

2018 Annual Report of the Citizens' Bond Oversight Committee

ALUM ROCK UNION SCHOOL DISTRICT
2017 / 2018 FISCAL YEAR



TABLE OF CONTENTS

Introducing the CBOC	3
Committee Activities.....	4
About Measure J	4
About Measure I.....	5
Needs of ARUSD facilities.....	5
Conditions impacting the ARUSD Bond program 2017 / 2018.....	7
Bond projects active in 2017 / 2018	9
Summary of Measure J Performance Audit, Financial Statements, and Internal Controls Report	11
Performance Audit Summary:	11
Financial Statement Summary:	11
Internal Controls Report Summary:.....	12
Citizens' Bond Oversight Committee Response:.....	13
Concerns and Questions:.....	13
District's Answers to the Questions raised by the CBOC:	15
Conclusions of the Committee:	16
FAQ's	18
What is a general obligation bond?	18
What is the Citizens' Bond Oversight Committee and why does it matter to me? ...	18
How can I be sure that general bond obligation funds will be spent on improving our schools?	18
Can bond funds be used for teacher or administrative salaries?.....	18
Does the Citizens' Bond Oversight Committee oversee the actual construction? ...	18
How are construction management, architects/ engineers, contractors and professional consultants for bond projects selected?	19
Why do the costs of the projects often fluctuate from the original estimated costs? 19	

2018 ANNUAL REPORT OF THE CITIZENS' BOND OVERSIGHT COMMITTEE

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

2017/2018 FISCAL YEAR

The Alum Rock Union Elementary School District in San Jose is nestled in the beautiful foothills of the Santa Clara Valley in the San Francisco Bay Area. Alum Rock is a family-oriented community committed to its children and schools, and serves a student body of 9,700 rich in racial, ethnic, and cultural diversity. Many families are active in supporting the educational community.

The district has successfully forged partnerships with programs such as Head Start, Foothill Community Health Center, the San Jose Public Library, and Somos Mayfair to offer programs that empower families and support health and achievement for students.

The district's schools have won several awards. In 2016, Adelante and LUCHA were honored with California's Gold Ribbon Award for demonstrating exemplary achievements in implementing state standards in priority areas. In 2017, Renaissance Fischer and Renaissance Mathson were honored with the California Gold Ribbon Award.

We are pleased to deliver the Citizens' Bond Oversight Committee's 2018 Annual Report to the Alum Rock Community. This Annual Report will include a response to the bond performance and financial audits. The Citizens' Bond Oversight Committee (CBOC) currently oversees funds from Measure J, and is also responsible for oversight of Measure I, where bonds have yet to be issued.



Figure 1: CBOC members visit LUCHA (1964) to inspect completed work.

INTRODUCING THE CBOC

California Proposition 39, known as the School Facilities Local Vote Act, passed November 7, 2000. Prop 39 reduced the threshold needed to pass local California school district bond issues from a two-thirds supermajority vote to a 55 percent vote. California Education Code Section 15728 establishes requirements for a Citizen's Bond Oversight Committee to be established when bond measures are passed under Prop 39. This is a committee of local residents whose main charge is to inform the public of how their bond dollars are spent.

The California Education Code specifies requirements for seven committee members: a member of a business organization, a parent of an ARUSD student who is also a member of a parent organization, a member of a taxpayers' organization, a member of a senior citizens' organization, a parent of an ARUSD student, and two at-large community members. The CBOC does not currently have a limit on the number of members beyond those required by law, and accepts applications for membership at all times. Applications are available in [Spanish](#) and [English](#) on the ARUSD website. Community members with experience in construction, accounting, bookkeeping, working with contractors, or any related fields are especially encouraged to apply. The CBOC holds regular meetings each month.

The CBOC actively reviews and reports on the expenditure of taxpayers' money for school construction to ensure the bond funds are spent in accordance with the provisions of the Bond. The CBOC is accountable to the public and is not under the authority of the ARUSD Board. The CBOC's purpose is oversight of the bond program, transparency, and communication with the public about bond expenditures. It does not have authority to choose, prioritize, or direct bond projects. During the 2017/2018 fiscal year, your committee was comprised of 7 appointed members, including a chairperson and vice chairperson. District staff provide technical and administrative assistance to the committee.

