

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
Proposition S Bond Program**

**PERFORMANCE AUDIT REPORT**

**For the Fiscal Year Ending  
June 30, 2010**



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Governing Board Members and  
Proposition S Independent Citizens' Oversight Committee (ICOC) of  
San Diego Unified School District  
San Diego, California

## INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

We have conducted a performance audit of the Proposition S Bond Program of San Diego Unified School District's (the District) compliance with California Proposition 39, as incorporated in Article 13A of the California Constitution and Education Code Section 15264 et seq., during the fiscal year that ended on June 30, 2010. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our performance audit.

We conducted this performance audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The attached performance audit report as referenced in the table of contents presents the objectives, scope, and methodology of the audit. The performance audit report also includes the results of our performance audit, including our findings, conclusions, and recommendations. Management's responses to the findings of our performance audit are indicated in the accompanying schedule of audit findings and management's responses. We did not audit management's responses and, accordingly, we express no opinion on them.

We have audited the financial statements of the Proposition S Bond Program for the fiscal year ended June 30, 2010, and have issued our report thereon dated January 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In our opinion, the Proposition S Bond Program complied, in all material respects, with the aforementioned requirements during the fiscal year that ended on June 30, 2010. This report is intended solely for the information and use of the District's Governing Board, the Proposition S ICOC, management, and the taxpayers of San Diego Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

*Christie White Accountancy Corporation*

San Diego, California  
January 21, 2011

## EXECUTIVE SUMMARY

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## EXECUTIVE SUMMARY

San Diego Unified School District (the District) has implemented controls over the expenditure of Proposition S school construction bond proceeds, to comply with Proposition 39 requirements as well as the requirements of the Proposition S ballot measure. Total Proposition S Bond Program expenditures, as audited, for the fiscal year ended June 30, 2010 were \$92.8 million. The performance audit evaluated Proposition S Bond Program internal controls and Proposition S expenditures, and found no exceptions with the use of Proposition S Bond Program funds for approved Proposition S purposes.

The District's plans for prudent use of Proposition S Bond Program funds properly considers District student and teacher needs for a safe and secure learning environment. The scope of the Proposition S Bond Program was defined in the formulation of the Proposition S ballot language that was approved by District voters on November 4, 2008. Facilities planning documents, developed by District personnel in collaboration with the District's Governing Board, and culminating in the Bond Project List of the final Proposition S ballot language, reflect the Governing Board's evaluation of safety, class size reduction, and information technology needs of the District.

This report is the second annual performance audit report of the Proposition S Bond Program, as Proposition S was approved by the District's voters during the fiscal year ended June 30, 2010.

### **Summary of Key Good Practices**

- An involved Citizens' Oversight Committee is actively overseeing the activities of the Proposition S Bond Program, in accordance with Education Code requirements.
- Utilization of District staff and independent contractors to coordinate construction management and project management efforts. Personnel assigned to manage the Proposition S Bond Program appear to have the requisite expertise and experience to successfully manage the program.
- Promotion of an "open door policy" and maintenance of a fraud hotline to reduce the risk of fraud and misappropriation.

### **Summary of Key Areas for Improvement**

- Expanding the role of the District's Finance and Business Services Division and the Internal Audit Department in monitoring financing, procurement, and budgeting functions of the Proposition S Bond Program.
- Increasing efficiency and effectiveness in the utilization of purchase requisitions and purchase orders for processing Proposition S expenditures, an initiative that began in the 2009-10 fiscal year.
- Fostering a team-oriented culture that encourages employees and departments to collaborate and adopt an "entire program" approach to their work.

## **BACKGROUND INFORMATION**

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## BACKGROUND INFORMATION

The Proposition S San Diego School Repair and Safety Measure was approved by District voters in November 2008 to provide \$2.1 billion in improvements to San Diego Unified School District facilities. Proposition S is a Proposition 39 bond, requiring 55% favorable vote for passage and requirements per Article 13A of the California Constitution, as paraphrased:

- Proceeds from the sale of bonds be used only for the purpose of construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities, and not for any other purpose, including teacher and administrative salaries and other school operating expenses.
- A list be developed for the specific school facilities projects to be funded, and certification that the school district board has evaluated safety, class size reduction, and information technology needs in developing that list.
- A requirement that the school district board conduct annual, independent financial and performance audits until all of the bond proceeds have been expended for the school facilities projects. The performance audit is done to ensure that the funds have been expended only on the specific projects listed.

Per the Proposition S ballot language at page PR-32D0-1, “the bond funds are to be used to improve every neighborhood school by; repairing outdated student restrooms, deteriorated plumbing and roofs, upgrading career/vocational classrooms and labs; providing up-to-date classroom technology; improving school safety/security; replacing dilapidated portable classrooms; upgrading fire alarms; and removing hazardous substances.”

The Bond Project List in the Proposition S ballot language describes the specific projects the District proposes to finance with the proceeds of the bonds. Listed projects are completed as needed at a particular school site according to a Board-reviewed Project Prioritization Matrix. Part One of the Bond Project List authorizes expenditures of bond proceeds for site discretionary projects; school improvements to support student health, safety and security; projects to improve school accessibility; school improvements to support student learning and instruction; major building systems repair and replacement; accommodating school enrollment; and charter school facilities. Part Two of the Bond Project List presents a listing of authorized projects at individual District school sites.

Election of 2008 Series A and Series B bonds were sold in April 2009, generating \$170.0 million in bond proceeds for Proposition S programs. Election of 2008 Series C and Series D bonds were sold in August 2010, generating an additional \$200.0 million in bond proceeds for Proposition S programs. The District plans to issue future series of Proposition S bonds based on project financial needs, while preserving the \$66.70 per \$100,000 of property assessed valuation tax rate originally authorized by District voters under Proposition MM.

Christy White Accountancy Corporation was engaged to provide the required annual Proposition S Bond Program financial and performance audits for the fiscal year ended June 30, 2010.



