

2019 Annual Report of the Citizens' Bond Oversight Committee

ALUM ROCK UNION SCHOOL DISTRICT
2018 / 2019 FISCAL YEAR



TABLE OF CONTENTS

2019 Annual Report of the Citizens’ Bond Oversight Committee	2
Alum Rock Union Elementary School District.....	2
2018/2019 Fiscal year	2
Introducing the CBOC	3
Committee Activities.....	4
About Measure J	5
About Measure I.....	5
Needs of ARUSD facilities.....	6
Conditions impacting the ARUSD Bond program 2018 / 2019	7
Bond projects active in 2018 / 2019	8
HVAC Systems:	9
Multipurpose Buildings:	10
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:	14
Conclusions of the Committee:	16
Links to cited reports:	17
FAQ’s	18

2019 ANNUAL REPORT OF THE CITIZENS' BOND OVERSIGHT COMMITTEE

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

2018/2019 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 more than 9,400 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 Verizon Innovative Learning, which provides free technology, free internet access, and hands-on learning experiences to students at five of our middle schools; Code to the Future, which gives students in five of our schools a comprehensive computer science immersion program; and the New Tech Network, which helps students utilize advanced technology to solve problems and learn through research, experience, collaboration and creativity in two of our schools.

ARUSD is proud to offer two dual language schools, where students achieve bilingual proficiency and develop multicultural competencies through a rigorous English and Spanish dual language instruction program. The District also contains two STEAM Academies.

We are pleased to deliver the Citizens' Bond Oversight Committee's 2019 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: The CBOC and District staff on a site visit to Dorsa Elementary

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 2018/ 2019 fiscal year, your committee was comprised of seven appointed members, including a chairperson and vice chairperson. District staff provide technical and administrative assistance to the committee.

Position	Name	Member Since
Chair (Parent/ PTA)	Alison Cingolani	2017
Vice Chair (Taxpayers Organization)	Minh Pham	2017
Secretary (Community at Large)	Robert Duran	2018
Member (Parent)	Flor DeLeon	2018
Member (Business Association)	Vacant	
Member (Community at Large)	Gabrielle Jeanpierre	2019
Member (Senior Citizens Organization)	Ellen Pulskamp Turner	2019

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 2018/2019 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:

- Election of Chair, Vice Chair, and Secretary
- Review of Financial and Performance Audit
- Review of Roles and Responsibilities
- Review of Ballot Languages for Bond Measures
- Review of Brown Act Requirements
- Review of Project Status Reports
- Review of Expenditure Reports
- School Site Visit
- Presented a School Site Visit report to the public



Figure 2: A mural at LUCHA Elementary (1964)

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 approved 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?"

NEEDS OF ARUSD FACILITIES

During the 2018/ 2019 fiscal year, ARUSD was 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 2018, the District hired a contractor to conduct a thorough facilities needs assessment. The CBOC expects that much of the future facilities work will address issues identified during the assessment, most of which were caused by ageing building infrastructure.

In addition, the Board that was seated through November 2018 had begun planning for new multipurpose buildings to be built at George and Fischer, and the refurbishment of the former MACSA community center adjacent to Mathson Middle School, although those projects have been placed on an indefinite hold.

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

District Schools: Year Built	
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
Alpha (formerly Slonaker)	1962
KIPP Heartwood (formerly Miller)	1959
Escuela Popular (formerly Pala)	1960

During the 2018/ 2019 fiscal year, bond projects were in the process of winding down due to lack of available bond funding, as Measure I bonds have not been issued. 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 2018-2019 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 2018 / 2019

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 stay and rescind 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 still not enough bond money available during the 2018-2019 fiscal year to fund the district's remaining projects: ongoing HVAC needs, multipurpose buildings, and other timely projects meant to improve already aging and deteriorating school infrastructures.

BOND PROJECTS ACTIVE IN 2018 / 2019

There were no new projects started or completed in the fiscal year July 2018 to June 2019 with Measure 'J' funds, because there were not adequate funds to complete any of the priority facilities projects.

The only bond-related expenses are outlined in the table below. Under most circumstances, salaries of District staff cannot be paid using bond monies, unless that staff time was dedicated completely to administering the bonds program. The salaries noted below funded the position of the former Director of Bonds and Facilities, clerical and bookkeeping work, and administrative support for the Bonds Program Performance Audit and Financial Statements, conducted by independent auditor, Crowe LLP.

