Operational Bonds Performance Audit

Submitted to the Alum Rock Union Elementary School District by

Harvey M. Rose Associates, LLC



January 23, 2026

HARVEY M. ROSE
ASSOCIATES, LLC
1390 Market Street, Suite 1150 • San Francisco, California 94102
(415) 552-9292 • (415) 252-0461 (FAX) • info@harveyrose.com

public sector management consulting

HMR

January 23, 2026

Ms. Teresa DeCelles, Assistant Superintendent of Business Services
Mr. Mike Fogel, Director of Fiscal Services
Alum Rock Union Elementary School District
2930 Gay Avenue
San Jose, CA 95127

Dear Ms. DeCelles and Mr. Fogel:

Harvey M. Rose Associates, LLC is pleased to present this *Operational Bonds Performance Audit*.

This performance audit was conducted in accordance with *Government Auditing Standards, July 2018 Revision*, by the U.S. Government Accountability Office, Comptroller General of the United States. It contains four principal findings with recommendations to improve the District's management and oversight of its Proposition 39 bond program. These findings cover bond project planning, debt management, and accounting; bond program oversight, public transparency, and communications; bond program management; and benchmarking of staffing and administrative costs.

We appreciate being provided with the opportunity to serve the Alum Rock Union Elementary School District. We are available to assist you further on this matter if there are outstanding questions.

Respectfully submitted,

Fred Brousseau
Principal
Harvey M. Rose Associates, LLC

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Executive Summary

The Alum Rock Union Elementary School District (ARUSD or the District) engaged Harvey M. Rose Associates, LLC to conduct this *Operational Bonds Performance Audit* in February 2025.

The scope of this performance audit covers Fiscal Year (FY) 2021-22, FY 2022-23, and FY 2023-24. The scope covers the District's bond program funded by the proceeds from Measures J, I, and S, the District's three voter-approved Proposition 39 bond initiatives, including the following components:

- Bond program goals, budgeting, and project planning
- Contract management, procurement, project oversight, and contractor payment
- Communications with stakeholders
- Overall bond program management and compliance with state and local laws
- Benchmarking of staffing and administrative costs for Proposition 39 bonds

Section 1: Bond Project Planning, Debt Management, and Accounting

The District does not have sufficient capital planning, debt management, or long-term financial planning policies, processes, or procedures. Without policies in these areas, as recommended by multiple authorities, the District is at risk of misusing bond funds, not optimizing the use of these funds, and not sufficiently planning for its financial future to ensure it is able to meet its future debt service obligations. The absence of capital improvement planning and debt management procedures also reduces the transparency of the District's bond program overall. We recommend that the District: (a) regularly prepare and present to the Board of Trustees and the public a capital improvement plan, capital improvement budget, and long-term financial forecast; (b) review and revise its Debt Issuance and Management Policy and incorporate compliance with the policy into the District's regular ongoing operations; (c) develop a Finance and Accounting Policies and Procedures manual that is presented to and accepted by the Board of Trustees; and (d) prepare a detailed cost allocation study to establish and document the appropriate allocations of District staff time charged to bond projects and non-bond projects. These recommendations will: (a) improve the District's capital improvement planning and prioritization process, its long-term financial planning practices, its debt management practices, and its internal controls over invoice processing; (b) bring the District into compliance with statutory requirements related to debt issuances; and (c) ensure the appropriate use of bond funds.

Recommendations to improve capital planning

The Board of Trustees should:

1.1 Amend Board Policy Manual section 3100 to require the District Superintendent to regularly prepare and present a capital improvement plan and/or budget document, as often as annually but at least every two years, to the Board of Trustees and the public.

1.2 Amend Board Policy Manual section 7110 to require the District Superintendent to regularly update the Board of Trustees on the condition of its capital assets and to prepare a formal report on the condition of the District's capital assets at least once every three years.

1.3 Consider engaging the District's municipal advisor firm or another comparably qualified firm to develop a capital improvement plan and budget on behalf of the District if the District is unable to develop a capital improvement plan or budget with in-house District staffing resources.

