

SAN DIEGO UNIFIED SCHOOL DISTRICT
Proposition S Bond Program

PERFORMANCE AUDIT REPORT

For the Fiscal Year Ended
June 30, 2011



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INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

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, 2011. 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, 2011, and have issued our report thereon dated November 1, 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, 2011. 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 Accountancy Corporation

San Diego, California

November 1, 2011

SAN DIEGO

RANCHO CUCAMONGA

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, 2011 were \$125.5 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 third 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" and maintenance of a fraud hotline to reduce the risk of fraud and misappropriation.

Summary of Key Areas for Improvement

- Adding an internal audit function to assist in the 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 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, 2011.

OBJECTIVES AND SCOPE OF THE AUDIT

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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 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, 2011. 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.

**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, 2011.

1. Compliance with Applicable Laws and Regulations

- a. *Procedures Performed:* We performed testing of 10 public works contracts (see Chart 1) comprising a total value of \$36.5 million (61.6% testing coverage) of construction commitments that the District entered into during the fiscal year ended June 30, 2011. Through our procedures, we verified 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:

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

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

- b. *Procedures Performed:* We performed testing of 80 contract change orders (see Chart 1) 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, we noted no projects with cumulative change order rates exceeding 10% during the 2010-11 fiscal year. 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	Cumulative CO Amount per Review of COs	CO Rate per Review of COs	Change Orders Properly Approved (Y/N)
Morse HS: Stadium Complex Upgrade	\$ 7,790,000	Y	Y	Y	Y - 7/13/10	Y	\$ 286,069	3.67%	Y - 19 COs
Hoover HS: Green Construction Program Building	\$ 3,854,000	Y	Y	Y	Y - 7/27/10	Y	\$ 39,924	1.04%	Y - 6 COs
Clairemont HS: Stadium ADA Improvements Phase 2	\$ 6,075,150	Y	Y	Y	Y - 10/26/10	Y	\$ 190,447	3.13%	Y - 23 COs
Point Loma HS: Motion Picture Facility	\$ 3,092,000	Y	Y	Y	Y - 12/14/10	Y	\$ 51,084	1.65%	Y - 24 COs
Jefferson ES: Joint Use and Building Improvements	\$ 2,736,734	Y	Y	Y	Y - 10/26/10	Y	\$ 31,071	1.14%	Y - 8 COs
Hoover HS: Sports Facilities Upgrade	\$ 9,513,200	Y	Y	Y	Y - 4/12/11	Y	N/A	N/A	N/A
Sessions ES: Parking Lot and Student Drop Off/Pick-up Upgrades	\$ 1,825,000	Y	Y	Y	Y - 5/24/11	Y	N/A	N/A	N/A
"I-21" Interactive Suite for Classrooms - 11/12 - IDIQ Region 2	\$ 590,263	Y	Y	Y	Y - 6/14/11	Y	N/A	N/A	N/A
"I-21" Interactive Suite for Classrooms - 11/12 - IDIQ Region 4	\$ 379,577	Y	Y	Y	Y - 6/14/11	Y	N/A	N/A	N/A
Normal Height ES: HVAC	\$ 652,595	Y	Y	Y	Y - 3/29/11	N/A	N/A	N/A	N/A

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 \$60.3 million or 48.0% of total Proposition S expenditures of \$125.5 million. As part of our expenditure testing, we also selected payroll expenditures for 83 employees out of 168 employees, representing \$3.5 million or 59.3% of the \$5.9 million in total payroll charges to Proposition S during the fiscal year ended June 30, 2011. The Chart below shows the number of employees and amount charged to Proposition S by department.

Department	Number of Employees Charged	Amount Charged
FPC	80	\$ 4,944,487
Distribution Services	38	\$ 50,359
School Police	36	\$ 107,447
Procurement & Distribution	6	\$ 396,261
Communication	3	\$ 127,142
Budget	1	\$ 61,991
Education Technology	1	\$ 48,245
Information Technology	1	\$ 78,545
Legal	1	\$ 117,358
PPO	1	\$ 314

Conclusions: We found that over 99% expenditures of tested expenditures were for permissible Proposition S purposes, in accordance with the Proposition S ballot language and Board-approved priorities. Among the minor exceptions noted, we found the expenditures were properly re-coded to the District's General Fund prior to the closing of the books, refer to Finding #2011-3. 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 thirteen District sites where construction took place in fiscal year 2010-11, as listed below. At the visited sites, a total of \$40.8 million was spent in fiscal year 2010-11, which accounts for 39.0% of the \$104.5 million in total schoolsite level expenditures:

