

SAN DIEGO UNIFIED SCHOOL DISTRICT
Proposition S Bond Program

PERFORMANCE AUDIT REPORT

For the Fiscal Year Ended
June 30, 2012



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INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

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

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, 2012. 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 performance of the Proposition S Bond Program for the fiscal year ended June 30, 2012, and have issued our report thereon dated December 4, 2012. 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, 2012. 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.

Christy White Associates

San Diego, California
December 4, 2012

EXECUTIVE SUMMARY

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, 2012 were \$130.5 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 the prudent use of Proposition S Bond Program funds properly consider 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 fourth 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, 2009.

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," independent monitoring from District's Office of Internal Audit and maintenance of a fraud hotline to reduce the risk of fraud and misappropriation.

Summary of Key Areas for Improvement

- Mapping out detailed budgets for the expected future maintenance requirements of newly constructed facilities.
- Implementing policy for post-award monitoring of the Disabled Veteran Business Enterprise (DVBE) % requirement.
- Continue increasing efficiency and effectiveness in the utilization of electronic purchase requisitions and purchase orders for processing Proposition S professional services expenditures.

BACKGROUND INFORMATION

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 are to 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 is to 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, 2012.

OBJECTIVES AND SCOPE OF THE AUDIT

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 November 2012. 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, 2012. CWA believes the objectives and scope items listed below are sufficient for us to render our independent auditors' 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, verify that the facilities project expenditure tracking system reconciles to District financial records and substantiate that expenditures are described in the budget.
- b. Determine whether bond projects and related expenditures are consistent with Board approved priorities.
- c. 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, the use of purchase orders in the procurement process, and the integrity of 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.
- g. Document and review major repair and renovation (MRR) expenditures.
- h. Document and review career technical education (CTE) program implementation and controls over reimbursement of excess state match funds.

**AUDIT METHODOLOGY AND
RESULTS OF TESTING**

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, 2012.

1. Compliance with Applicable Laws and Regulations

- a. *Procedures Performed:* We performed testing of 13 public works contracts (see Chart 1) comprising a total value of \$74.0 million (100% testing coverage) of construction commitments that the District entered into during the fiscal year ended June 30, 2012. Through our procedures, we verified compliance with the public bidding and contractor selection requirements set forth in California law, including the Public Contract Code, as well as District policy.

Some of the attributes that we tested include:

- Completion of two week advertising requirement
- Existence of bidder's security
- Selection of lowest qualified bidder.
- Existence of Project Stabilization Agreement (PSA), where applicable.
- Compliance with DVBE % requirement.

Conclusions: We found that in all cases tested, the contracts were awarded in compliance with applicable sections of the Public Contract Code and District policy.

- b. *Procedures Performed:* We performed testing of 432 contract change orders to assess compliance with applicable Board of Education policy and applicable state laws and regulations.

Some of the key elements that we tested include:

- Accuracy of designation
- Accuracy of change order amount
- Proper approval

Conclusions: We found that in all cases tested change orders were accurate as to designation and amount and the Governing Board had properly approved all change orders, as required by the Public Contract Code and Governing Board policy.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

1. Compliance with Applicable Laws and Regulations, continued

- c. *Procedures Performed:* We reviewed management’s efforts to minimize change orders and avoid claims through inquiry with program staff, verification and consideration of change order rates, and detail examination of change order source documentation (see Chart 1).

Conclusions: Per the results of inquiry and performance of other audit procedures, it appears that management has effective procedures in place to minimize and avoid contract change orders.