Recommendations to improve long-term financial planning

The Board of Trustees should:

1.4 Amend Board Policy Manual section 3100 to require the District Superintendent to regularly prepare and present a long-term financial plan or multi-year financial forecast to the Board of Trustees and the public.

1.5 Consider engaging the District's municipal advisor firm or another comparably qualified firm to develop a long-term financial plan or multi-year financial forecast on behalf of the District if the District is unable to develop one with in-house District staffing resources.

Recommendations to improve debt management

The Board of Trustees should:

1.6 Direct the Assistant Superintendent of Business Services to (a) review and revise the District's Debt Issuance and Management Policy, in consultation with the District's bond counsel and/or municipal advisor firm as appropriate, to incorporate all of the elements of a debt management policy recommended by GFOA and CDIAC, and (b) present the revised Debt Issuance and Management Policy to the Board of Trustees no later than December 31, 2025.

1.7 Direct the Assistant Superintendent of Business Services to identify the steps necessary to incorporate the District's revised Debt Issuance and Management Policy into the

District's regular ongoing operations. These necessary steps should be presented to the Board of Trustees at the same time as the District's revised Debt Issuance and Management Policy for approval.

1.8 Request the Assistant Superintendent of Business Services to report, no later than June 30, 2026, on the outcomes of the District's efforts to improve adherence to the revised debt management policy.

Recommendations to improve documentation of accounting procedures

The Board of Trustees should:

1.9 Direct the Assistant Superintendent for Business Services to develop and submit to the Board of Trustees for approval a Finance and Accounting Policies and Procedures manual, incorporating all the elements that are recommended by GFOA, by December 31, 2025.

Recommendations to improve documentation of staff time charged to bond projects

The Board of Trustees should:

1.10 Require the Assistant Superintendent for Business Services to prepare a detailed cost allocation study, in consultation with District finance staff, bond counsel, and municipal advisors, to establish and document the appropriate allocations of District staff time between bond project-related activities and non-bond project-related activities. This cost allocation study should be reviewed and revised at least annually.

1.11 Direct the Assistant Superintendent for Business Services to request and retain detailed staff time reporting documentation to support the cost allocation study and review these reports when revising the study to ensure the District is accurately and appropriately charging staff salaries and benefits to bond projects.

Section 2: Bond Program Oversight, Public Transparency, and Communications

The District did not adequately report on bond projects to the Board of Trustees or the public during our audit scope years of FY 2021-22, FY 2022-23, or FY 2023-24. The District has not appointed sufficient members or provided support to its Proposition 39 Citizens' Bond Oversight Committee, as the California Education Code requires, and there is no documentation that any citizen oversight activities, such as reviewing annual audits, conducting site visits, or reviewing project expenditures, were carried out for District bond projects or bond expenditures since 2021. The District was also unable to provide evidence of any significant public outreach on the

bonds program besides the District's website, which is missing key information. Citizen oversight of bond expenditures and regular public reporting and communications about bond projects improves the transparency, accountability, and oversight of the District's bond program and functions as an important external control over the use of bond funds. We recommend that the District ensure its Citizens' Bond Oversight Committee has sufficient membership and support, formalize requirements for reporting to the Board of Trustees on bond expenditures and the bond program overall, and update its bonds program website at least quarterly. These recommendations will ensure the District adheres to all statutory requirements for bond oversight and will improve the internal and external controls over its bond program.

Recommendations to improve compliance with CBOC requirements

The Board of Trustees should:

2.1 Direct the District's Assistant Superintendent for Business Services to (a) develop a process to verify and document that CBOC members meet the statutory requirements for membership composition, and (b) work with current CBOC members to update the CBOC bylaws to include this verification process.

2.2 Direct the District's Assistant Superintendent for Business Services to collaborate with current CBOC members to develop a recruitment strategy to identify, qualify, and appoint CBOC candidates quickly when vacancies are anticipated. This strategy should include, at minimum, the identification of relevant groups and community organizations that can nominate candidates, and should assign responsibility for specific recruitment activities to specific individuals. The strategy should also require the District to post a CBOC application on its website and conduct specific proactive outreach during the months before a current CBOC member's term ends.

2.3 Formally assign responsibility for facilitating, attending, and assisting the CBOC to the District's Assistant Superintendent for Business Services, and require the Assistant Superintendent for Business Services to update the Board of Trustees on the CBOC's activities after every CBOC meeting.