Position	Name	Member Since
Chair (Business Organization)	Raymond Mueller	2013
Vice Chair (Parent/PTA)	Alison Cingolani	2017
Secretary (Taxpayers Organization)	Minh Pham	2017
Member (Senior Citizens Organization)	Frank Chavez	2017
Member (Community at Large)	Francine Brissey	2018
Member (Community at Large)	Robert Duran	2018
Member (Parent)	Flor DeLeon	2018

COMMITTEE ACTIVITIES

The committee convened and participated in several key activities central to their main charge, such as preparing the Annual Report and reviewing program expenditures and annual audits. The CBOC met on 8 occasions during the 2017/2018 fiscal year. At times the Committee experienced challenges maintaining a quorum due to committee vacancies, but ultimately achieved full membership. Recruitment to fill vacancies was done through web and direct outreach at Board meetings and meetings of other parent committees, and by individual recruitment. Proceedings of CBOC meetings included:

- Appointment and Election of Chair, Vice Chair, and Secretary
- Review of Financial and Performance Audit
- Review and Revision of Committee Bylaws
- Review of Roles and Responsibilities
- Review of Ballot Languages for Bond Measures
- Review of Brown Act Requirements
- Review of Proposition 39
- Review of Program Management Fees
- Review of Project Status Reports
- Review of Expenditure Reports

ABOUT MEASURE J

Measure J was on the November 6, 2012 ballot where it was approved by 18,442 votes or 79.43%. The bond was issued for \$125 million.

The Ballot Language:

"To improve neighborhood schools by removing mold and asbestos; fixing leaky, deteriorated roofs; replacing inefficient/aging heating, ventilation, and electrical systems to save money; improving fire safety/ security; updating computer technology/ science labs for 21st century learning; repairing aging restrooms; and acquiring, constructing, and repairing sites/ facilities, shall Alum Rock Union Elementary School District issue \$125 million in bonds at legal rates with required independent financial audits, citizens' oversight and no money for administrators' salaries?"

**Alum Rock Union
Elementary School
buildings were built
between 1952 and 1967,
making them between 52
and 67 years old.**

ABOUT MEASURE I

Measure I was on the June 7, 2016 ballot where it was approved by 12,461 voters or 78.75%. The bond was issued for approximately \$140 million.

According to California's Education Code, bond funds must be spent exactly as approved by voters. The CBOC examines all bond spending to ensure it is spent in accordance with the law, and reports to the Alum Rock community.

The Ballot Language:

“To improve local neighborhood schools, fix leaky, deteriorated roofs, improve fire safety, repair/upgrade classrooms, improve student safety and security, renovate outdated restrooms, upgrade heating/ventilation/electrical systems for energy efficiency, and computer technology, shall \$139,999,671.60 of Alum Rock Union Elementary School District bonds approved by the voters in June 2008, be reapproved at legal rates to renovate, acquire, construct, repair classrooms, sites, facilities/equipment, with independent audits, citizens' oversight, no money for administrators' salaries and all money controlled locally?”



Figure 2: A mural at San Antonio Elementary (1967)

NEEDS OF ARUSD FACILITIES

ARUSD is made up of 25 district schools, most of which were built in the fifties and sixties. In addition, ARUSD owns facilities leased by 3 charter schools, and is responsible for maintaining those buildings.

As district facilities age, it becomes critical to invest in infrastructure projects such as renovating bathrooms, roofing, and adding or modernizing HVAC systems. This investment is key to maintaining a safe and welcoming environment for our community's children to learn and our educators to work.

In addition, the Board had begun planning for new multipurpose buildings to be built at George and Fischer, although those projects have been placed on an indefinite hold. More information about the multipurpose building projects can be found on page 10 of this report.

Alum Rock's aging buildings will continue to create the need for more capital investment over time.