## **OBJECTIVES AND SCOPE OF THE AUDIT**

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## OBJECTIVES AND SCOPE OF THE AUDIT

Christy White Accountancy Corporation (CWA) met with District management and the Proposition S Independent Citizens' Oversight Committee (ICOC) to outline key objectives and audit scope prior to completing the financial and performance audit fieldwork in January 2011. The objectives and scope items listed below provided the framework for the Proposition S Bond Program performance audit engagement for the fiscal year ended June 30, 2010. CWA believes the objectives and scope items listed below are sufficient for us to render our independent auditor's opinion on performance regarding the District's Proposition 39 Bond Program.

### 1. Compliance with Applicable Laws and Regulations

- a. Examine bid documents and contractor selection process for compliance with applicable laws and regulations, including the California Public Contract Code.
- b. Document and review change order and claims procedures for compliance with applicable Board of Education policy and applicable state laws and regulations.
- c. Document and review management's efforts to minimize change orders and avoid claims. Verify change order rates.

### 2. Bond Expenditures and Recordkeeping

- a. Compare total individual contract awards to total project expenditures.
- b. Substantiate that expenditures are described in the budget.
- c. Verify that the facilities project expenditure tracking system reconciles to District financial records.
- d. Determine whether bond projects and related expenditures are consistent with Board approved priorities.
- e. Conduct site walks to verify project expenditures. Document and review the outcome of site visits.

### 3. Internal Controls over Facilities Procurement

- a. Document and review management's efforts in streamlining payment procedures.
- b. Document and review use of purchase orders in procurement process.
- c. Document, review, and comment on District internal controls processes.

### 4. Review of Management's Efforts to Maximize Potential Funding and Reduce Program Costs

- a. Document and review management's efforts to identify, apply for, and acquire non bond funded financial and other resources.
- b. Document and review management's efforts to reduce costs in areas such as professional services, site preparation, sustainability, plan development, and joint use.
- c. Review the use of cost-effective and efficient reusable facility plans.
- d. Document and review management's sustainability plan for the i21 Program.

## OBJECTIVES AND SCOPE OF THE AUDIT (CONTINUED)

5. **Review of the Effectiveness of Program Management**
  - a. Document and review management's efforts to monitor planning and execution of projects.
  - b. Document and review management's quality control/quality assurance efforts.
  - c. Document and review communication protocols and procedures between District departments.
6. **Review of the Bond Issuance Process**
7. **Consider Fraud Risk Assessment and Incorporate in Audit Tests**
8. **Special Interest Items**
  - a. Document and review management's efforts at soliciting and monitoring the participation of local firms and workers.
  - b. Determine District compliance with labor compliance regulations.
  - c. Determine District compliance with applicable project labor agreements.
  - d. Determine District compliance with Board-approved staffing plan.
  - e. Document activities of the Bond Oversight Committee.
  - f. Document and review management's efforts to inform and engage community stakeholders about bond-funded projects.

**AUDIT METHODOLOGY AND  
RESULTS OF TESTING**

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## AUDIT METHODOLOGY AND RESULTS OF TESTING

Following is a summary of the audit methodology and results for the performance audit we performed for the fiscal year ended June 30, 2010.

### 1. Compliance with Applicable Laws and Regulations

We performed testing of 19 public works contracts (100% testing coverage) that the District entered into during the fiscal year ended June 30, 2010 to verify compliance with the public bidding and contractor selection requirements set forth in California law, including the Public Contract Code. Some of the attributes that we tested include two week advertising requirement, bidder's security, selection of lowest qualified bidder and existence of Project Stabilization Agreement (PSA)-a local requirement, where applicable. We found that in all cases the contracts were awarded in compliance with applicable sections of the Public Contract Code.

A test of contract change orders was also performed and we found in testing of 165 contract change orders for accuracy of designation, amount, and proper approval, that the Governing Board had properly approved all change orders, as required by the Public Contract Code and Governing Board policy. We noted one change order (Hoover High School – New Classroom Building) which occurred subsequent to year end that caused an 11% cumulative change order rate for the respective contract, based on original contract value. In the case of this change order we observed that the District's Board was properly notified and specific Board approval was obtained to allow for the contract to progress without the requirement for re-bidding the work, as continuation of the contract was deemed to be in the best interest of the public.

During the audit, we noted no projects with cumulative change order rates exceeding 10% during the 2009-10 fiscal year, and one subsequent instance of change orders exceeding 10% of original contract amount (Hoover High School – New Classroom Building) as of the date of our audit report. Per the results of inquiry and performance of other audit procedures, we noted a relatively low rate of contract change orders for the 2009-10 fiscal year. It appears that management has effective procedures in place to minimize and avoid contract change orders.

### 2. Bond Expenditures and Recordkeeping

CWA tested 224 Proposition S expenditures, representing \$32.5 million or 35% of Proposition S expenditures of \$92.8 million. The expenditures tested were selected haphazardly from a listing of Proposition S (subfund 21300) expenditures provided by the District for the fiscal year ended June 30, 2010. As part of our expenditure testing, we also selected for testing all payroll expenditures for 26 employees out of 71.15 FTE charged to Proposition S during the fiscal year ended June 30, 2010, to determine that the payroll expenditures were for permissible Proposition S purposes and that the allocations of payroll expenditures to Proposition S were based on approved allocation rates. Finally, we haphazardly selected 5 contracts, obtained budget detail and traced the expenditure details per the PeopleSoft database into the CM12/Primavera database and verified that expenditures for all contracts selected were described in budget, could be reconciled to total project expenditures, were paid within contract amounts, and were consistent between both databases.

## 2. Bond Expenditures and Recordkeeping (continued)

We found in all cases that the expenditures we tested were for permissible Proposition S purposes, in accordance with the Proposition S ballot language and Board-approved priorities. Furthermore, internal controls over payment processing appear to be operating effectively to prevent improper payments.