Projects	Contract Amount	Advertising Requirement (Y/N)	Bidder's Security (Y/N)	Lwst Bidder (Y/N)	Board Approved (Y/N)	PSA Agreement	DVBE %	Cumulative CO Amount per Review of COs*	CO Rate per Review of COs	Change Orders Properly Approved (Y/N)
Marshall ES: Student Drop Off and DSA ADA Upgrades	\$ 525,000	Y	Y	Y	Y	N/A	3.7%	\$ (28,345)	-5.40%	Y - 7 COs
Mead ES: HVAC Project	\$ 1,528,800	Y	Y	Y	Y	Y	5.8%	\$ 57,201	3.74%	Y - 14 COs
University City HS: Stadium Lighting and Score Board	\$ 1,256,000	Y	Y	Y	Y	Y	4.2%	\$ (7,699)	-0.61%	Y - 10 COs
Serra HS: Data Center	\$ 9,313,000	Y	Y	Y	Y	Y	3.0%	N/A	N/A	N/A
ALBA: Fencing & Site Improvements (Phase 3)	\$ 401,000	Y	Y	Y	Y	N/A	3.0%	N/A	N/A	N/A
Knox MS: WSM Project	\$ 17,588,669	Y	Y	Y	Y	Y	5.8%	N/A	N/A	N/A
Euclid ES: New Classroom Building	\$ 6,999,999	Y	Y	Y	Y	Y	5.0%	N/A	N/A	N/A
Zamorano ES: New Classroom Building	\$ 8,423,600	Y	Y	Y	Y	Y	3.3%	N/A	N/A	N/A
Kroc MS: Creative Performing Media Arts Building	\$ 10,642,736	Y	Y	Y	Y	Y	3.0%	N/A	N/A	N/A
Kroc MS: WSM	\$ 8,122,539	Y	Y	Y	Y	Y	3.0%	N/A	N/A	N/A
Mira Mesa HS: Broadcast Journalism	\$ 2,590,000	Y	Y	Y	Y	Y	25.0%	N/A	N/A	N/A
Mira Mesa HS: Screen Printing and Graphics Design	\$ 880,000	Y	Y	Y	Y	Y	25.0%	N/A	N/A	N/A
Encanto ES: New Classroom Building	\$ 5,717,750	Y	Y	Y	Y	Y	8.0%	N/A	N/A	N/A

*Only includes change orders related to contracts awarded in the 2011-12 fiscal year.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

2. Bond Expenditures and Recordkeeping

- a. *Procedures Performed:* We haphazardly selected 5 contracts, obtained budget detail and traced the expenditure details per the PeopleSoft database into the CM12/Primavera database.

Conclusions: We found in all cases tested 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.

- b. *Procedures Performed:* CWA tested \$45.3 million or 34.7% of total Proposition S expenditures of \$130.5 million. As part of our expenditure testing, we also selected payroll expenditures for 83 employees, representing \$5.6 million or 79.8% of the \$7.0 million in total payroll charges to Proposition S during the fiscal year ended June 30, 2012. The Chart below shows the amounts charged to Proposition S by department.

Department	Amount Charged	% Charged
FPC	\$ 5,848,706	83.8%
Procurement & Distribution	\$ 438,125	6.3%
Legal	\$ 202,186	2.9%
PPO	\$ 131,466	1.9%
Communication	\$ 115,679	1.7%
Information Technology	\$ 78,474	1.1%
Education Technology	\$ 69,889	1.0%
Budget	\$ 65,836	0.9%
Distribution Services	\$ 16,810	0.2%
Internal Audit	\$ 8,180	0.1%
Site Personnel	\$ 5,829	0.1%
School Police	\$ 731	0.0%

Conclusions: We found that all tested expenditures were for permissible Proposition S purposes, in accordance with the Proposition S ballot language and Board-approved priorities. All payroll selections tested were for permissible Proposition S purposes and the allocations of payroll expenditures to Proposition S were based on approved allocation rates.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

2. Bond Expenditures and Recordkeeping, continued

- c. *Procedures Performed:* In order to physically observe the existence of Proposition S construction projects, we conducted site walks at eleven District sites where construction took place in fiscal year 2011-12, as listed below. At the visited sites, a total of \$43.1 million was spent in fiscal year 2011-12, which accounts for 42.4% of the \$101.8 million in total schoolsite level expenditures:

<u>Schoolsite Walks</u>	<u>Major Work Observed</u>
<i>Clairemont High</i>	Football Stadium and Athletic Fields/Auto Technology Building
<i>Hoover High</i>	Wood Shop Building, Paseo Walkway, Track and Field Project
<i>Morse High</i>	Stadium and Athletic Field Improvements/Culinary CTE Program/Auto Body CTE Program/Child Development Center
<i>Point Loma High</i>	Motion Picture Facility/Music Room/New Field Turf/Weight Room Renovation
<i>San Diego High</i>	Culinary CTE Program, New Classroom Building, School of Business Management Facility
<i>Scripps Ranch High</i>	Sustainable Technology CTE Program
<i>Serra High</i>	Data Center Project
<i>Jefferson Elementary</i>	Joint Use Field and Building Improvements
<i>Language Academy Elementary</i>	Teachers' Lounge Upgrade Project
<i>Marshall Elementary</i>	Student Drop-Off Area
<i>Chollas-Mead Elementary</i>	HVAC Project

Conclusions: We found as a result of our site walks and expenditure testing that Proposition S expenditures made during the fiscal year ended June 30, 2012 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.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

3. Internal Controls over Facilities Procurement

Procedures Performed: We performed walkthroughs of District internal controls and assessed management's efforts to streamline payment procedures and use purchase orders in the procurement process.