District Schools	
Adelante Dual Language Academy	1967
Alum Rock District Office	1962
Aptitud Community Academy at Goss	1961
Arbuckle/ Adelante II	1961
Cassell Elementary	1963
Chavez Elementary	1962
Cureton Elementary	1952
Dorsa Elementary	1960
Fischer Middle School/ Renaissance I	1960
George Middle School	1969
Hubbard Media Arts Academy	1959
Linda Vista Elementary	1959
LUCHA Elementary	1964
Lyndale Elementary	1959
Mathson Institute of Technology/ Renaissance II	1960
McCollam Elementary	1959
Meyer Elementary	1962
Ocala STEAM Academy	1972
Painter Elementary	1961
Russo McEntee Academy	1956
Ryan STEAM Academy	1967
San Antonio Elementary	1967
Sheppard Middle School	1961
Charter Schools	
Alpha (formerly Slonaker)	1962
KIPP Heartwood (formerly Miller)	1959
Escuela Popular (formerly Pala)	1960

The major areas addressed in the 2017-2018 projects were roofing, the planning, design, and bid process for HVAC systems (including asbestos removal), restroom refurbishment, planning and design work for the Fischer and George Multipurpose buildings, and the Hubbard K-8 expansion. Generally, the school year is spent planning, reviewing, and getting all the required permits and approvals, so that as much as possible, the actual construction work can be accomplished while school is closed for the summer. There are a large number of agencies that are involved in planning and approving these projects. The city is involved in traffic flow analysis and permits. The Division of the State Architect reviews and approves all the building plans and issues permits to the School District. The federal government is involved indirectly, as the *Americans with Disabilities Act* imposes additional requirements on construction. These processes can entail several months of reviews and revisions before final approval.

While all of our school sites require investment, it is necessary to prioritize work to ensure our bond dollars are spent where most needed. Projects completed during the 2017-2018 fiscal year were prioritized based on a needs assessment conducted in 2008, inspections performed by the district maintenance department staff, and feedback from school site staff. The Bonds, Facilities and Finance subcommittee of the Board of Trustees reviews needs and provides recommendations to the Board, which makes final decisions on which projects move forward. During the 2017-2018 fiscal year, this subcommittee was chaired by Trustee Dolores Marquez. The Citizens' Bond Oversight Committee has no authority to prioritize or direct the expenditure of bond money.

CONDITIONS IMPACTING THE ARUSD BOND PROGRAM 2017 / 2018

Beginning in 2016 and continuing through 2018, audits and investigations conducted by multiple outside agencies expressed concern about poor Board governance, repeated instances of the Board and district staff not following Board and district policy, and a lack of internal fiscal controls at the district level. These include the Financial Crisis & Management Assistance Team (FCMAT) Audit (2016 / 2017), the Santa Clara County Civil Grand Jury Report (2017 / 2018), the district's own Annual Bond Fiscal and Performance Audits (completed annually by an outside auditing firm), and the Joint Legislative Audit Committee (2018 / 2019). All audits identified similar issues, but only the district's audits have been repeated, allowing the community to see progress on individual audit recommendations. All other audits were completed only once, so the progress of the Board and district on specific audit recommendations is sometimes difficult for the CBOC to measure.

Standard & Poor's downgraded the District's credit rating as a result of audit findings in October 2017, making the issuance of bonds far more expensive to district taxpayers. In March of 2018 the Santa Clara County Board of Education (SCCOE) assumed veto

power over any of the Board’s financial decisions that could put the District at further risk. SCCOE also appointed a Fiscal Advisor to assist the Board and District in making more fiscally prudent decisions and implementing necessary controls. Because of concerns about Board governance and District fiscal controls, SCCOE declined to approve the Board’s attempts to issue Measure I bonds.

Although the District has made great strides in correcting operational weaknesses with the support of SCCOE, and three of the five Board members were replaced during or after the 2018 elections, there was not enough bond money available during the 2017-2018 fiscal year to fund the district’s remaining HVAC needs.



Figure 3 CBOC members inspect completed roof restoration at Mathson (1960)



Figure 4: A mosaic at LUCHA (1964) shows Alum Rock community values

BOND PROJECTS ACTIVE IN 2017 / 2018

The projects summarized in the table below were begun or completed in the 2017 / 2018 fiscal year using money from Measure J bonds. More specific information about the HVAC system projects and multipurpose building projects follows the table. Dollar amounts marked by an asterisk (*) indicate projects that were or will be funded over multiple fiscal years. The amount listed is the amount paid in the 2017-2018 fiscal year only.