A total of \$73.3 million was spent on projects at the schoolsite level in fiscal year 2009-10. In order to physically observe the existence of Proposition S construction projects, we conducted site walks at eleven District sites where construction took place fiscal year 2009-10, as listed below. At the visited sites, a total of \$25.7 million was spent in fiscal year 2009-10, which accounts for 35.1% of the total schoolsite level expenditures.

- a. Morse High School Autobody/Culinary CTE Programs
- b. Garfield Continuation Culinary CTE Program
- c. San Diego High School Multimedia Studio/New Classroom Building/School of Business/Culinary CTE Program
- d. Hoover High School New Classroom Building
- e. E.B. Scripps Elementary School Air Conditioning Project
- f. Roosevelt Middle School i21 Project
- g. Madison High School Automotive Program
- h. Point Loma High School New Classroom Building
- i. Angiers Elementary School i21 Project
- j. Mira Mesa High School i21 Project
- k. Muirlands Middle School i21 Project

We found as a result of our site walk and expenditure testing that Proposition S expenditures made during the fiscal year ended June 30, 2010 resulted in the physical improvement of District facilities, and that the Proposition S monies spent were permissible in accordance with the Proposition S ballot language, Board-approved priorities, and the requirements of California Constitution Article 13A.

## 3. Internal Controls Over Facilities Procurement

We performed walkthroughs of District internal controls and assessed management's efforts to streamline payment procedures and use purchase orders in the procurement process. While the integrity of internal controls appears to be high with respect to the prevention of improper or duplicate payments, we noted difficulties in the efficient processing of payments related to professional services and construction.

In professional services, a cumbersome document approval process has resulted in an average payment delay of approximately 60 days from invoice date and a backlog of approximately 100 invoices. The District is making efforts to improve the situation, including adding two new employees to the area and changing the approval protocol to require approvals prior to the initial invoice data entry. A plan is also in place to automate the approval process by scanning invoices into the Sharepoint system and allowing for electronic approvals.

**3. Internal Controls Over Facilities Procurement (continued)**

Regarding construction payments, the primary source of processing overload is due to multiple purchase orders per contract and the potential for multiple notices to proceed under one purchase order, resulting in a high volume of data entry in order to pay vendors. One employee has been added to aid in the processing of construction invoices. Our testing indicated that construction vendors are being paid timely, based on approved invoices. We found several areas for improvement of internal controls and processes as set forth in #2010-1 Performance Audit Finding in the accompanying schedule of Findings and Management's Responses.

**4. Review of Management's Efforts to Maximize Potential Funding and Reduce Program Costs**

In consideration of management's efforts to identify and secure additional funding sources for Proposition S projects, we performed inquiry and examined documents, noting that management has obtained funding from several sources in addition to standard general obligation bonds, including \$16.1 million in State School Facilities funds and \$3.1 million in Series B Qualified School Construction Bonds' (QSCB) interest subsidies during fiscal year 2009-10 as well as \$39.9 million from Federal E-Rate program matching funds to date. The Federal E-Rate funds are being directed toward the i21 classroom technology program.

Looking into fiscal year 2010-11, the District has already received approximately \$24.0 million in State School Facilities funds and has applied for an additional \$18.8 million. Over the life of the Proposition S program, the program is expected to benefit from total QSCB interest subsidies of \$42.4 million and \$32.1 million for the Election of 2008 Series B and Series D bonds, respectively, as well as \$7 million in matching funds from the Center City Development Corporation (CCDC), a public non-profit corporation serving on behalf of the San Diego Redevelopment Agency.

We performed procedures to analyze management's strategies to reduce program costs, noting that District management has undertaken several approaches toward cost-control including negotiation with contractors, large volume purchases (particularly in regard to the technological products used in the i21 program), value engineering, and reusable facility plans. Per the results of our inquiry, we noted that reusable facility plans have been utilized for the new classroom buildings being erected at San Diego High School, Hoover High School, and Point Loma High School in an effort by District management to reduce costs related to site preparation and plan development at those sites.

Per the results of our inquiry, we noted prospective joint use arrangements between San Diego Unified School District and the City of San Diego primarily concerning elementary school fields, whereby the District would build the fields and the City would be responsible for maintenance. A competitive selection process is in place to assist District management in its evaluation of professional services firms on the basis of cost as well as experience.

**4. Review of Management's Efforts to Maximize Potential Funding and Reduce Program Costs (continued)**

The District will also be reducing costs through a focus on sustainability. Through inquiry, we noted the development of "Leadership in Energy & Environmental Design" (LEED) buildings, such as the woodshop constructed at Hoover High School. These projects are intended to promote increases in energy and water efficiency both for cost savings as well as stewardship of resources. The District also participates in the SDG&E "Savings by Design" incentive program, a nonresidential new construction energy efficiency program administered statewide and funded by utility customers. The District's goal in participating in this program is to realize reduced long-term operating costs through energy-efficient building design and construction practices.

The District's Facilities department is responsible for the procurement and installation of all equipment related to the \$384 million i21 educational technology program. Fiscal year 2010-11 is the second year of the five year plan to install the i21 classroom suites to approximately 5,000 classrooms District-wide. Per our inquiry, the District is attempting to reduce costs by purchasing i21 components directly from vendors, filing for additional Federal E-Rate assistance, utilizing District Physical Plant Operations (PPO) labor for approximately 20% of i21 installations, and constructing stand-alone versus wall-mounted boards to reduce infrastructure costs. We learned during our inquiries that, subsequent to fiscal year 2009-10, 819 of the 1,240 Interactive White Boards (IAWB) installed in year two of the i21 rollout were shipped without the most recent firmware updates, rendering them non-functional. Over half of the non-functional units have been repaired as of the date of this report and all units will be repaired by the end of February 2011. All i21 firmware updates are being performed at vendor expense.