Conclusions: We noted as a result of our procedures that the integrity of internal controls continues to be high with respect to the prevention of improper or duplicate payments. In addition, there is no longer a backlog in vendor accounts payable for construction services and professional services in the current year as the result of additional FTEs that were brought on to assist with processing.

We noted in our testing that the average payment time of approximately 37 days in fiscal year 2010-11 fell to approximately 19 days in fiscal year 2011-12. Because the length of processing time now falls within the industry-standard 30 day window, the status of the prior year comment is "implemented" as of June 30, 2012. We noted that there is still room for improvement to processing load and controls over payments through implementation of an electronic payment processing system. The SharePoint-based system implementation is in progress as of the date of this report.

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

a. *Procedures Performed:* We performed inquiry and examined documents to analyze management's efforts to identify, apply for, and acquire non bond funded financial and other resources.

Conclusions: We noted that management has obtained funding from several sources in addition to standard general obligation bonds, including \$45.9 million in State School Facilities funds and interest subsidies on \$75.0 million in Series B, D-1 and D-2 Qualified School Construction Bonds' (QSCB) sold as of June 30, 2012. In addition, the program has received \$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.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

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

b. *Procedures Performed:* We performed procedures to review and document management's strategies to reduce program costs, considering several approaches towards cost-control that District management has undertaken including:

- Negotiation with professional service contractors
- Large volume purchases
- Value engineering
- Joint use agreements
- Public and Private Partnerships

Summary: Per the results of our inquiry, we noted that during the prior fiscal year the District renegotiated professional services contracts with URS, Arcadis, and Harris Turner, resulting in reductions in professional services fees. In addition, during the 2011-12 fiscal year, a competitive selection process has been put in place to assist District management in its evaluation of professional services firms on the basis of cost as well as experience.

We also noted public and private partnerships consisting of the following:

- Elementary and middle school fields with joint use agreements with the City of San Diego, including completed fields at Language Academy and Jefferson schools.
- The New San Diego Central Library project, whereby the City of San Diego would provide dedicated space of approximately 71,800 sq. ft. to the District under a 40 year initial lease term in exchange for \$20 million toward construction costs of the project and \$10 million in furniture, furnishings and equipment.
- Donations totaling \$0.1 million from the National Football League towards the artificial turf field at Morse High School and \$0.5 million from the Muirlands Foundation for its baseball/multi-use field.

The District began or completed seven CTE projects with state matching funds during the 2011-12 fiscal year. The projects included Morse Child Development Center, Morse Culinary, Morse Autobody, Point Loma Motion Picture, Scripps Ranch Sustainable Technologies Building, Hoover Academy of Information Technology and Mira Mesa Graphic Arts and Production Studio.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

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 and the Kearney Green Schoolhouse which will be constructed at Kearney High School in partnership with non-profit Brighten a Life Inc. 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.

- c. *Procedures Performed:* We performed inquiry and review of documents to assess the use of reusable facility plans as a cost saving measure.

Conclusion: Per the results of our inquiry and review, 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. Reuse of the plans enabled the projects to be designed and processed through DSA more efficiently, enabling the District to maintain compliance with the funding submission deadline required by the related State Facilities grants.

- d. *Procedures Performed:* We performed inquiry and examined documents in our efforts to review and document management's sustainability plan for the i21 Program.

Summary: 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 2011-12 is the third 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 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. We noted per our inquiries that all of the non-functional units have been repaired as of the date of this report and all of the i21 firmware updates were performed at vendor expense.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

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

- d. Summary, continued:* 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

- a. Procedures Performed:* We performed inquiry, examined documents, and traced reports to source documentation in our efforts to review and document management's efforts to monitor planning and execution of projects.

Summary and Conclusions: We found that District staff in the Facilities Planning and Construction department have an appropriate level of experience and expertise to oversee construction management, program management, and contract management.

Per the results of our inquiry, FPC holds weekly status meetings to monitor existing and upcoming construction projects. Regarding project execution, management monitors key data points including:

- Billing percentage of completion
- Construction percentage of completion
- Observations related to individual projects
- Change order status

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

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 following:

- Prop S Contract Awards Report
- Prop S Construction Status Report
- Monthly Program Controls Status Report
- 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 four 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 4.4 on May 17, 2012. We noted that all information sampled from the “Prop S Contracts Awards Report” including change order amounts and rates appeared complete and accurate per our examination of CM12 change order logs and change order source documentation.