Project	Cost
HVAC for Arbuckle, planning and bid process	*\$151,720
HVAC for Cureton, planning and bid process	*\$159,053
HVAC for McCollam, planning and bid process	*\$158,960
HVAC for Russo McEntee, planning and bid process	*\$228,832
HVAC for Ryan, planning and bid process	*\$229,560
HVAC at LUCHA	*\$2,654,736
HVAC at Dorsa	*\$2,833,282
Multipurpose Building at Fischer, planning and design	*\$285,289
Multipurpose Building at George, planning and design	*\$132,427
Multipurpose Building at Mathson, planning and design for restoration of existing structure	*\$58,708
Reroofing at Kipp	*\$149,847
Reroofing at District Office	\$51,068
Reroofing at LUCHA	\$377,751
Roof Restoration at Mathson	\$239,299
Reroofing at Russo McEntee	\$69,939
Restroom refurbishment at Mathson	\$875,141
K-8 Expansion at Hubbard	*\$2,174,142

HVAC SYSTEMS:

The installation of HVAC systems at LUCHA and Dorsa were planned and begun in the 2016 / 2017 fiscal year, and were completed in the 2017 / 2018 fiscal year.

The process for HVAC installations at Arbuckle, Cureton, McCollam, Russo McEntee, and Ryan was begun in the 2017 / 2018 fiscal year, but installation was not able to be completed due to lack of bond funds. Plans and recommendations for each of the five school sites were drawn up by an architect. The next step in the installation process was a Request for Proposal (RFP), when the district publicized the scope and details of the projects and invited construction companies to submit proposals including cost. When the HVAC projects bids were received, it was apparent that the District did not

have adequate funds to complete any of the projects without issuance of Measure I bonds, which they were not permitted to issue for the reasons noted in the section “Conditions Impacting the ARUSD Bond Program 2017 / 2018.” All five of these schools remain without permanent HVAC systems, although all five schools without permanent HVAC systems have temporary air conditioning units in place.

MULTIPURPOSE BUILDINGS:

The concept of a multipurpose building is to provide a large assembly space, gym, and classrooms that can be used by ARUSD students and community members. The expense of building new multipurpose buildings at George and Fischer has been hotly debated by Board members and the community because the multipurpose buildings represent a large expenditure at a time when our existing buildings are in need of ongoing investment due to aging. In addition, a fault line was found to run directly beneath the George multipurpose building site, which would require extensive revisions to the original plans and more expensive building methods and materials.

The District already owns one existing multipurpose building on the Mathson campus. The building has stood vacant for multiple years and has been subjected to repeated vandalism. Restoring the building would require a substantial investment of funds, but would likely be less costly than constructing new multipurpose buildings. In addition, the building is home to many murals, still in good condition, of cultural significance. During the 2017-2018 fiscal year for the reasons noted in the section “Conditions Impacting the ARUSD Bond Program 2017 / 2018,” there was not enough bond money available to move forward with the construction of new multipurpose buildings or the restoration of the existing multipurpose building.



Figure 5: Work remains at the Mathson multipurpose building

SUMMARY OF MEASURE J PERFORMANCE AUDIT, FINANCIAL STATEMENTS, AND INTERNAL CONTROLS REPORT

PERFORMANCE AUDIT SUMMARY:

The independent auditing firm Crowe LLP drafted and submitted a performance audit of Measure J General Obligation Bonds for the fiscal year beginning July 1st, 2017 and ending June 30th, 2018 on April 9th, 2019 to the Board of Trustees of the Alum Rock Union Elementary School District. This audit is mandated under the requirements of Proposition 39 (2000), under Section 1(b)(3) C of Article 13A of the California Constitution.

The scope of the audit was based on a list of all identified Measure J project expenditures for Fiscal Year 2017-18, which totaled \$6,285,064. The methodology used by the auditing firm included verifying the mathematical accuracy of the expenditure list and reconciling it to those reported by the District in its audited Measure J Bonds financial statements for Fiscal Year 2017-18. Crowe LLP selected a sample of expenditures totaling \$5,451,795. This data set was selected to provide a representation of data across a range of expenditures on construction projects and vendors, and covered 87% of the fiscal year's total spending. Salaries of district employees, to the extent that they performed administrative oversight on construction projects authorized by a voter approved bond measure were included per California State Attorney General's Opinion 04-110 of November 9, 2004.ⁱ

Based on the information provided, the auditing firm concluded that "in all significant respects, the District expended Measure J General Obligation Bond funds for Fiscal Year 2017-18 only for the specific projects developed by the Board of Trustees and approved by the voters in accordance with Proposition 39, per Section 1(b)(3)(C) of Article 13A of the California Constitution."ⁱⁱ