The District Technology Strategic Plan is also a five year plan that, among other goals, outlines the sustainability directives for the i21 program. Of key note is the budget set to support the sustainability of the program, including funding from Integrated Technology Support Services (ITSS) (approximately 85% of funding) as well as other minor sources such as Ed Tech and Title I. The sustainability plan focuses on replacement and repair of computer hardware every four to five years depending on grade level. The budget allocated for the five year plan increases with every year, starting with a budget of \$27.3 million for year one of the Strategic Plan (fiscal year 2010-11) to \$36.0 million in year five, a 32% increase in the total cost of ownership. The largest contributor to the budget increase is ITSS, which is slated to contribute \$20.8 million in year one and \$31.8 million by year five, a 53% increase from year one.

**5. Review of the Effectiveness of Program Management**

We find that District staff in the Facilities Planning and Construction department has an appropriate level of experience and expertise to oversee construction management, program management, and contract management. Per the results of our inquiry, we noted that FPC holds weekly status meetings to monitor existing and upcoming construction projects. Regarding project execution, management monitors billing percentage of completion, construction percentage of completion, observations related to individual projects and change order status. Per inquiry, we noted that the Executive Director of Facilities, directly supervising Proposition S, has resigned effective January 2011, and a transition plan is in place to fill this role.



**5. Review of the Effectiveness of Program Management (continued)**

We examined documents used by management to monitor the planning and execution of projects and communicate project status with the ICOC and taxpayers. The reports that we examined included the "Prop S Contract Awards Report," the "Prop S Construction Status Report," the "Monthly Program Controls Status Report" and the "i21 Reports." Per inquiry with District Management, the "Prop S Contract Awards Report" is a weekly report that allows management to monitor the actual and anticipated status of projects through design, bidding, and construction contract award. The "Prop S Construction Status Report" is also a weekly report that allows management to monitor the status of projects through the construction and close out process. The "Monthly Program Controls Status Report" allows management to monitor the status of the program as a whole. Finally, the "i21 Reports" provide management with regular updates regarding the development of the District's i21 program.

In order to determine whether the aforementioned reports are consistent with one another and accurate relative to source documentation we sampled key data points (including contract name, number, vendor, amount, etc.) from three contracts presented in the "Prop S Contract Awards Report" generated from the District's CM12/Primavera database and presented to the ICOC Construction Subcommittee as Exhibit 4.1 on September 2, 2010. We then reconciled these points with the information presented for the same three contracts in the "Prop S Construction Status Report" generated in a spreadsheet by a District employee and presented to the ICOC Construction Subcommittee as Exhibit 3.2 on January 6, 2011, noting consistency among all points except for change order amounts and rates.

The next step was to drill down to determine the reason for the discrepancies in change orders. We vouched from a December 17, 2010 CM12/Primavera "Change Order Log" to change order source documentation to validate the accuracy of the information maintained in CM12/Primavera, then we traced from the validated "Change Order Log" to the January 6, 2011 "Prop S Construction Status Report," noting discrepancies between change order amounts and rates for six of six contracts selected. As the aggregate discrepancy from the six contracts sampled results in the "Prop S Construction Status Report" of January 6, 2011 underreporting \$295,539 in change orders relative to the Change Order Log of December 17, 2010. The identified discrepancy does not appear to relate to timing differences, but rather clerical error in data reporting – as we would expect the amount of change orders to increase with the passage of time. We note these discrepancies as a potential area for improvement of controls as set forth in #2010-5 Performance Audit Finding in the accompanying schedule of Findings and Management's Responses.

**5. Review of the Effectiveness of Program Management (continued)**

We performed inquiry regarding communications between District departments, noting a lack of formalized inter-District protocols and procedures pertaining to the subject of communications. We did find, however, through the results of our inquiry and review of communications media in the form of website content that District departments outside of Facilities Planning & Construction (FPC) are kept reasonably well apprised of the status of Proposition S. For instance, a site construction schedule is available on the Proposition S website so that all site employees can be kept abreast of the timetables for projects occurring at their respective sites. We also noted that weekly Facilities Planning and Construction (FPC) "Status Report Meetings" include members of the Finance department. However, per inquiry, the Finance department does not currently have access to the CM12/Primavera contract management system and appears to have a relatively limited involvement in co-managing the facilities activities of the District (refer to #2010-2 Performance Audit Finding in the accompanying schedule of Findings and Management's Responses). Ultimately, however, the results of our inquiry indicate numerous outlets for informal communications, including meetings, email and phone conversations.

In consideration of District management's quality control/quality assurance (QA/QC) efforts, we performed inquiry and reviewed the District's QA/QC review project management department procedure (revised April 30, 2010). We noted that the QA/QC procedure's focus on quality reviews of design documents at the 50% and 100% construction design (CD) stages appears to meet the procedural goals, namely: conformance to District design standards, use of District standard details and specifications, proper interdisciplinary coordination, project constructability, and overall quality of the design submittal. As an example, FPC utilizes a Design Coordination and Review Project Comment Form to summarize comments made at each review stage in a project's life cycle and verify implementation of the comments.

**6. Review of the Bond Issuance Process**

CWA haphazardly selected three and five cost of issuance transactions from Election of 2008 Series A-B and Series C-D bonds, respectively. We noted that all costs of issuance tested traced without exception to supporting documentation such as invoices, and appeared reasonable. Furthermore, we set out to analyze the reasonableness of the costs of issuance through regression analysis, a statistical technique. For this analysis, we haphazardly selected the Election of 2008 Series C-D bond issuances for testing. The results of our analysis indicate that the Series C-D issuance costs appear reasonable based on 16 total issuances of a similar size (between \$100 million and \$300 million) which occurred between the months of September 2009 and September 2010 (prior data points were excluded to control for the 2008-2009 financial crisis, which disrupted the financial markets) in the State of California.

In our review of the bond issuance process, we noted that the District currently relies on a single financial advisory firm to recommend bond financing plans. The advisory firm also provides other bond issuance services as a vendor to the District, and is paid from bond costs of issuance. We noted this process presents an area for improvement as we recommend that the District hire an additional financial advisory firm to provide a second opinion on the Proposition S plan of finance (refer to #2010-4 Performance Audit Finding in the accompanying schedule of Findings and Management's Responses).