Schoolsite Walks	Major Work Observed
<i>Hoover High</i>	Green Construction Program Building/Stadium and Sports Facility Improvements
<i>Claremont High</i>	Track, Stadium and Sports Facility Improvements
<i>Morse High</i>	Child Development Program Building/Stadium Improvements/Autobody CTE Program/Culinary CTE Program
<i>Point Loma High</i>	Music Room/Motion Picture Facility/Weight Room/New Classroom Building
<i>Madison High</i>	Stadium Improvements Project
<i>Cherokee Point Elementary</i>	Air Conditioning Project
<i>Ibarra Elementary</i>	Air Conditioning Project
<i>Jefferson Elementary</i>	Joint Use and Building Improvements
<i>Mead Elementary</i>	Air Conditioning Project
<i>ALBA Community Day School</i>	Secondary School Facility Improvements
<i>Normal Heights Elementary</i>	Air Conditioning Project
<i>Rolando Park</i>	Kitchen Project
<i>Clark Middle</i>	Kitchen 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, 2011 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, the backlog in vendor accounts payable for construction services and professional services in the 2009-10 fiscal year has been largely eliminated in the current year as the result of additional FTEs that were brought on to assist with processing.

In addition, a bottleneck in the professional services payment process was eliminated to increase efficiency. Specifically, in the prior year, all payment documentation was reviewed by a contracts assistant, leading to back and forth communications with the Project Manager (PM) prior to the PM's pre-approval and then subsequent processing by the contracts assistant. Now the approval process begins with the related PM (the employee with the most knowledge of the services to be considered approved).

We noted in our testing that the average payment delay of approximately 60 days in the first half of fiscal year 2010-11 fell to approximately 15 days in the second half of the year, following the comment made in our prior report. Because the length of processing time now falls within the industry-standard 30 day window, the status of the prior year comment is "partially implemented" as of June 30, 2011, refer to Finding #2011-1.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

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 \$42.9 million in State School Facilities funds and interest subsidies on \$74.8 million in Series B Qualified School Construction Bonds' (QSCB) sold as of June 30, 2011. 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.

- 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 contractors
- Large volume purchases
- Value engineering
- Joint use agreements

Summary: Per the results of our inquiry, we noted that during the 2010-11 fiscal year the District renegotiated professional services contracts with URS, Arcadis, and Harris Turner, resulting in reductions in professional services fees. In addition, looking into the 2011-12 fiscal year, 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.

We also noted joint use arrangements between San Diego Unified School District and the City of San Diego including:

- Elementary and middle school fields with joint use agreements with the City, including prospective agreements at Language Academy and Jefferson schools.
- The New San Diego Central Library project, whereby the City 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. This agreement was signed April 28, 2010 by both parties.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

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

In addition, the District was awarded a \$0.1 million donation from the National Football League towards the artificial turf field at Morse High School and a \$0.5 million donation from the Muirlands Foundation for its baseball/multi-use field.

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.

- 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.

- 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 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 2012. All i21 firmware updates are being 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

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 inquiry, we noted that the Executive Director of Facilities, directly supervising Proposition S, resigned in January 2011, and a transition plan was put into place, culminating in the appointment of Lee Dulgeroff from Director of Project Management to Executive Director of Facilities.

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 five 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 3.2 on July 7, 2011. 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 April 30, 2010).

Conclusions: 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.

AUDIT METHODOLOGY AND RESULTS OF TESTING, CONTINUED

5. Review of the Effectiveness of Program Management, continued

- 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 haphazardly selected three and five cost of issuance transactions from Election of 2008 Series A-B and Series C-D 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. 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 contracted with an additional financial advisory firm to recommend bond financing plans. The District contracted with the financial advisor, Keygent Advisors, to provide a second opinion on the bond issuance decisions. Keygent Advisors provides no other bond issuance services to the District and receives no direct income from bond costs of issuance.

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. 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 #2011-2 Performance Audit Finding in the accompanying schedule of Findings and Management's Responses).

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 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 2010-11 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 25, 2011. 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 289 individual wages and penalties totaling \$63,798.19 were recovered from contractors and that there were outstanding wages and penalties assessed with forfeiture pending, totaling \$350,799.53.