FINANCIAL STATEMENT SUMMARY:

To support the performance audit, the auditing firm performed an audit of the District's financial statements of the "Balance Sheet" and "Statement of Revenues, Expenditures, and Change in Fund Balance" for the period of July 1st, 2017 through June 30th, 2018. Currently, there are \$26,413,045 in assets (which includes \$15,978,487 in cash at the

County Treasury and \$10,434,558 in “Inter-Fund Transactions” which consisted of a transfer of \$2,315,512 from the District’s County School Facilities Fund to reimburse for prior year payments of the Districts Certificates of Participation, and a transfer of \$10,434,558 for the District’s Building Fund to reimburse for project costs authorized under the District’s Measure I Bond Authorization), which reconciles with the liability and fund balance total of \$26,413,045 (made up of \$58,389 in Accounts Payable and \$26,354,656 in the fund balance).ⁱⁱⁱ

As for the “Statement of Revenues, Expenditures, and Change in Fund Balance,” there were revenues of \$140,659 for Fiscal Year 2017-18, all of which were derived from other local sources. There were expenditures of \$6,285,064 composed of \$150,478 in salaries, \$67,130 in benefits, \$1,089 in books & supplies, \$377,301 for contract services, and \$5,689,066 in capital outlays. During Fiscal Year 2017-18, there was a deficiency of revenues that was insufficient to cover expenditures, thus the District transferred \$12,750,070 from separate funds. Though the expenditures deducted \$6,285,064 from the existing fund balance of \$19,748,999 on July 1st, 2017, the transfer of funds from the district covered the deduction and added an additional \$6,605,665 to the existing fund balance, thus leaving the Measure J Bond fund balance at \$26,354,656 as of June 30th, 2018.^{iv}

INTERNAL CONTROLS REPORT SUMMARY:

Included with the audit of the financial statements for Measure J General Obligation Bonds for Fiscal Year 2017-18, the auditing firm performed a report on “internal control over financial reporting and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.”

The reason for this report on internal controls was to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing the auditing firm’s opinion on the financial statement.^v Though there were no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, there were deficiencies in internal control which together were determined to be a material weakness.^{vi} The deficiencies that collectively form the material weakness are as follows:

- The District has outsourced both bond program and construction management services to a third-party vendor. As part of that contract, the vendor is to

provide documentation to assist with the financial reporting and internal control procedures. The lack of documentation provided by the vendor constitutes a deficiency in internal control.

- The District's third-party vendor for program and construction management services incurred time and costs under the terms of the contract which have not paid at the direction of the Santa Clara County Office of Education. There are remaining invoiced expenses which have not been accrued as a payable at June 30, 2018.
- The District's evidence in support of internal controls related to pay rate changes and the reconciliation between the Payroll Prelist and the Final Payroll Register identified that these control activities were not consistently completed on a timely basis. Further, evidence supporting approval by a supervisor for employee absences and timecards were not consistently documented with the respective District forms.^{vii}

The effect meant that the auditors were required to significantly adjust the Unaudited Actual financial report provided by the District to arrive as the audited financial statement balances. In addition, the auditors were unable to substantiate that appropriate internal controls have been implemented to ensure the accuracy of financial reporting. The auditors recommend that the District implement internal controls to ensure the accuracy of financial reporting and has noted the agreement of District management with the recommendations and has noted the District's actions in taking actions to make the changes to correct the material weakness.^{viii}

CITIZENS' BOND OVERSIGHT COMMITTEE RESPONSE:

CONCERNS AND QUESTIONS:

Regarding the audits provided by Crowe LLP on April 9th, 2019, the Citizens' Bond Oversight Committee would like to thank the auditors for their work, as well as the District staff for their ongoing technical support of the Committee's work. At this time, the Committee has noted some issues of concern brought up in the audit, as well as some of the financial transactions taken by the District which were noted in the audit.

Originally, the audits were scheduled to be due in January 2019. However, the completion of the audit was delayed until April 2019. The Committee was informed then that the delay was due to the auditing firm needing to confer with the California State Controller's Office. Given the concerns about bond oversight raised in Fiscal Year

2016-17, the Committee is concerned about why the State Controller's Office asked the auditors to meet with them prior to the completion and release of the Fiscal Year 2017-18 audit. Not only is a timely dissemination of the audit is important so that an accurate annual report be produced for the Alum Rock School District Community, but all additional doubts about the financial soundness of the bond issues must be addressed in the soonest possible manner. The reviews of the financial statements, bond performance, and the response to governmental inquiries are needed in order to maintain public confidence that the bonds issued by the District are indeed used for facility improvements to be enjoyed by all the students and families of the District.