**7. Consider Fraud Risk Assessment and Incorporate in Audit Tests**

Through inquiry of District employees and affiliates we satisfied the audit inquiry requirements under Statement on Auditing Standards No. 99 (SAS No. 99), *Consideration of Fraud in a Financial Statement Audit*. We also made inquiry of the District's Internal Audit Department in regard to any concerns or complaints that had been relayed to their attention via the District's fraud hotline or any other source. As a result of our inquiries, we noted no instances of fraud or misconduct in the Proposition S program. At the same time, we noted that the District's Internal Audit Department does not regularly allocate its staff and resources to the Proposition S program (refer to #2010-2 Performance Audit Finding in the accompanying schedule of Findings and Management's Responses).

**8. Special Interest Items**

**a. Document and review management's efforts at soliciting and monitoring the participation of local firms and workers**

We performed inquiry and reviewed solicitation documentation. The District maintains a listing of 2,100 Emerging Business Enterprises (EBE) of wide ranging construction specialization. The District uses this listing like a database and filters by construction specialty (as pertaining to the needs of a particular contract) when developing "blast faxes," bid solicitations sent out to relevant EBEs to encourage them to bid on a particular contract. In addition to the proactive measure of sending out blast faxes, we also noted that the District provides Project Stabilization Agreement (PSA) trainings to similarly encourage contractors to become eligible to bid on work.

**b. Determine District compliance with labor compliance regulations**

The District currently operates its own Labor Compliance Program (LCP) under the guidelines of the State of California. This program requires that the District monitor and enforce Public Works Prevailing Wage law consistent with the California Code of Regulations (CCR) section 16434 and California Labor Code section 1771.5. Per our inquiry of District LCP managers, any instances of prevailing wage noncompliance resulting in settlements are first the responsibility of the offending contractor and would secondly draw from the contractor's insurance bonds.

We reviewed the fiscal year 2009-10 Labor Compliance Program Annual Report, prepared by the Labor Compliance Office and submitted to the Director of the California Department of Industrial Relations on July 26, 2010. Per the results of our review of the Annual Report and inquiry, the District appears to have fully complied with the terms of its LCP in its efforts to monitor and enforce Public Works Prevailing Wage law in accordance with the aforementioned Code sections. The District utilizes venues such as pre-bid meetings and pre-job conferences to inform Proposition S contractors of prevailing wage law. Additionally, the District reviews payroll submittals and delays all payments to contractors where underpayments are alleged. Ultimately, the Annual Report indicates that 373 wages and penalties totaling \$84,017.88 were recovered from contractors and that there were outstanding wages and penalties assessed with forfeiture pending, totaling \$184,401.85.

**8. Special Interest Items (continued)**

**c. Determine District compliance with applicable project labor agreements**

The Project Stabilization Agreement (PSA) is a legally binding contract between San Diego Unified School District, San Diego Building & Construction Trades Council and Southwest Regional Council of Carpenters. The core goals of the PSA are to ensure a sufficient supply of skilled craft workers, eliminate works disruptions on Prop S projects, and promote the hiring of local craftspeople. PSA applies to all contracts exceeding \$1 million in total contract value, which were bid subsequent to October 27, 2009, per the District Board's July 27, 2009 resolution approving the PSA. We performed testing of 8 fiscal year 2009-10 contracts which met the criteria causing them to require PSA documentation (100% testing). In all cases we noted that the agreements were in place and properly documented, including the requisite contractor signatures.

**d. Determine District compliance with Board approved staffing plan**

Per the results of our inquiry and review of the District Board's approved staffing plan, dated February 5, 2010, we noted that the District has paused in implementing its plan to reduce Proposition S contracted and District staff. Proposition S contracted staff were originally expected to be reduced from 65.80 FTE to 41.84 FTE and Proposition S District staff were originally expected to be reduced from 58.25 FTE to 54.25 FTE, by the end of the 2010-11 fiscal year per the Board-approved plan. We reviewed detail schedules supporting the plan, and made inquiries of District staff, noting that the staffing reductions have not occurred due to higher than anticipated funding derived from Series C and D bonds, resulting in a revised plan that would have made the previously anticipated staffing reductions untenable. Facilities management expects to present a revised staffing plan to the Board in March 2011.

**e. Document activities of Bond Oversight Committee**

The Proposition S Independent Citizens Oversight Committee (ICOC) is an active oversight body. Per review of the ICOC's documentation of minutes and reports, (available on the District's website) as well as inquiry, we noted that the ICOC has established four subcommittees which separately meet on a monthly basis to evaluate the progress of the Proposition S program.

The Construction subcommittee reviews updates to project and construction management reports, the FPC organizational chart, small business outreach program status, and other items pertinent to construction activities. The Audit subcommittee focuses on the scoping and review of the external performance audit as well as consideration of the findings and recommendations thereof. The Finance, Planning and Controls subcommittee receives a regular "Look-Ahead" report from the Proposition S Executive Director and reviews financial reports among other planning and management documents. The Executive/Governance subcommittee concerns roles and responsibilities of the ICOC and also generates the committee's Planning Calendar along with the ICOC's Quarterly Report to the Board of Education.

**8. Special Interest Items (continued)**

**e. Document activities of Bond Oversight Committee (continued)**

Per the results of our inquiry and review of the relevant minutes documents, we noted that the final versions of ICOC minutes (subsequent to edits, made by the committee under review of previous meetings' draft minutes) are not being posted by the District to the District's website as they should be per Education Code 15280(b). Instead, the District appears to be posting the draft version of the ICOC's minutes (refer to #2010-3 Performance Audit Finding in the accompanying schedule of Findings and Management's Responses).

**f. Document and review management's efforts to inform and engage community stakeholders about bond-funded projects**

We performed inquiry with the Facilities Communications Supervisor, requesting support for communications protocols and procedures between District departments as well as in regard to external communications. The core responsibilities of the Facilities Communications department per the results of our inquiry include maintenance of the Proposition S website, managing media relations, and community outreach. Information provided in response to our request included example content from the Proposition S website and various press releases and appears to support the sufficiency of program communication.