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 9 fiscal year 2010-11 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 the results of our inquiry and review of the District Board's approved staffing plan, dated October 2010, we noted that the District has slowed in implementing its plan to reduce Proposition S contracted and District staff. Proposition S contracted staff were originally expected to be reduced from 65.90 FTE to 50.86 FTE and Proposition S District staff were originally expected to be increased from 61.05 FTE to 61.52 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 fewer staff reductions were made due to an increase in the number of projects being started into design phase. At the time the October staffing plan was created there were 37 projects in their design phase. In March 2011, 11 additional projects were accelerated into design phase by the Board, resulting in increased activity that would have made the previously anticipated staffing reductions untenable.

e. Document activities of Bond Oversight Committee

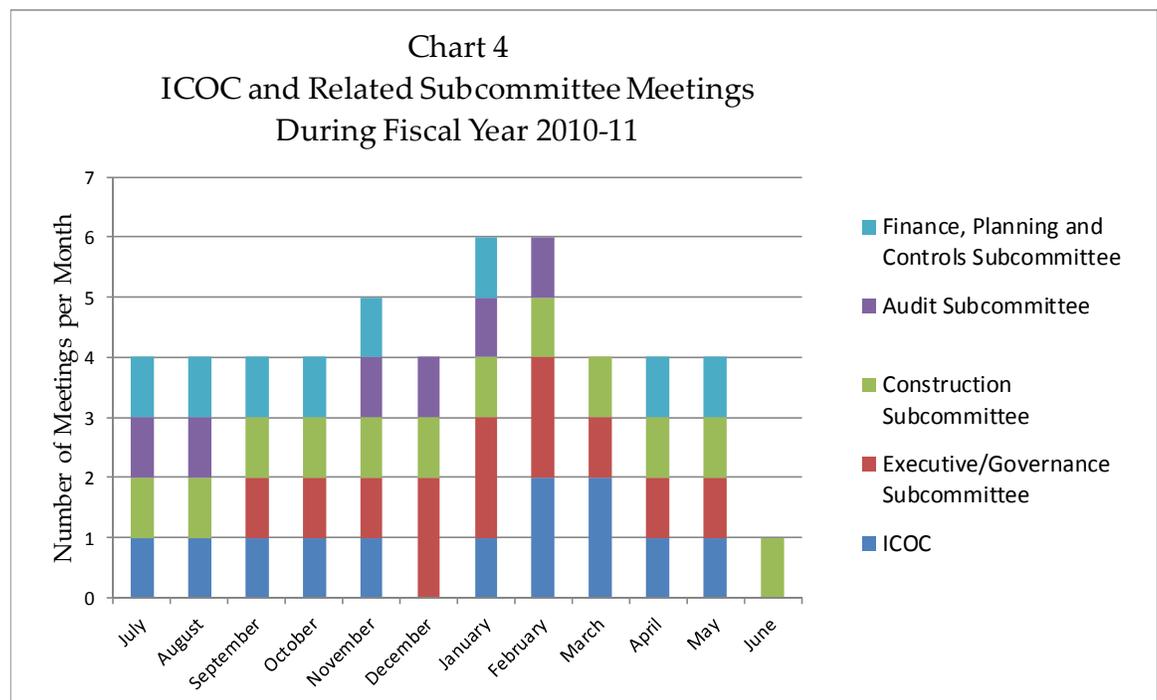
The Proposition S Independent Citizens Oversight Committee (ICOC) is a highly active oversight body. Per review of the ICOC's documentation of minutes and reports, (available on the District's website) as well as inquiry, we noted that the ICOC has established four subcommittees which meet regularly 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 2010-11. 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.



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**

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.

- a. **As-Built Drawings/Pre-Construction Surveys:** We noted that the District has made attempts to discover the existing conditions at the sites where construction work is being proposed. These attempts have made an impact on the number of change orders issued on select projects. These efforts should be formalized into a systematic effort to identify existing conditions at all project sites in as complete a manner as possible. We noted problems that could have been addressed in the design phase had surveys been conducted prior to design drawings.

Management's Response: District Concur. Comprehensive surveys of site utilities and topography are now being conducted in the early phases of pre-schematic development.

- b. **School Site Master-Planning:** We noted that several chillers were installed post school plant construction and in several of these projects major obstacles in the form of water lines and Fire Department connections were installed in the path of the new construction. These obstacles were installed as a part of the original school construction project and had the original Architect done a complete master plan with all future buildings shown, these potential change orders would not have impacted the later work.

Management's Response: The affected sites are fully developed and as such are not considered subject to new building construction. The utility conflicts occurred as a result of incomplete as-built information. Per Item "As-Built Drawings/Pre-Construction Surveys" above, completing utility surveys in the early stages of pre-schematic development will significantly reduce the risk of such conflicts occurring in future work.#

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

Consultant's Recommendations, continued:

- c. **Impact of the Project Stabilization Agreement:** Recent studies have shown that the use of so called Project Stabilization Agreements by public agencies has had a mixed bag of results. Some studies show that these agreements increase the quality of the projects while others show that the costs are dramatically increased. A review of the impact of the Districts PSA should be conducted to insure that the agreement is having the positive impact on the program as was the original design.