Beyond that, there are a few questions across the audits that the Committee are concerned about and requests the District and the auditing firm, Crowe LLP, to address. These questions are listed below:

1. What were the sources of the \$140,659 listed as "Other Local Revenues"?
2. In the Fiscal Year 2016-17, a total of \$154.864 was spent on salaries and benefits allowed under California Attorney General's Opinion 04-110 of November 9, 2004 (respectively \$107,224 on salaries and \$47,640 in benefits) administering \$11,211,400 in Measure J Bond expenditures.^{ix} In Fiscal Year 2017-18, though bond expenditures decreased to \$6,285,064, spending in allowable salaries and benefits increased to \$217,608 (respectively \$150,748 in salaries and \$67,130 in benefits).^x What caused the increase in expenditures for salaries and benefits?
3. Responding to the deficiency between bond revenues and expenditures, the District transferred \$12,750,070 (composed of \$2,315,512 from the District's County School Facilities Fund and \$10,434,558 from the District's Building Fund).^{xi} Will these funds need to be repaid back into their original funds at a later date? If they are required to be paid back, by what date will the funds need to be repaid?
4. The second condition of the material weakness noted by the auditor noted that the former third party vendor for bond and construction management, Del Terra, incurred costs under contract terms that have not been paid per the Santa Clara County Office of Education with remaining invoiced expenses which have not been accrued as a payable at June 30, 2018.^{xii} Understanding that the District is no longer financially independent and that the County Education Office has ultimate approval over expenditures, will these invoiced expenses have any effects on the credit of the District along with any other possible fiscal effects in the foreseeable future?
5. As a follow up to the above question, what was the specific nature of those incurred costs?

6. Since the previous third part vendor for bond program and construction management services is no longer working for the District since the termination of payments from the County Office of Education, has the District identified any possible vendors to each take on bond program management and construction management going forward?
7. As the balance sheet and the statement of revenues, expenditures, and change in fund balance for Measure J Bonds are consistent, what were the specific school site projects funded by the Fiscal Year 2017-18 expenditures?

DISTRICT'S ANSWERS TO THE QUESTIONS RAISED BY THE CBOC:

At the June 17 and July 15, 2019 meetings of the Citizens' Bond Oversight Committee, Fiscal Services Director Efrain Robles and Assistant Superintendent Kolvira Chheng, provided responses to some of the above questions. The Committee was informed that the District was the subject of an audit from the State Controller at the request of State Senator Jim Beall and State Assemblyman Ash Kalra, who both represent the legislative constituencies of which the District is a part. The legislators have raised concerns over the financial situation of the District, and called for a further examination of the fiscal situation by a state-level agency. Beyond that, there were constructive answers to several of the questions posed above which are listed as follows:

- ✓ On Question 1 regarding the source of "Other Local Revenues," it was determined that they were from bond interest monies paid to the District.
- ✓ For Question 2, the increase in bond funds for employee salaries was due to the additional bond audit and accounting work that arose from the task of preparing the annual audit as well as the additional audit from the State Controller.
- ✓ Regarding Question 3, the transferred funds were to finish off bond projects for San Antonio School. They were funds in support for Measure I Bonds, but as they are not yet sold, the costs were covered from remaining Measure J Funds and will not need to be paid back.
- ✓ Concerns raised in Question 4 were allayed as Assistant Superintendent Chheng informed the Committee that the auditing firm, Crowe LLP, has concurred that the incurred unpaid costs to Del Terra that cannot be paid (as those charges were disapproved by the County Education Office) will not affect the credit rating of the District nor will it have any negative fiscal effects for the future.
- ✓ Furthermore, as Question 5 asked about the nature of the costs from Del Terra, it was clarified to the Committed that the costs were due to fee-based bond and construction management program costs which included the design and preparation of bond projects for public bidding and the construction costs for heating, ventilation, and air-conditioning installation at LUCHA and Dorsa school sites.