2.4 Consider engaging the District's municipal advisor firm or another comparably qualified firm to provide CBOC assistance if the District is unable to satisfactorily recruit and educate CBOC members or if the CBOC is unable to produce annual reports and comply with all other statutory CBOC requirements and incorporate any resulting recommendations into the Board of Trustees policy manual. The District must ensure that bond funds are not expended for this purpose, as prohibited by Education Code section 15280.

Recommendations to improve public reporting and transparency

The Board of Trustees should:

2.5 Require District staff to prepare a single report to the Board of Trustees and the public at least annually on: (a) debt proceeds received and expended, and (b) status of projects financed with debt proceeds, (c) the status of bond-funded projects, (d) high-level progress towards bonds program goals, and other relevant information about the bonds program over the course of the year.

2.6 Direct District staff to update the District's bonds program website, along with other regular communications forums for District parents and guardians, to provide up-to-date information about the District's bonds program, in particular about bond-funded projects, at least quarterly. The Board should also direct staff to post all annual reports and any other updates to the Board or CBOC (once the CBOC begins meeting regularly) online.

Section 3: Bond Program Management

The District lacked sufficient bond program management capacity beginning in 2023 and as a result was unable to provide evidence of bond program record-keeping or reporting. During the three-year scope of our audit, the District violated several agreements and statutory requirements, including a District-wide Community Workforce Agreement and the State requirement for a Citizens' Bond Oversight Committee. The District transitioned from external to in-house bond program management in 2023 but has been unable to hire the in-house positions it identified as needed to staff this effort. Additionally, the District is unable to provide evidence that it followed its internal procurement policies for a sample of bond program Requests for Proposals (RFPs)/Requests for Qualifications (RFQs) and resulting bids and contracts that we requested to review for this audit. Staff does not conduct performance evaluations or contract monitoring for bond program contractors, despite a recommendation from the California State Auditor in 2019 that they do so. The State Auditor also recommended that the District determine which contractors should be required to file statements of economic interests, but the District reported that it has not implemented that recommendation and does not require any contractors to disclose their financial interests and potential conflicts of interest.

We recommend that the District review and possibly modify its recruiting efforts for the vacant bond program management positions, update its purchasing handbook, adopt and implement a contract monitoring policy, and determine which contractors should be required to disclose their financial interests through a California Form 700 financial disclosure statement. Implementation of these recommendations will improve District procurement processes and outcomes for the

bonds program, improve staffing levels and therefore improve bonds program capacity, and bring the District in line with procurement and contract monitoring best practices.

Recommendations to improve bond program management capacity

The Board of Trustees should:

3.1 Direct District staff to review recruiting efforts and approach for the two vacant Bonds Manager positions to determine if another hiring approach should be taken or if changes are warranted in salaries and benefits offered or other conditions of employment. Additionally, the Board should consider reassessing the decision to move bond program management in-house if these additional recruitment efforts are unsuccessful.

Recommendations to improve procurement and contracting procedures and documentation

The Board of Trustees should:

3.2 Direct District staff to incorporate procedures for procurement that include the District's bidding policies into its Purchasing Department Handbook for staff. The Board should also require staff to maintain documentation of all of the District's bidding requirements, and required documentation to be maintained in District records should be clearly delineated in the Purchasing Department Handbook.

3.3 Consider revising its bidding policies and purchasing procedures to incorporate National Association of State Procurement Officials best practices including making explicit the requirement that the best contractor be selected in competitive procurement for architecture, construction, and program management services.

3.4 Adopt a contract monitoring policy that incorporates the components from the California State Auditor's 2019 audit of the District, including defined staff roles and responsibilities. The Board should also direct staff to write and implement a contract monitoring procedure that guides staff through their contract monitoring responsibilities, including retaining evidence of monitoring efforts in a designated location.

Recommendations to improve disclosure of conflicts of interest

The Board of Trustees should:

3.5 Require (a) that District staff determine which of its contractors should file a California Form 700 statement of economic interests to avoid potential conflicts of interest in their

work for the District, and (b) that bidders for District contracts file statements disclosing any conflicts of interest as part of their bid submission.