Bond Expenses 2018-2019	Cost
Beginning Measure J Bond funds, as of July 1, 2018	\$26,354,656
Money spent on Salaries	-\$224,253
Money spent on Benefits	-\$99,788
Money spent on Contract Services	-\$27,958
Revenue generated from interest to cover expenses	+\$121,058
Ending Measure J Bond funds, as of July 1, 2019	\$26,123,715

Additionally, a needs assessment was completed in June 2018, which highlighted items that will eventually need to be addressed due to aging infrastructure and potential safety hazards. The district took immediate measures to complete repairs that posed safety issues at schools but lacks the funds to address other needs regarding the aging infrastructure until Measure I Bonds are issued.

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. However, a year after the construction was completed the HVAC systems began to experience malfunctions. When the district attempted to exercise the manufacturer's warranty, they discovered that the systems were not properly installed, and the warranty cannot be exercised until the system is properly installed. As a result the HVAC systems at LUCHA and Dorsa have been part of ongoing litigation which the district cannot discuss until it has been resolved.

On the CBOC site visit of LUCHA and Dorsa in November 2019, observers could see discoloration in ceiling tiles that we were told was coolant and other lubricants that have been leaking from the HVAC systems infrastructure. Both district and school administrators fear that continued use of HVAC systems while compromised could do structural damage to buildings, in addition to further compromising the HVAC systems. The District had to incur additional costs to be able to get the system functioning; however, a permanent fix is still needed.



Figure 3: Leaking refrigerant can be seen saturating ceiling tiles in a classroom at Dorsa Elementary

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 2018 / 2019.” 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:

For reasons noted in the section “Conditions Impacting the ARUSD Bond Program 2018 / 2019,” there continues to be inadequate bond money available to move forward with the construction of any new multipurpose buildings or the restoration of the existing multipurpose building.

The Board will eventually need to make a decision about what to do with the former Mexican American Community Services Agency (MACSA) building, which sits on land belonging to the District adjacent to Mathson Middle School. The building reverted to the District following the collapse of MACSA in 2016. It has been vacant since then and been repeatedly vandalized, but contains many culturally significant murals in good condition. The Board will need to decide if the building should be demolished, or is worth a substantial amount of reinvestment to complete its restoration. The building holds classrooms and meeting rooms, a clinic, a commercial kitchen, daycare, full-size gymnasium and locker rooms, priceless community art, and large parking lot.



Figure 4: The CBOC and District staff view some of the many intact murals at the former MACSA 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, 2018 and ending June 30th, 2019 on February 4th, 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 2018-19, which totaled \$351,999. 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 2018-19. Crowe LLP selected a sample of expenditures totaling \$125,756. This data set was selected to provide a representation of data across specific expenditures covering construction projects, vendors, and covered 36% 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.

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 2018-19 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.

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, 2018 through June 30th, 2019. Currently, there is \$26,185,860 in assets (which includes \$15,720,857 in cash at the

County Treasury, \$30,446 in “Receivables,” and \$10,434,557 in “Inter-Fund Transactions” which consisted of a transfer of \$10,434,557 borrowed by the District to temporarily finance Measure I construction projects until the issuance of General Obligation Bonds authorized by Measure I).

As for the “Statement of Revenues, Expenditures, and Change in Fund Balance,” there were revenues of \$121,058 for Fiscal Year 2018-19, all of which were derived from interest. There were expenditures of \$351,999 composed of \$224,253 in salaries, \$99,788 in benefits, and \$27,958 for contract services. During Fiscal Year 2018-19, there was a deficiency of revenues that was insufficient to cover expenditures, thus the District transferred \$230,941 from separate funds. Though the expenditures deducted \$230,941 from the existing fund balance of \$26,354,656 on July 1st, 2018, the transfer of funds from the district covered the deduction and reduced the existing fund balance by \$230,941, thus leaving the Measure J Bond fund balance at \$26,123,715 as of June 30th, 2019.

INTERNAL CONTROLS REPORT SUMMARY:

Included with the audit of the financial statements for Measure J General Obligation Bonds for Fiscal Year 2018-19, 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. 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. ***The deficiencies that collectively form the material weakness noted in the 2017-2018 audit (the previous completed) 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. We noted a deficiency in internal controls related to a lack of documentation provided by that third party.

- 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 been 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.