- ✓ Addressing Question 6, there is District discussion about an open bid request for a bond program manager and a construction management vendor once the Santa Clara County Office of Education gives the District approval to sell Measure I bonds.
- ✓ To answer Question 7, the completed school site projects included HVAC installation at LUCHA and Dorsa; re-roofing at KIPP (formerly Miller), the District Office, LUCHA, and Russo/McEntee; roof restoration at Mathson; and the expansion of Hubbard from an elementary school site to a K-8 campus.

Further background technical information and updates on the District's progress on making the changes noted in the previous year's audit were provided by Mr. Robles and representatives from the auditing firm, Crowe LLP. From the auditor's presentation and subsequent follow-up from Mr. Robles, the Citizens' Bond Oversight Committee is pleased that much of the conditions for the material weakness reported in this year's audit were issued that carried over from the last fiscal year and that District has agreed with the recommendations have begun to make changes. The changes include:

- ❖ The training and assigning of staff to perform monthly reconciliations of cash, account payables, and receivables to ensure their accuracy and completion in a timely manner.^{xiii}
- ❖ Reforming human resource processes to ensure that pay rate changes and the reconciliation between the Payroll Prelist and the Final Payroll Register have the required signatures from authorized officials in the Payroll and Human Resources departments.
- ❖ Ensuring that invoices are approved by the designated business office designee by improved tracking and record keeping practices consistent with systems used by the Santa Clara County Office of Education going forward from last year's audit.

CONCLUSIONS OF THE COMMITTEE:

The Committee, while noting that there is still room for improvement, would like to thank the District for constructively embarking and implementing these much needed reforms to address the material weakness specified by the auditors.

Based upon this information, the Committee would like to thank Fiscal Director Efrain Robles, Assistant Superintendent Kolvira Chheng, his administrative coordinator Patricia Tovar, as well as the professional staff of the District for their efforts on addressing the issues raised by Crowe LLP (the auditing firm) in the audit of Measure J Performance, Financial Statements, and Internal Controls. We are appreciative of the fact that the District is working to ensure that Measure J Bond funds are properly spent

for their intended purpose of maintaining and upgrading educational facilities for the Alum Rock Union Elementary School District Community.

As described above, progress on the Measure J bond programs, along with important reforms of fiscal and business processes remain a “work in progress.” It is our hope to hear from the Board of Trustees on these matters in the near future. On that note, the Committee looks forward to discussing the completion of the District’s corrective actions along with the school site projects funded in Fiscal Year 2017-18.

At the time of issue for this report, the Committee finds to the best of its knowledge, per Article 13A, Section 1(b) (3) of the California Constitution, that the Measure J Bond funds were spent only for the specific projects developed by the District’s Board of Trustees and approved by the voters. However, the questions noted by the Committee in this paper raise valid issues regarding the ability of the District to accurately ensure that bond funds are spent properly and the community truly receives the best value for the limited funds. With such concerns noted, there are still doubts within the community-at-large regarding their confidence in the strength of the bond measure, should these issues not be addressed promptly. Though the Board of Trustees accepted the audits from Crowe LLP at their meeting on April 11th, 2019, the Committee reserves the right to submit an amended response at a later date contingent on any subsequent amendments to the audit and/or the submission of new information regarding Measure J Bond funds for the 2017-18 fiscal year that was not covered in the submitted audit.

Without confidence in Measure J Bonds, it would be difficult for the District to be able to support further bond measures in the future, depriving the community of its ability to maintain quality public school facilities. It is the hope of the Citizens’ Bond Oversight Committee that the District (and all other involved parties) will complete the work of addressing these important issues as soon as possible.

LINKS TO CITED REPORTS:

[Alum Rock Union Elementary School District Measure J General Obligation Bonds Performance Audit, by Crowe LLP](#)

Alum Rock Union Elementary School District Measure J General Obligation Bonds Financial Statement, by Crowe LLP

[Alum Rock School District Board: Time to Put “Trust” Back in Trustee, by Santa Clara County Civil Grand Jury](#)

FAQ'S

WHAT IS A GENERAL OBLIGATION BOND?

General obligation bonds fund projects such as the renovation of existing classrooms and school facilities, as well as construction of new schools and classrooms. Similar to a home loan, general obligation bonds are typically repaid over 30 years. The loan repayment comes from a tax on all taxable property – residential, commercial, agricultural and industrial – located in the District.