Section 4: Benchmarking of Staffing and Administrative Costs

We compared the Alum Rock Union Elementary School District's (ARUSD or the District) Proposition 39 bond spending to a sample of peer districts' bond spending to benchmark expenditures on staffing and administrative costs for Proposition 39 bonds. We reviewed the FY 2021-22 or FY 2022-23 audited Proposition 39 bond financial statements for seven other school districts in Santa Clara County and found that ARUSD's spending on salaries, benefits, and supplies as a percentage of total Proposition 39 bond expenditures is comparable to the median of the seven selected peer districts' percent expenditures on these categories. Based on this comparison, we conclude that ARUSD is not spending a disproportionate amount of Proposition 39 bond money on salaries, benefits, and supplies compared to peer school districts in Santa Clara County.

Introduction

The Alum Rock Union Elementary School District (ARUSD or the District) engaged Harvey M. Rose Associates, LLC to conduct this *Operational Bonds Performance Audit* in February 2025.

Scope

The scope of this performance audit covers Fiscal Year (FY) 2021-22, FY 2022-23, and FY 2023-24. The scope covers the District's bond program funded by the proceeds from Measures J, I, and S, the District's three voter-approved Proposition 39 bond initiatives, including the following components:

- Bond program goals, budgeting, and project planning
- Contract management, procurement, project oversight, and contractor payment
- Communications with stakeholders
- Overall bond program management and compliance with state and local laws
- Benchmarking of staffing and administrative costs for Proposition 39 bonds

Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), 2018 Revision, issued by the Comptroller General of the United States, U.S. Government Accountability Office. In accordance with these requirements and standard performance audit practices, we performed the following performance audit procedures:

- Held an entrance conference with District staff relevant to the audit scope, including the Assistant Superintendent of Business Services, the Director of Fiscal Services, and the Chief Bonds Officer, on March 5, 2025.
- Conducted survey interviews with District staff involved in bond program management, bond program oversight, procurement, accounting, and related functions, as well as the District Superintendent.
- Submitted a Request for Information to the District requesting the following documentation:
    - Copies of all policies, procedures, manuals, and guidelines that govern District procurement, contract monitoring, facilities maintenance, construction management, accounting, budgeting, capital planning, and ethics/conflicts of interest.
    - A list of all financial, accounting, budget, payroll, facilities maintenance, contract management, and construction/project management technology systems and databases used by the District, and a brief description of their use and structure.
    - District budget vs. actual reports in Excel format and accompanying chart of accounts for) for FY 2021-22, FY 2022-23, and FY 2023-24.

- A list of all Measure I, J, and S bond projects active during the FY 2021-22 to FY 2023-24 period. For each project, we asked for a short description of the project, project schedule/timeline, project budget by funding source and FY, actual project expenditures by funding source and FY, and all contractors retained for the project.
- Design and construction schedules for all Measure I, J, and S bond projects, FY 2021-22 to FY 2022-23.
- The lists of all Measure I, J, and S bond project expenditures provided to the District's auditor (Crowe LLP) for the Proposition 39 bond performance audits, FY 2021-22, FY 2022-23, and FY 2023-24.
- Copies of all requests for proposals/qualifications (RFPs/RFQs) and any other solicitations issued during the FY 2021-22 to FY 2023-24 period for which the source of funds includes Measure I, J, or S bond funds.
- Copies of all contracts, agreements, requisitions, or purchase orders for which the source of funds includes Measure I, J, or S bond funds that were active during the FY 2021-22 to FY 2023-24 period.
- Copies of all other contracts, agreements, requisitions, purchase orders, and/or memoranda of understanding for bond-related construction, goods, or services that are not included in item 8 (in other words, not funded by bond funds) and that were active during the FY 2021-22 to FY 2023-24 period.
- Documentation of all contract monitoring activities for bond-funded contracts and agreements, FY 2021-22 to FY 2023-24.
- The District's General Plan, Strategic Plan, Master Plan, and/or Long-Term Financial Plan covering the FY 2021-22 to FY 2023-24 period.
- All District facilities master plans, maintenance plans, capital improvement plans and budgets, renewal/rehabilitation plans, deferred maintenance plans, project lists, and other short- and long-term capital planning or budget documents, FY 2021-22 to FY 2023-24.
- All District facilities inspection reports, FY 2021-22 to FY 2023-24.
- Any current District facilities condition assessments that are not already posted online on the District's website.
- Prior facilities condition assessments that predate the 2022/2023 reports online on the District's website.
- All reports and/or presentations prepared by the District and presented to the Board of Trustees related to bonds and bond-funded projects, FY 2021-22 to FY 2023-24.
- All reports and/or presentations prepared by the District and presented to the Citizens' Bond Oversight Committee, FY 2021-22 to FY 2023-24.
- All internal financial, project management, and/or project status reports related to bond-funded projects prepared by the District for internal reporting and management, FY 2021-22 to FY 2023-24.
- Names of all members of the Citizens' Bond Oversight Committee (CBOC) who served during the FY 2021-22 to FY 2023-24 period, including for each member: term served,

