total expenditures of \$2,878. The District has drafted a new five-year deferred maintenance plan, which contemplates spending of approximately \$6.3 million between fiscal years 2005 and 2009. To maximize the benefits of the deferred maintenance funds, the District plans to maximize state matching funds.

3.4 CITIZENS BOND OVERSIGHT COMMITTEE (CBOC) REQUIREMENTS COMPLIANCE

We compared the CBOC membership staffing as well as fulfillment of committee responsibilities to Proposition 39 regulations and enabling requirements. This review was accomplished by analysis of CBOC minutes, review of information published by the CBOC, as well as inquiry of selected Board of Education, CBOC members and District staff.

Good Practices:

- The CBOC is fulfilling its responsibilities in compliance with Proposition 39.
- CBOC reports are complete and timely.
- CBOC meetings are conducted on a regular basis and committee members are actively engaged in these meetings.
- CBOC members work actively outside of regularly scheduled meetings to inquire and analyze District Bond Program activities as well as to communicate their observations to local citizens and District construction program stakeholders.

Improvement Opportunity:

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.

3.5 ACTIONS TAKEN TO ADDRESS PRIOR YEAR IMPROVEMENT OPPORTUNITIES

Streamlining the Payment Application Process:

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 on-line from central servers. Any changes made to these documents will also be scanned and available on-line. 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 by July 1, 2006.

Deferred Maintenance Plan:

In response to last year's recommendation, the District has drafted its revised deferred maintenance plan for 2005-2009. The plan is under review for approval.

Right to Audit Clauses:

This District has obtained terms for its right to audit clause and will implement those terms as appropriate in new contracts. Right to audit provisions could be strengthened in District contracts. These would help the District improve change order cost validation capabilities, improve future contracts based on lessons learned, and are necessary for the proper administration of other than Lump Sum Contracts.

Project Approvals:

This District has taken action to obtain appropriate procurement approval prior to work performance.

**SAN JOSE UNIFIED
SCHOOL DISTRICT**

Building on Success

December 6, 2005

Domingo Laboy
Moss-Adams LLP
One California Street, Fourth Floor
San Francisco, CA 94111

Domingo,

During the performance auditor's review particular scopes of work were identified at several sites which, while provided budget in the Implementation Plan, were not included in the ballot language. Therefore, at first review they would appear not to be eligible for funding by Measure F. This program is funded by multiple funding sources. Typically these other funds are utilized to bridge these kinds of gaps in allowable scope to complete the clearly identify work at the sites. It is apparent that specificity of funding source for these items is necessary within the Implementation Plan to clearly identify and avoid potential miscoding of expenditures to an inappropriate source.

In this case 13 sites had 32 instances of non Measure F eligible scope identified within the Implementation Plan which is not supported by the official ballot language. The majority of the identified scope in question is roofing or roofing related work and are allowable under the Deferred Maintenance funding. Two items which occur on 5 sites, provide for the repair/replacement of building gutters and downspouts, including, to the extent indicated, the connection of such to the underground storm sewer. These items are miscategorized as roofing and should have been identified as part of the Underground Utility program.

The final category of scope identified consisted of 5 items at 4 sites for improvements of existing pedestrian paths, parking areas, and student drop off zones. This is eligible for funding under the Deferred Maintenance program.

The adjustments necessary to reflect these changes and/or clarifications will be made to the Implementation Plan and presented to the Board of Education as part of the 2005 Implementation Plan revision in March 2005. Please refer to the attached spreadsheet which indicates the items of concern and the funding source they will be reallocated to.