WHAT IS THE CITIZENS' BOND OVERSIGHT COMMITTEE AND WHY DOES IT MATTER TO ME?

As required by Education Code Section 15278, the District appoints a committee of local residents, whose main charge is to inform the public about how the bond dollars are being spent. The committee, known as the Citizens' Bond Oversight Committee, actively reviews and reports on the expenditure of taxpayer's money for school construction to ensure that bond funds are spent in accordance with the provisions of the bond. The committee is comprised of volunteers who represent specific constituencies, such as senior citizens, parents, businesses, or the community-at-large. This additional oversight is important because you pay for these bonds as part of your property taxes.

HOW CAN I BE SURE THAT GENERAL BOND OBLIGATION FUNDS WILL BE SPENT ON IMPROVING OUR SCHOOLS?

Each year, a fiscal and performance audit of bond expenditures is conducted. The audits verify that ARUSD complied in all material respects with bond measure requirements to expend proceeds only on the school facilities projects specified in the bond measure legislation. The CBOC is responsible for reviewing the audit reports and is required to present this information to the public each year.

CAN BOND FUNDS BE USED FOR TEACHER OR ADMINISTRATIVE SALARIES?

No. Only personnel working directly for the bond program are charged to the bond. To manage and coordinate a construction project to completion, personnel need to monitor contracts and project funding, oversee construction progress, and perform overall project management and accounting. Bond funds cannot be used to pay teacher or site administrator salaries, pensions or benefits. The annual fiscal and performance audit of the bond measures reviews all personnel charged to the bond and verifies that they are charged properly and meet state requirements.

DOES THE CITIZENS' BOND OVERSIGHT COMMITTEE OVERSEE THE ACTUAL CONSTRUCTION? No. A team of consultants and professional management companies are contracted to provide these services.

HOW ARE CONSTRUCTION MANAGEMENT, ARCHITECTS/ ENGINEERS, CONTRACTORS AND PROFESSIONAL CONSULTANTS FOR BOND PROJECTS SELECTED?

District administration defines specific requirements, and then solicits proposals from qualified companies willing to work on a project. Contract award recommendations are made to the Board of Trustees for final approval.

WHY DO THE COSTS OF THE PROJECTS OFTEN FLUCTUATE FROM THE ORIGINAL ESTIMATED COSTS?

Construction costs change depending on the cost of materials and the current economy. When the prices of raw materials such as steel or copper wiring rise, it can dramatically increase the cost of the project. Also if there are a lot of construction projects underway in the area, it can result in strained labor resources and bids tend to come in higher.

ⁱ Crowe Horwath LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds

Performance Audit, June 30, 2017” April 24, 2018, pg. 3.

ⁱⁱ Crowe LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds Performance

Audit, June 30, 2018” April 9, 2019, pg. 3.

ⁱⁱⁱ Crowe LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds Financial

Statements, June 30, 2018” April 9, 2019, pgs. 3-6.

^{iv} Crowe LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds Financial

Statements, June 30, 2018” April 9, 2019, pg. 4.

^v Crowe LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds Financial

Statements, June 30, 2018” April 9, 2019, pg. 8.

^{vi} Crowe LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds Financial

Statements, June 30, 2018” April 9, 2019, pgs. 8-10.

^{vii} Crowe LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds Financial

Statements, June 30, 2018” April 9, 2019, pg. 10.

^{viii} Ibid.

^{ix} Crowe Horwath LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds

Financial Statements, June 30, 2017” April 24, 2018, pg. 4.

^x Crowe LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds Financial

Statements, June 30, 2018” April 9, 2019, pg. 4.

^{xi} Crowe LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds Financial

Statements, June 30, 2018” April 9, 2019, pg. 6.

^{xii} Crowe LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds Financial

Statements, June 30, 2018” April 9, 2019, pg. 10.

^{xiii} Ibid.

Bibliography

Crowe Horwath LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds

Performance Audit, June 30, 2017” April 24, 2018.

Crowe Horwath LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds

Financial Statements, June 30, 2017” April 24, 2018.

Crowe LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds Performance

Audit, June 30, 2018” April 9, 2019.

Crowe LLP, “Alum Rock Union Elementary School District: Measure J General Obligation Bonds Financial

Statements, June 30, 2018” April 9, 2019.