**SUMMARY OF CONSULTANT'S QUALIFICATIONS,  
PROCEDURES AND RECOMMENDATIONS**

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## SUMMARY OF CONSULTANT'S QUALIFICATIONS, PROCEDURES AND RECOMMENDATIONS

Christy White Accountancy Corporation (CWA) contracted with Ray Rodriguez, President and Chief Executive Officer of RMA Construction Services, to utilize his construction expertise in the fulfillment of our audit objectives under the Proposition S performance audit.

**Qualifications:** Ray Rodriguez has been a licensed general contractor since 1979. Over the course of his career, Mr. Rodriguez has helped several cities, schools and college districts maximize the efficiency of their construction and facilities programs. He has held various positions in the public schools system such as teacher, principal, facilities administrator, deputy superintendent of business and chief operations officer. As a construction consultant, Mr. Rodriguez has gained the knowledge, experience and leadership that result from years of working closely with school districts and college districts on facilities and construction projects.

**Procedures Performed – Proposition S Audit:** Mr. Rodriguez assisted in the performance of key year-end audit procedures pertaining to the Proposition S fieldwork, including site walks and interviews of staff and consultants working on the Proposition S program in addition to general consulting services on the technical aspects of the audit.

**Consultant's Recommendations:** The following recommendations are made as part of the Consultant's review of Proposition S performance.

1. **Team Communications:** We noted that construction teams working on related projects at different sites operate autonomously of one another. Communications should be formalized between project management teams on related projects (i.e. Multi-media studios at different sites) so as to capitalize on fresh experience and avoid repeating mistakes/change orders where possible.

**Management's Response:** The District concurs that communication between project teams is necessary. Facilities Planning and Construction (FPC) department will implement more formal communications and initiate a lessons learned approach to improve project performance.

## SUMMARY OF CONSULTANT'S QUALIFICATIONS, PROCEDURES AND RECOMMENDATIONS, CONTINUED

### Consultant's Recommendations, Continued:

- 2. Deployment of Construction Managers:** Per inquiry, there is significant transition in staff between the design phase and the development phase of projects. Construction managers should be brought onto projects in the design stage so that they can follow design innovations and corrections through to development so as to better reduce the need for change orders related to design corrections that may have otherwise "slipped through the cracks."

**Management's Response:** The District agrees that assigning construction managers and inspectors to projects in the design phase of the project to help with review of plans and to conduct constructability reviews is required. Overall, the quality of the documents and plans have improved with the recent implementation in the efforts to perform the QA / QC of projects. We will continue striving for improvement in this area.

- 3. Program Performance:** A consistent theme we noticed in our audit fieldwork was that employees and contractors working on the Proposition S program are focused on their individual performance and their department's performance, but not necessarily the entire program's performance. Persons interviewed generally focused exclusively on their own areas. There needs to be instilled a sense of teamwork and greater information sharing, enabling and encouraging individuals working on Proposition S to lend their expertise to areas that may need their help, even if the areas needing assistance are outside an individual's primary area.

**Management's Response:** The District concurs that the project teams need to work towards the common goal of providing the promise to the voters to deliver the scope of Proposition S. FPC will devise a plan to capitalize on the abilities of the staff to help improve the design and construction of school projects.

- 4. Performance Evaluations:** Regular performance evaluations are not being completed. To optimize the performance of the Proposition S program, employees and contractors working on the program, as well as entire departments within the program, should be assigned performance criteria and evaluated against those criteria on a regular basis.

**Management's Response:** The District has been investigating the feasibility of introducing a performance review system at the District. There are many items to consider and gain agreement upon through the various union representatives of District employees before such a system can be implemented. The individual staff augmentation firms do their own performance evaluations with their staff. We will investigate the ability to have the District provide guidance on performance reviews.



**SCHEDULE OF AUDIT FINDINGS  
AND MANAGEMENT'S RESPONSES**

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## SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES

Following is a summary of the audit findings and management's responses to the audit findings for the performance audit we performed for the fiscal year ended June 30, 2010.

### **#2010-1 Performance Audit Finding: Post Award Contracts Payment Process**

**Audit Finding:** We noted certain internal control deficiencies as well as opportunities for improving the process for executing vendor payments in the District's post-award contracts area. The internal control deficiencies and opportunities for process improvement differ according to paying construction vendors as compared to paying professional services vendors, such as architecture and engineering firms.

#### **Construction Vendors Payment Process:**

- The construction vendors' payment process presents challenges due to the requirement to perform data entry in both the PeopleSoft financial system as well as the CM12/Primavera contract management system. Individual "payment lines" must be added in each system to pay a vendor based on invoices received following the issuance of a notice to proceed (NTP), and following the approval of change orders. The volume of payment lines to be added increases due to the existence of multiple NTPs under one purchase order, such as in the case of i21 project indefinite delivery, indefinite quantity (IDIQ) contracts, which entail four separate purchase orders, and 60 to 70 NTPs per purchase order.
- Despite the high volume of required data entry, our testing showed that for five haphazardly selected construction payment transactions in the 2009-10 fiscal year, the average days for payment processing was 4.2 days from date of payment application to date of payment. This level of performance was sustained despite having one employee responsible for the post-award payment data processing in 2009-10. Another employee was subsequently added to the post-awards construction contracts payment area to assist with the data processing function.

#### **Professional Services Vendors Payment Process:**

- In contrast to the construction vendors payment issuance process, the professional services payment issuance process is slowed by the need for multiple project manager (PM) approvals on each vendor invoice. Upon receipt of an invoice, the employee responsible for processing post-awards payments to professional services vendors routes the invoice to a PM for an initial review. If the invoice is approved on initial review, its data is entered into the CM12/Primavera contract management system. The invoice is then routed for formal signature approval by the PM and the PM's supervisor. The approved invoice is then entered into PeopleSoft and sent to accounts payable department for warrant creation and distribution. Our testing of 217 payments made in July 2010 to December 2010 indicated an average time to payment of 59 days. Good internal control dictates processing vendor payments within 30 days.

## SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES (CONTINUED)

### #2010-1 Performance Audit Finding: Post Award Contracts Payment Process (cont'd)

#### **Professional Services Vendors Payment Process (continued):**

- In response to the delays in payment noted previously, subsequent to the end of the 2009-10 fiscal year, the District hired two additional post-award contracts employees to assist in processing payments to professional services vendors. The backlog of 300 professional services invoices reached in the summer of 2010 has subsided to a backlog of 100 professional services invoices. Post-awards contracts personnel estimate that 15-20 invoices can be processed per employee per day. To streamline the PM approval process, there is a proposed plan to convert the paper-based approval system to an electronic invoice approval system using Sharepoint.

**Audit Recommendations:** For the construction contracts side, the District should analyze whether line item data entry is truly necessary for both the CM12/Primavera and PeopleSoft systems. Redundant or unnecessary data entry steps should be removed to facilitate the payment process, while preserving good internal control with respect to proper approvals and separation of duties. Redundant data entry may also be minimized through an initiative to allow a single point of data entry to update both the CM12/Primavera and PeopleSoft systems.

For professional services contracts, the District should seek to automate the invoice approval process in order to provide for better tracking and efficiency of invoice approvals by PMs. Evidence of approval by all required parties should be maintained for audit and vendor payment purposes. Given the complexity of the two systems involved, and the multi-department nature of the payment process (involving facilities, strategic sourcing/contracts, and finance departments), the District may be advised to enlist the assistance of a third-party information technology consultant to assist in the design and implementation of further system improvements.

**Management's Response:** The District concurs. FPC has been working diligently to improve our payment processes from inception to payment. The recent changes to our processes are yielding positive results in cutting the professional services payment time to less than 30 days. Further measures we have taken include (as follows on next page):

## SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES (CONTINUED)

### #2010-1 Performance Audit Finding: Post Award Contracts Payment Process (cont'd)

#### Management's Response (continued):

- Hiring additional staff to address the present processing delays
- Forming a task force consisting of personnel from FPC, CFO, Strategic Sourcing and IT and holding bi-weekly meetings dedicated to the elimination of unnecessary redundancies and improving overall efficiency in the District's work authorization, invoicing and payment process
- Streamlining the payment approval process by using more advanced electronic approval and tracking
- Eliminating unnecessary redundant payment process steps
- Improving the software and systems to reduce dual data entry
  - Expanding the use of SharePoint to include reporting, storing and sharing of contract data
  - Targeting the use of software consultant services:
    - Improving the integration of data between Primavera and PeopleSoft applications to reduce double-entry
    - Implementation of PeopleSoft Project Costing module to better track project budgets and expenditures

## SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES (CONTINUED)

### #2010-2 Performance Audit Finding: Internal Audit and Finance Department Involvement

**Audit Finding:** We noted that the District's internal audit department is not currently providing regular internal audit services to the facilities/construction area. The District's interim internal audit director indicates that the internal audit department is capable to perform an internal audit of facilities/construction but is currently performing work elsewhere, and to work on facilities/construction would entail removing resources from other internal audit projects.

The District's finance department currently provides cash flow, budget monitoring, and vendor payment (through accounts payable) services to the facilities/construction area. The finance department does not currently have access to the CM12/Primavera contract management system. Although representatives of the finance department attend facilities/construction meetings on a regular basis, the finance department appears to have a relatively limited involvement in managing the facilities activities of the District.

**Audit Recommendations:** To enhance oversight over the Proposition S program, the District should consider hiring an internal auditor dedicated to the Proposition S program, funded all or in part from Proposition S funds.

The finance department (in particular, budget analysts and managers in the finance department assigned to the facilities/construction area) should be provided with training and read-only access on the CM12/Primavera construction management system in order to improve their access to facilities information. The District should revisit the finance department's authority over facilities department decision making, particularly in matters pertaining to sources and expenditures of Proposition S funds.

**Management's Response:** Facilities Planning and Construction (FPC) and the Office of Audits and Investigations will develop a plan to provide adequate internal audit of Proposition S under the governance of the Office of Audits and Investigations. FPC intends to provide funds to the Office of Audits and Investigations to conduct these audits. The funds could be used to help fund an existing District employee or to hire a consultant to conduct the audits. In either case, the employee would be committed on an as needed basis to Proposition S based on the funding.

District agrees that FPC should provide training and read-only access to Primavera CM12 to Finance staff as needed to perform their duties and will implement the recommendation. The District will also implement a PeopleSoft Project Costing Module that will provide integration between the CM12/P6 and the current PeopleSoft General Ledger Module.

District agrees that with the recommendation that the Finance Department and FPC should work closely. It should be noted that no Prop. S expenditures are made without authorization by the Finance Department. The Finance Department also manages the sales of Prop. S bonds concerning the amount, timing and sales of Prop. S bonds.

## SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES (CONTINUED)

### **#2010-2 Performance Audit Finding: Internal Audit and Finance Department Involvement (cont'd)**

#### **Management's Response (continued):**

Over the last year FPC and Finance have improved collaborative efforts. All Prop. S expenditures are authorized by the budget analyst at various points throughout the project life-cycle. The program budget and each project's budget was established in July 2008 and then is prepared by Program Controls and then given to the budget analyst. The budget analyst has each project's budget and the scope of the project. The budget analyst approves the funding for Prop. S contracts at board award. Upon approval of the Notice to Proceed the budget analyst funds each project in PeopleSoft so that the purchase orders can be created and payment made to vendors. The budget analyst approves the budget for change orders to contracts.

The District anticipates some restructuring of the Finance department that supports Prop. S that will result in increased participation of the Budget Analyst in the fiscal review and monitoring process and in enhanced oversight by the CFO.