Sincerely,

Ty Williams
Director, School Construction

Attachment A

Project	Scope Code	School	Description	Budget Amount	Budget Source	Rev. Scope
9803	S3.10	Allen	Roofing: Allowance for abatement assoc with roofing work	\$4,999	DM Roofing(State match)	S3.10
9803	S3.10	Allen	Roof Hatches: Replace rusted roof hatch	\$5,999	DM Roofing(State match)	S3.10
9803	S3.10	Allen	Roof Ladders: Replace roof ladders & add ladder up	\$4,999	DM Roofing(State match)	S3.10
9805	S3.10	Almaden	Minor Roofing Repairs: Replace roof damage	\$9,998	DM Roofing(State match)	S3.10
9803	S3.10	Bachrodt	Roof Hatches: Replace rusted roof hatches-quantity an estimate	\$17,997	DM Roofing(State match)	S3.10
9803	S3.10	Bachrodt	Building Gutters: Clean gutters	\$9,998	Underground Utilities Measure F	S2.1/S2.2
9803	S3.10	Bachrodt	Roof Ladders: Replace roof ladders & add ladder up	\$14,997	DM Roofing(State match)	S3.10
9906	S3.10	Booksin	Building Gutters: Clean gutters & trim overhanging trees	\$14,997	Underground Utilities Measure F	S2.1/S2.2
9906	S3.10	Booksin	Downspouts: Replace existing downspouts with new patch concrete as required	\$26,995	Underground Utilities Measure F	S2.1/S2.2
9906	S3.10	Booksin	Roof Ladders: Replace roof ladders & add ladder up	\$14,997	DM Roofing(State match)	S3.10
9602	S2.8	Graystone	Parking Lots: Access drive, parking lots, bus drop-offs	\$216,679	DM (Paving)	S2.8
9904	S3.10	Hacienda	Building Gutters: Replace roof drains and repair gutters	\$51,991	Underground Utilities Measure F	S2.1/S2.2
1000	S3.10	Hester	Roofing: Allow for mastic removal on re-roof if necessary (flashing only)	\$2,000	DM Roofing(State match)	S3.10
1000	S3.10	Hester	Batt Insulation: Insulation replacement for soffit repair	\$5,999	DM Roofing(State match)	S3.10
1000	S3.10	Hester	Replace Roof: Replace roofing @ covered walks (bldgs H & D)	\$19,996	DM Roofing(State match)	S3.10
1000	S3.10	Hester	Replace Roof: Flashings Covered walks	\$2,000	DM Roofing(State match)	S3.10
1000	S3.10	Hester	Roof Hatches: Replace rusted roof hatches	\$11,998	DM Roofing(State match)	S3.10
1000	S3.10	Hester	Exterior Wall Ladders & Cages: Replace with new	\$9,998	DM Roofing(State match)	S3.10
9434	S2.8	Lincoln	Pedestrian Paths: Adjacent to small gym New AC Ped. Path	\$23,209	DM (Paving)	S2.8

Attachment A

Project	Scope Code	School	Description	Budget Amount	Budget Source	Rev. Scope
9809	S3.10	Lowell	Building Gutters: Clean gutters & install new at metal roofs	\$19,414	Underground Utilities Measure F	S2.1/S2.2
9809	S3.10	Lowell	Downspouts: New downspouts	\$9,707	Underground Utilities Measure F	S2.1/S2.2
9809	S3.10	Lowell	Replace Roof Flashing: Covered walks	\$9,707	DM Roofing(State match)	S3.10
9809	S3.10	Lowell	Replace Roof: Replace comp roofing @ covered walks (canopies)	\$58,242	DM Roofing(State match)	S3.10
9714	S3.10	Olinder	Roof: Replace roof gutters & downspouts (port & covered walk)	\$37,697	Underground Utilities Measure F	S2.1/S2.2
9714	S3.10	Olinder	Minor Roof Repair: Repair roof damage (all)	\$9,424	DM Roofing(State match)	S3.10
9714	S3.10	Olinder	Attic Access Door: Replace attic access door (Media Center)	\$5,655	DM Roofing(State match)	S3.10
9714	S3.10	Olinder	Interior Wall Ladders: Replace access ladder (Media Center)	\$4,712	DM Roofing(State match)	S3.10
9411	S2.8	Reed	Parking Lot: Access drive, parking lots, bus drop-offs	\$148,539	DM (Paving)	S2.8
9905	S3.10	River Glen	Building Gutters: Allow for repair roof drains & gutters	\$19,996	Underground Utilities Measure F	S2.1/S2.2
9803	S3.10	Schallenberger	Building Gutters: Allowance to add gutters at K1 & K2 including downspouts	\$19,414	Underground Utilities Measure F	S2.1/S2.2
9431	S2.8	Schallenberger	Student Drop Off: Rework drop-off	\$15,300	DM (Paving)	S2.8
9431	S2.8	Schallenberger	Add Parking: Add parking to met current population	\$34,424	DM (Paving)	S2.8
			Total	\$862,077		