Management's Response: At its March 29, 2011 meeting, the Board of Education awarded a contract to Rea & Parker Research "to conduct a Study of the Impact and Effect of the Project Stabilization Agreement Pursuant to Proposition S." That study has been completed, covering projects all PSA projects to date.##

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: Team communication is encouraged among both project management staff and construction management staff through weekly staff meetings and individual project reviews. In an effort to further enhance communication and collaboration, construction management and project management will engage in joint plan review much earlier in the document development phase. This will provide an opportunity for teams to share project specifics, discuss lessons learned, and facilitate problem solving much earlier in the design process. Additionally, we will be completing our implementation of project based SharePoint sites in the coming months. These web based project sites will host construction management and project management document storage and collaboration forums specific to each project. Team members will have access to all relevant project documentation, schedules, and notifications.#

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: As noted above in the "Team Communication" item, changes in processes will engage construction managers much earlier in the document develop phase. Construction Managers will be assigned at or about the 50% completion stage of the construction documents. This will provide an opportunity for valuable collaboration exercises between the design team and the construction team.

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

Consultant's Recommendations, continued:

- 3. Employee Performance Indicators:** The Proposition S Bond program is organized with a combination of San Diego Unified District employees and outside contractors. For the District employees, an evaluation is done initially in their first year per the collective bargaining agreement. For contractors, evaluations are done informally in which they are measured against the contract scope. However, there is not a process for continued performance evaluations, particularly of district employees that are only formally evaluated in their first year. To optimize the performance of the Proposition S program, employees and contractors working on the program should be given performance criteria and evaluated against that criterion on a regular basis.

Management's Response: The collective bargaining agreements for District employees require an initial evaluation within 6 to 12 months for new hires. The current agreements do not allow for additional evaluations after the probationary period. These evaluations are being done. The District is reviewing the performance evaluation process under the direction of the board and superintendent and Prop S staff will support any improvements to the current process that may come out of that evaluation. The staff augmentation firms hired by the District each have their own internal evaluation process. The individual firm's annual evaluation process includes a self-assessment by the employee of their performance and their supervisor's evaluation. Each employee is evaluated on their performance in key areas such as effective communication, teamwork, mutual respect, initiative, integrity, customer focus, quality and safety focus, technical competence, management and technical skills. Employees are also required to meet yearly goals on professional growth and their performance is graded on meeting those goals. Also, Key Performance Indicators (KPI's) have been developed for the Department and are monitored by management to track overall organizational performance.

**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, 2011.

Finding #2011-1 Performance Audit Finding: Post Award Contracts Payment Process

Audit Finding: We noted that opportunities continue to exist for improving the process for executing Professional Service Vendor payments in the District's post-award contracts area. Our testing of 789 payments made in July 2010 to June 2011 indicated an average time to payment of 37 days. It is important to note that in the second half of the 2010-11 fiscal year, however, processing time dropped from approximately 60 days to payment to 15 days to payment. Good internal control dictates processing vendor payments within 30 days.

In response to the delays in payment noted previously, the District has hired two additional post-award contracts employees to assist in processing payments to professional services vendors. The District has also improved the approval process by eliminating the back and forth communications between the PM and the contracts assistant. To further streamline and improve 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: 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: District concurs. Currently the District has procured the services of a consultant firm that specializes in automating invoicing, payment and integration of the enterprise database systems that the District uses for both financial and project management. The payment invoice, request and approval system that is under production will include an on-line utility that the vendor will access and make request for payment. The system includes checks and balances that prevents the overbilling of services and automates the approval and payment process. Approvals are still required by District managers and Accounts Payable as with the current paper system. The goal is to have the system placed in service first for professional services contracts by February 2012. This should further improve the payment process to allow real-time tracking of invoice and payments to vendors.

SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES, CONTINUED

Finding #2011-2 Performance Audit Finding: Internal Audit Involvement

Audit Finding: We noted that the District's internal audit department is still currently in the process of hiring a position for internal audit projects related to Proposition S, as they were having difficulty getting the position through the hiring process. Internal Audit has put together Internal Audit Objectives but is not currently providing regular internal audit services to the facilities/construction area. As of June 15, 2011, Internal Audit has randomly selected a site to audit, and are in the gathering of information stage.