date of appointment, date of termination of appointment, and membership category (parent of child enrolled in District, senior citizens' organization, taxpayers' association, etc.).
    - Copies of all annual reports and other reports or assessments prepared or issued by the CBOC, FY 2021-22 to FY 2023-24.
    - Copies of all CBOC meeting agendas, minutes, and any associated meeting presentation materials, FY 2021-22 to FY 2023-24.
    - All bond-related public outreach and communication materials, FY 2021-22 to FY 2023-24.
    - Descriptions of bond-related staffing and administrative costs incurred by the District, FY 2021-22 to FY 2023-24.
- Based on the materials provided to us by the District, requested and reviewed supporting documentation for selected samples of:
    - Bond fund transactions;
    - Requests for proposals; and
    - Completed bond projects.
- Reviewed bond management and capital planning best practices, recommendations, and standards developed by the California Debt and Investment Advisory Commission, the Government Finance Officers Association, and the California State Treasurer Task Force on Bond Accountability.
- Reviewed statutory requirements related to Proposition 39 bond and debt management.
- Submitted a confidential draft report with findings and recommendations to the District on May 30, 2025.
- Reviewed additional documentation provided to us by the District after delivery of the confidential draft report.
- Held an exit conference with District management on August 29, 2025.
- Received the District's written response to our audit report on January 22, 2026.
- Submitted a final report to the District on January 23, 2026.

Proposition 39 General Obligation Bonds

Proposition 39, the *Smaller Classes, Safer Schools and Financial Accountability Act* approved by California voters in November 2000, amended Article XIII, Section 1 and Article XVI, Section 18 of the California Constitution to give school districts the authority to issue General Obligation bonds with 55 percent voter approval.[1] As stated in Article XIII, Section 1, school districts may use proceeds from Proposition 39 bonds for "the 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

[1] School districts may also issue general obligation bonds under Proposition 46, approved in 1986, with two-thirds voter approval.

facilities." Proceeds from the sale of Proposition 39 bonds may not be used for any other purpose, including teacher and administrator salaries or other school district operating expenses. Article XIII, Section 1 of the California Constitution requires school districts that issue Proposition 39 bonds to conduct annual independent performance and financial audits of the bond funds, and California Education Code Section 15278 requires school districts to appoint and support independent citizens' oversight committees to inform the public about the expenditure of Proposition 39 bond revenues.

About the District

The District is located in the eastern part of San Jose and is governed by a five-member Board of Trustees. As of June 30, 2024, the District's student population was approximately 7,300 students and the District operated twelve elementary TK-5, one TK-1, four TK-8, and five middle schools.[2] In December 2024, the Board of Trustees approved closing six schools, consolidating three schools, and redesigning three schools during the 2025-26 and 2026-27 school years due to the District's budget deficit and declining enrollment. As of May 2025, the District is in the process of closing and consolidating schools as part of this process.

District Bond Authorizations, Issuances, and Expenditures

The scope of this audit covers three of the District's Proposition 39 general obligation bond measures: Measure J (approved 2012), Measure I (approved 2016), and Measure S (approved 2022). The history, authorization, and issuance of these bond measures are described below. For completeness, relevant authorizations and issuances that took place outside the audit scope period of FY 2021-22, FY 2022-23, and FY 2023-24 are included. Refunding bonds, which do not represent new bond issuances, are excluded for clarity.