- b. *Procedures Performed:*** 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 February 1, 2012).

Conclusions: We noted that the QA/QC procedure which focused on quality reviews of design documents at the 50% and 100% construction design (CD) stages has been revised to eliminate review at the 50% CD stage. This change came in response to the District’s determination that the process added little benefit in relationship to the time impact to project schedules. The new procedure, which consists of review at the 100% CD stage 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.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

5. Review of the Effectiveness of Program Management, continued

b. Conclusions, continued:

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.

c. Procedures Performed: We performed inquiry to document and review communications protocols and procedures between District departments.

Summary and Conclusions: We noted a lack of formalized inter-District protocols and procedures pertaining to the subject of communications. However, despite the lack of formalized protocols and procedures, communications appear to be good as evidenced by the high rate of compliance with the terms of Proposition S and sound internal control structure. Per the results of our inquiry, the current year reorganization to Facilities Planning and Construction (FPC) and Auxiliary Services provides improved efficiency, effectiveness and customer service throughout the bond building program. The reorganized FPC and Auxiliary Services groups are more tightly integrated to collaborate functionally and plan projects with increased efficiency. Through the reorganization, the project planning and program controls functions performed within FPC and Auxiliary Services departments are centralized to bring a greater level of consistency, professionalism, cross training and support. This better enables program management to leverage the resources of each department, share best practices, and develop a peer group of professionals within the functional areas.

This change also consolidates personnel from safety, maintenance, and facilities planning who deal with environmental issues and brings them together to best ensure the district complies with ever increasing environmental regulations. Impending changes in storm water regulations affecting every district site are on the horizon and will require dedicated attention from District staff. As another example of the benefits of the reorganization, this new department brings together the functions that share commonalities such as the safety and environmental requirements of dealing with hazardous materials, which are in use at the school sites (auto shops, chemistry classes, etc.) as well maintenance.

And, we did find 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.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

6. Review of the Bond Issuance Process

Procedures Performed: CWA examined all cost of issuance transactions including the issuance of Election of 2008 Series E and the refunding of Election of 2008 Series C bonds, respectively, in our review of the bond issuance process.

Conclusions: We noted that all costs of issuance tested traced without exception to supporting documentation such as invoices, and appeared reasonable.

In our review of the bond issuance process, we noted that the District contracted with a financial advisory firm to recommend bond financing plans. The District contracted with Fieldman, Rolapp & Associates, Inc., to provide independent financial advice on the bond issuance decisions. Fieldman, Rolapp & Associates provides no other bond issuance services to the District and receives a fixed annual retainer fee with no direct income from bond costs of issuance or the number of issuances that occur.

7. Consider Fraud Risk Assessment and Incorporate in Audit Tests

Procedures Performed: 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.

Conclusions: As a result of our inquiries, we noted no instances of fraud or misconduct in the Proposition S program. In addition, we noted that for the 2011-12 fiscal year, the District's Internal Audit Department allocated staff and resources to independent monitoring of the Proposition S program as per our recommendation in the prior year.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

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 is in the process of discontinuing its own Labor Compliance Program (LCP) under the guidelines of the State of California and shifting the responsibility for prevailing wage enforcement back to the State. The 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, the District’s Board passed a resolution on December 13, 2011 to extend the term of the PSA project for the life of the Prop S program and expand its scope to cover all projects paid for in whole or in part with state bond funds. This action enabled the second component of the resolution, which served to direct staff to transition labor compliance to shift enforcement of prevailing wage laws back to the state for all projects with contracts executed on or after January 1, 2012. The District estimates the savings from this resolution to amount to \$1.635 million, or the amount paid to staff augmentation consultants brought on in the 2011-12 fiscal year to process a backload of labor compliance audits.

We reviewed the fiscal year 2011-12 Labor Compliance Program Annual Report, prepared by the Labor Compliance Office and submitted to the Director of the California Department of Industrial Relations on August 31, 2012. 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 165 individual wages and penalties totaling \$273,846.47 were recovered from contractors and that there were outstanding wages and penalties assessed with forfeiture pending, totaling \$1,032,635.54.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