Audit Recommendations: To enhance oversight over the Proposition S program, the Internal Audit department should proceed to utilize information gathered and conduct audits of the program. Results of the internal control audits should be made available to District and Proposition S program management, as well as external auditors where applicable.

Management's Response: Internal Audit began the process of filling the .40 FTE position on 4/20/2011 and on 8/23/2011 reached the point where publication for the position took place. The recruitment process using the District's Human Resources process for filling vacant positions had twice presented the position. The results of these efforts produced no viable candidates for the interview process. This office has now submitted to Human Resources and the Budget Department, the information needed to search for a candidate by a paid posting on the Institute of Internal Auditors' (IIA) website.

The Office of Internal Audit, initially projected at being staffed for 2011/2012 with six positions, is now staffed at five positions; a vacant position now not being filled due to the financial constraints facing the District. A staff member had been assigned to audit at 40% of the position's time but the staff member was pulled to conduct a special investigation. Following the completion of the special investigative assignment, the intent is to have this staff member resume relegating 40% of staff time to Prop S for two months, pending filling of the vacancy.

SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES, CONTINUED

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

The District posted expenses to Proposition S bond funds for projects and activities not on the approved list. The District published a list of intended projects that were to be funded through Proposition S bond proceeds. Based on our initial review of sample transactions, we identified minor instances in which bond funds were used on projects that were not on the list approved by the voters (routine classroom supplies and materials). Upon further inquiry the facilities department was aware of the charges and made journal entries to reclassify the expenses to another funding source before the close of the fiscal year. Although the expenditures were reclassified as of June 30, 2011 resulting in no questioned costs, the District should have controls in place to ensure that the items are not charged to the fund initially.

Audit Recommendations: Upon further inquiry it appears that some requisitions, especially revisions to earlier preliminary requisitions are not relayed to program controls for detail review. Budgeting opens the account and the budget is determined at the request level. Thus program controls and budget see the account code after the item has been coded. We recommend that program controls and budget approve the account codes at the request level and that a policy be put in place to ensure that all requisitions are provided to program controls for review.

Management's Response: Facilities Planning and Construction (FPC) takes very seriously the prevention and correction of unallowable expenditures to Proposition S. Reviews of expenditures are made on a monthly basis to identify any potential unallowable expenditure. Each item is reviewed and verified to ensure that expenditures are permissible for Proposition S. When items are discovered that should not have been charged to Proposition S, journal vouchers are processed and submitted to the finance budget department for correction.

When the expenditure approval process was reviewed for all purchases, FPC management determined that the current process was inadequate. The revised process now includes a thorough review by program controls to make sure that items that are purchased are allowable prior to the requisition being made. The budget analyst must fund the budget for the purchase prior to the order being made. Prior to the actual approval of the purchase order a final review is made by program controls and by the final approver to make sure that only the items that were on the approved listing are ordered. The process has been formalized as a departmental process and procedure and is now in effect.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Description</u>	<u>Current Status</u>
#2010-1	<p><u>Post Award Contracts Payment Process</u></p> <p>The payment processes pertaining to post award construction and professional services contracts are understaffed and overly elaborate, resulting in processing overload and, in the case of professional services, an average time to payment of approximately 60 days, twice the industry standard.</p>	<p>Partially Implemented. See #2011-1 Performance Audit Finding.</p>
#2010-2	<p><u>Internal Audit and Finance Department Involvement</u></p> <p>The internal audit department is not currently providing regular internal audit services to the facilities/construction area. Additionally, the finance department does not have access to the CM12/Primavera contract management system, limiting its involvement in managing the facilities activities of the District.</p>	<p>Partially implemented. See #2011-2 Performance Audit Finding.</p>
#2010-3	<p><u>Independent Citizens' Oversight Committee Meeting Minutes</u></p> <p>The meeting minutes of the ICOC and ICOC committees are posted in draft form, and not in final, edited form on the ICOC website.</p>	<p>Implemented.</p>
#2010-4	<p><u>Financial Advisory Services</u></p> <p>The District is using a financial advisory company that is also a vendor, receiving payment from the costs of issuance of the bonds. We note that this function undermines the advisor's independence regarding the issuance process.</p>	<p>Implemented.</p>
#2010-5	<p><u>Construction Change Order Reporting</u></p> <p>There were discrepancies in the change order amounts and rates being reported to the ICOC via the Construction Management Report of January 6, 2011 and the CM12/Primavera change order log. The discrepancies resulted in change orders being under-reported to the ICOC by \$295,539 (2.5% of original contract value for the \$12.0 million in contracts selected for testing).</p>	<p>Implemented.</p>