The auditing firm at the time recommended that the District should implement internal controls to ensure the accuracy of financial reporting. ***Noting that the District was engaged in the process of making reforms regarding internal financial controls, the auditors are able to report that the District has successfully completed the implementation of the recommended internal controls, thus remediating all the deficiencies. Furthermore, the auditors have definitively found that there were no material weaknesses for the year ending June 30, 2019.***

CITIZENS’ BOND OVERSIGHT COMMITTEE RESPONSE:

CONCERNS AND QUESTIONS:

Regarding the audits provided by Crowe LLP on February 4th, 2020, 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. In addition, the Committee would like to make known its appreciation to the auditing firm and the District for completing this audit on time this reporting year.

Beyond that, there are a few questions across the audits that the Committee is further 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 2017-18, a total of \$217,608 was spent on salaries and benefits allowed under California Attorney General’s Opinion 04-110 of November 9, 2004 (respectively \$150,748 on salaries and \$67,130 in benefits)

administering \$6,285,064 in Measure J Bond expenditures. In Fiscal Year 2018-19, though bond expenditures decreased to \$351,999, spending in allowable salaries and benefits increased to \$324,041 (respectively \$224,253 in salaries and \$99,788 in benefits). What caused the increase in expenditures for salaries and benefits?

3. Responding to the deficiency between bond revenues and expenditures, the District deducted \$230,941 from the existing fund balance. What actions does the District plan on taking to replenish the fund balance?
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. 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. Since the previous third party 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?
6. 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 expenses funded by the Fiscal Year 2018-19 expenditures outside of salaries and benefits (listed as "Contract Services and totaling \$27,958)?

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

At the February 28, 2020 meeting of the Citizens' Bond Oversight Committee, Assistant Superintendent Kolvira Chheng and the auditing firm, Crowe LLP, provided responses to some of the above questions. During the briefing, the Committee was informed of the current condition of the bond program. Beyond that, there were constructive answers to the questions posed above which are listed as follows:

- On Question 1 regarding the source of "Interest," it was determined that they were from bond interest monies paid to the District from the sale of bonds up to

that time and additional interest payments on District funds deposited with the County Treasury.

- For Question 2, the increase in bond funds for employee salaries were due to the bond audit and accounting work that arose from the task of preparing the annual audit. The specific salaries were for Louie Moran, the former Bond Programs Director, and an accountant whose salary and benefits were pro-rated for that person's work on the bond projects and administration.
- Regarding Question 3, Assistant Superintendent Chheng replied that the District planned to restart bond sales in Spring 2021 once the District receives clearance from the Securities & Exchange Commission, California Controller's Office, and the Santa Clara County Office of Education.
- 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, the District is in the legal process of seeking financial restitution from Del Terra.
- Addressing Question 5, there is District discussion about an open bid request for a new bond program manager and a construction management vendor once the Santa Clara County Office of Education gives the District approval to sell bonds.
- To answer Question 6, the "Contract Services" were defined as the costs of conducting the audit and all other services to support the performance of the audit.

Further updates on the District's progress on making the changes noted in the previous year's audit were provided by Assistant Superintendent Chheng and representatives from the auditing firm, Crowe LLP. From the auditor's presentation and subsequent follow-up from Mr. Chheng, the Citizens' Bond Oversight Committee is pleased that the below changes have been successfully integrated into the District's fiscal processes:

- 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.

- 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.

As a result, the auditing firm is able to confirm in writing that the material weakness from the previous years' audit have been successfully remediated and that the implemented internal controls are able to ensure the accuracy of financial reporting going forward.

CONCLUSIONS OF THE COMMITTEE:

The Committee at this time would like to thank the District for constructively embarking and successfully implementing these much needed reforms to address the material weakness specified by the auditors.

Based upon this information, the Committee would like to thank 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 will continue to remain a "work in progress." It is our hope to hear from the Board of Trustees on these matters in the near future. The Committee looks forward to discuss any issues raised in this response as well as those matters that will arise when the District resumes bond sales.

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. The Committee would like to thank the District for meeting the fiscal challenges head-on and successfully making and implementing

crucial reforms. Though the Board of Trustees accepted the audits from Crowe LLP at their meeting on February 6th, 2020, 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 2018-19 fiscal year that was not covered in the submitted audit.

It is the hope of the Citizens' Bond Oversight Committee that the District (and all other involved parties) continues the good work of ensuring transparency in the use of bond funds in order to construct and maintain the best possible educational facilities for our community as well as being financially sound enough to conduct future bond programs.

LINKS TO CITED REPORTS:

[Measure J Financial Statement June 30, 2019](#)

[Measure J Performance Audit June 30, 2019](#)

[FCMAT Extraordinary Audit Report](#)

[SCC Civil Grand Jury Report, June 21, 2018: Time to Put Trust Back In Trustee](#)

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.