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 11 fiscal year 2011-12 contracts which met the criteria causing them to require PSA documentation. 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 inquiry with FPC management, we noted that the practice of obtaining board approval for detail-level Proposition S staffing plans, as itemized by contracted, district and non-FPC staff has been discontinued in the 2011-12 fiscal year. The District board continues to approve the FPC staffing plan budget as part of District-wide budget adoption. Underlying that summary budget is a detailed budget that is generated, updated and utilized internally within FPC, while being made available to public review and oversight. We noted that an updated detail staffing budget was presented to the ICOC Construction Subcommittee as Exhibit 6.2 on January 5, 2012. For the results of our inquiry and review of the FY11-12 FPC staffing plan, we noted that the District has slowed in implementing its plan to ramp up Proposition S contracted and District staff. Proposition S contracted staff originally budgeted at 56.1 FTE, totaled 47.1 FTE at June 30, 2012. Proposition S District staff originally budgeted at 65.3 FTE, totaled 63.4 FTE at June 30, 2012. We reviewed detail schedules supporting the plan and made inquiries of District staff, noting that fewer staff were needed due to a construction delay imposed on ready projects. The delay was put into effect when a debt issuance of \$149,998,825 originally projected to occur October or November 2011 was pushed back to May 24, 2012 due to AV considerations. Eight (8) fully-designed projects with construction slated for December 2011 through February 2012 went out in May through July 2012.

e. Document activities of Bond Oversight Committee

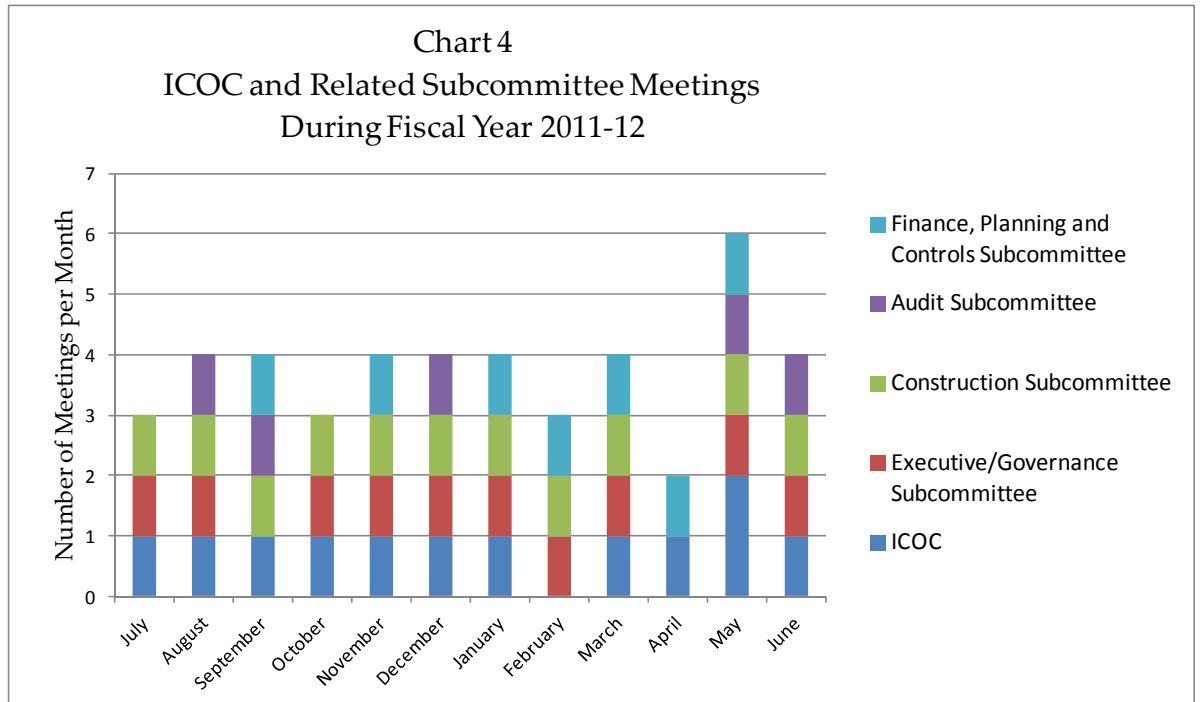
The Proposition S Independent Citizens Oversight Committee (ICOC) is a highly active oversight body. Per review of the ICOC's documentation of minutes and reports, (available on the District's website) as well as inquiry, we noted that the ICOC has established four subcommittees which meet regularly to evaluate the progress of the Proposition S program. In addition, the ICOC establishes Ad Hoc committees to address specialized considerations on an as needed basis. See Chart 4 for illustration of ICOC meeting frequency by committee for fiscal year 2011-12. As a result of its evaluations, the ICOC provides an annual report, in addition to quarterly status reports to the Board of Education. All reports are available online on the District's web page.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

8. Special Interest Items, continued

e. Document activities of Bond Oversight Committee, continued

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 Reports to the Board of Education. We note that as of September 11, 2012, the Finance, Planning and Controls subcommittee and the Audit subcommittee merged to become the Finance/Audit subcommittee.



AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

8. Special Interest Items, continued

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.

g. Document and review major repair and renovation (MRR) expenditures.

We performed inquiry with FPC management and examination of documents regarding the status of MRR expenditures in the context of Proposition S expenditures to date. The District provided us with the most recent version (October 2012) of the Controls Status Report that is brought before the ICOC on a monthly basis. This report, unlike the months preceding it, includes a breakout of MRR and MRR-Type work. We noted that as of October 2012, direct MRR expenditures amounted to approximately \$722K or 0.17% of total Proposition S expenditures of \$416.9M as of that date. However, MRR-type work, which includes projects done under alternate categories such as Replace Inadequate Buildings, Student Learning & Instruction, and Accessibility, Code Compliance that accomplish multiple objectives including repairs to existing facilities. In this way, MRR-Type work amounted to approximately \$57.4M or 13.8% of total Proposition S expenditures as of October 2012.

h. Document and review career technical education (CTE) program implementation and controls over reimbursement of excess state match funds.

We performed inquiry with FPC management regarding the roll-out of CTE programs as part of Proposition S. We noted that CTE projects were prioritized to the front of the Proposition S program due to the state matching funds made available by the Office of Public School Construction, that dramatically cut costs to the program. The projects were assigned by site on the basis of established CTE curriculums. In this way, some sites with established programs, such as Morse High School and San Diego High School received multiple new CTE facilities, while other sites received none.

We also examined documents and performed inquiry with District fiscal services staff regarding controls over reimbursement of excess state matching funds, where applicable. We note that the District has established procedures for accurate and timely reconciliation of all matching funds during project close out, to ensure that the state is properly reimbursed for all funding excesses in situations of project savings.

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

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. No stranger to School bond programs, Mr. Rodriguez has worked with the Sacramento, Los Angeles, Rio Linda school Districts and the Long Beach Community College District on their school bond measures .

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 Recommendation: The following recommendation is made as part of the Consultant's review of Proposition S performance.

During our visits we observed various levels of maintenance on the new facilities, most were appropriate and adequate but at a few of the sites, that level of care fell below the standard of maintenance necessary to achieve the designed lifecycle of the facility. Gum and debris littered some halls and stairwells, paint was in need of cleaning, classroom floors were not waxed or cleaned tiles were chipped and broken. The maintenance and upkeep of the school physical plant falls to the District's Physical Plant Operations Department and is governed by a reorganization plan as detailed in a memo dated July 2008 from Superintendent Kowba to all site Administrators. Due to the significant amount of new square footage brought online by the bond program we recommended that the District revisit the custodial staffing allocations to ensure that there are adequate custodial services to properly maintain the facilities constructed under Proposition S.

Management's Response: FPC acknowledges the auditor's finding with regard to the daily custodial maintenance requirements associated with existing and new facilities. The custodial staffing plan resides under the direction of the Executive Director of Auxiliary Services and is subject to the budget limitations of the general fund. The district's past, current, and near future funding challenges have had and continue to have a negative effect on custodial staffing and the care of school facilities. It should be noted that much of the new facilities placed in service under Prop S replaced older facilities. These older facilities, depending on their usage and number of students served, typically required a much higher level of daily custodial care and routine maintenance.

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

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, 2012.

There were no audit findings for the performance audit that were noted during the fiscal year ended June 30, 2012.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding #2011-1: Post Award Contracts Payment Process

Audit Finding: Labor-intensive process involving manual paperwork realized improvements via increased staffing and streamlining measures with average time to payment starting at approximately 60 days and dropping below 30-day industry standard by 6/30/11. SharePoint-based electronic invoice approval system not implemented as of 6/30/11.

Status: Implemented

Finding #2011-2: Internal Audit Involvement

Audit Finding: The internal audit department is not currently providing regular internal audit services to the facilities/construction area.

Status: Implemented

Finding #2011-3: Unallowable Expenditures Posted to Proposition S

Audit Finding: The District posted expenses to Proposition S bond funds for projects and activities not on the list approved by voters. We noted that the expenditures were reclassified as of June 30, 2011 resulting in no questioned costs, however the District should have controls in place to ensure that the items are not charged to the Prop S program in the first place.

Status: Implemented