### **#2010-3 Performance Audit Finding: Independent Citizens' Oversight Committee Meeting Minutes**

**Audit Finding:** Minutes of Independent Citizens' Oversight Committee (ICOC) meetings are posted in draft form to the District's Proposition S ICOC web site. The ICOC and its various subcommittees review the draft meeting minutes and provide comments to District staff to edit the minutes prior to finalization. The edited meeting minutes are kept on file, but not posted in a finalized form to the Proposition S ICOC web site.

**Audit Recommendations:** The ICOC meeting minutes should be posted to the Proposition S ICOC web site in their final form, following edits made to draft meeting minutes.

**Management's Response:** The District concurs. ICOC meeting minutes will be posted to the ICOC web site after approval by ICOC.

## SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES (CONTINUED)

### #2010-4 Performance Audit Finding: Financial Advisory Services

**Audit Finding:** The District has used the same financial advisory firm to provide advice related to the issuance of Election of 2008 Series A and B bonds in April 2009 and the Election of 2008 Series D and C bonds in August 2010. The financial advisory firm is paid from costs of issuance of the bonds. Financial advisory fees were \$187,000 for the Election of 2008 Series A and B bonds, and \$175,000 for the Election of 2008 Series C and D bonds.

In addition to assisting the District in selecting the bond underwriting team, the financial advisor provides the District's Board and management with information relating to bond financing scenarios, and coordinates other aspects of the bond financing transactions. The bond financing scenarios presented by the financial advisory firm are based on assumptions related to future property assessed valuation levels and interest rates, and provide the expected total cost of financing under the scenarios presented. On October 19, 2010, the financial advisor presented the District's Board with two future Proposition S financing scenarios.

The first scenario involves issuing bonds with 25 year maturities, at a total Proposition S debt service financing cost of \$8.6 billion. The second scenario involves issuing bonds with 40 year maturities, at a total Proposition S debt service financing cost of \$12.2 billion. The bonds with 40 year maturities have larger individual issuance amounts, providing higher amounts of capital earlier in the Proposition S program. Both scenarios assume future current interest bond interest rates of 5.5% and future capital appreciation bond interest rates of 6.0%, and future annual assessed valuation growth rates of 5.0% beginning in 2016.

**Audit Recommendations:** Given the relatively large difference in expected total debt service costs under the two scenarios presented, we recommend that the District consider hiring a financial advisory firm to provide a second opinion on the expected financing costs of the Proposition S program. Although we have no basis to consider the assumptions made in the October 2010 scenario analysis unreasonable, obtaining a second opinion may be worthwhile for two reasons: (1) the relatively large difference in cost between the two bond financing scenarios (\$3.6 billion) presented in October 2010, and (2) the second financial advisor would be free of any potential bias that might arise from being compensated directly from the issuance of the Proposition S bonds. We further note that a second opinion on the District's Proposition S plan of finance should consider including assumptions related expected construction costs, and should also consider including a discounted cash flow analysis.

**Management's Response:** The District agrees with the recommendation. The Finance division will coordinate the hiring of a financial advisory firm to provide an independent and unbiased opinion of the assumptions provided by the District's contracted Financial Advisor. The opinion will specifically address the assumptions and cost analysis regarding the two bond financing scenarios of 25 year and 40 year maturities.

## SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES (CONTINUED)

### **#2010-5 Performance Audit Finding: Proposition S Construction Contract Change Order Reporting**

**Audit Finding:** We tested 6 construction projects for consistency of change order amounts and rates, comparing the CM12 change order log dated December 17, 2010 with the Construction Management report presented to the Proposition S Construction Subcommittee on January 6, 2011 as Exhibit 3.2. We found in our testing that the exhibit presented to the ICOC itemized \$295,539 less in total change orders than the CM12 change order log (2.5% of original contract value for the \$12.0 million in contracts selected for testing). We traced the CM12 change order log for the 6 selected construction projects to source change order documentation, and thereby established the accuracy of the CM12 change order log.

**Audit Recommendations:** Given the apparent discrepancies noted in our testing, we recommend that the District improve the review processes in place to ensure that construction contract change order amount and rate information presented to the ICOC is reflective of the information per the CM12 database.

**Management's Response:** The District concurs. FPC will implement a review of this report that will improve the gathering of information and quality assurance of data. We are currently upgrading the reporting capabilities and this item will be given a high priority to ensure that the report is accurate and timely.



**SUMMARY SCHEDULE OF  
PRIOR AUDIT FINDINGS**

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Description</u>	<u>Current Status</u>
#2009-1	<p><u>ICOC Formation</u></p> <p>The Proposition S ICOC was not appointed within the 60-day appointment deadline. Not all ICOC members met required Education Code Section 15282 affiliation requirements.</p>	Implemented.
#2009-2	<p><u>Expenditure Internal Controls</u></p> <p>Not all expenditures had evidence of prior approval. Certain expenditures were coded to incorrect projects. Purchase requisitions and purchase orders were not used in fiscal year 2008-09. Fast Start expenditures occurred prior to the passage of Proposition S in November 2008. Certain payroll charges were improperly allocated in the District's payroll system.</p>	Partially implemented. See #2010-1 Performance Audit Finding.
#2009-3	<p><u>Finance and Business Service Division Involvement in the Proposition S Bond Program</u></p> <p>The Finance and Business Service Division provides limited accounting and budgeting services to the Proposition S bond program.</p>	Partially implemented. See #2010-2 Performance Audit Finding.
#2009-4	<p><u>Public Contract Code Compliance</u></p> <p>One contract out of sixteen contracts tested was not advertised in the newspaper for the required two weeks.</p>	Implemented.
#2009-5	<p><u>District Fraud Hotline and Internal Audit</u></p> <p>Not all employees and contractors we interviewed were aware of the District's fraud hotline. The District's Internal Audit Department is not currently providing internal audit services to the Proposition S program.</p>	Partially implemented. See #2010-2 Performance Audit Finding.
#2009-6	<p><u>Accounting for Bond Issuance Transaction</u></p> <p>The 2008-09 Election of 2008 Series A and B bonds were recorded net of issuance premium and costs of issuance, rather than at gross, per California School Accounting Manual Procedure 705.</p>	Implemented.