Measure J, 2012 Election

- In **November 2012**, voters approved **Measure J**, which authorized the District to issue a total of $125,000,000 in Proposition 39 General Obligation bonds.
    - The text of Measure J, as stated in the Official Statement of the District's Series A issuance, was: *"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?"*
- In **July 2013**, the District issued **$32,400,000** of General Obligation bonds, 2012 Election, Series A as authorized by Measure J.

[2] Alum Rock Union Elementary School District FY 2023-24 Audited Financial Statements, page 4.

- In **August 2013**, the District issued **$3,600,000** of Taxable General Obligation bonds, 2012 Election, Series B as authorized by Measure J.
- In **January 2016**, the District issued **$17,500,000** of General Obligation bonds, 2012 Election, Series C as authorized by Measure J.
- Between **July 2013 and January 2016**, of the $125,000,000 authorized, the District issued a total of **$53,500,000** in Measure J General Obligation bonds, leaving **$71,500,000** authorized but unissued. As described below, the unissued Measure J bonds were re-approved by the voters in 2022 under Measure S.

Measure I, 2016 Election

- In **June 2016**, voters approved **Measure I**, which authorized the District to issue a total of **$139,999,671.60** in Proposition 39 General Obligation bonds. Measure I re-authorized the District to issue Proposition 39 bonds that had been previously approved by the voters in June 2008 (Measure G), of which $179,000,000 had been authorized, $39,000,328.40 had been issued, and $139,999,671.60 remained authorized but unissued.
    - The abbreviated text of Measure I, as stated in the Official Statement of the District's Series A issuance, was: *"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?"*
- In **July 2022**, the District issued **$40,000,000** of General Obligation bonds, 2016 Election, Series A as authorized by Measure I.
- In **July 2024**, the District issued **$40,000,000** of General Obligation bonds, 2016 Election, Series B as authorized by Measure I.
- In **May 2025**, the District issued **$15,500,000** of General Obligation bonds, 2016 Election, Series C as authorized by Measure I.
- Between **July 2022 and May 2025**, of the total $139,999,671.60 authorized, the District issued a total of **$95,500,000** in Measure I General Obligation bonds, leaving **$44,499,671.60** authorized but unissued.

Measure S, 2022 Election

- In **November 2022**, voters approved **Measure S**, which authorized the District to issue a total of **$71,500,000** in Proposition 39 General Obligation bonds. Measure S re-authorized the District to issue Proposition 39 bonds that had been previously approved by the voters in November 2012 (Measure J, described above), of which $125,000,000 had been authorized, $53,500,000 had been issued, and $71,500,000 remained authorized but unissued.

  - The abbreviated text of Measure S, as stated in the Official Statement of the District's Series A issuance, was: *"To improve science, technology, engineering, art, and math (STEAM) classrooms; increase student access to computers and modern classroom technology; build below-market teacher/staff rental housing; and improve student safety/campus security; shall Alum Rock Union Elementary School District's measure authorizing $71.5 million of bonds be adopted (reauthorizing bonds previously approved in November 2012), with legal rates, projected levies less than 2¢/$100 of assessed valuation (raising $4.4 million/year while bonds are outstanding), annual audits and independent citizen oversight?"*
- In **May 2023**, the District issued **$19,000,000** of General Obligation bonds, 2022 Election, Series A as authorized by Measure S. Of the total $71,500,000 authorized, $52,500,000 remains authorized but unissued.

Exhibit I.1 below summarizes the beginning fund balances, revenues and other financing sources (including bond issuances), expenditures, and ending fund balances of each of these bond measures as reported in the annual FY 2021-22, FY 2022-23, and FY 2023-24 Proposition 39 bond financial audits.

As shown in Exhibit I.1 below:

- In **FY 2021-22**, Measure J was the District's only active Proposition 39 bond measure. The District began FY 2021-22 with a beginning fund balance of $5,094,590, earned interest revenues of $23,110, expended $819,797 (primarily on contract services), and ended FY 2021-22 with an ending fund balance of $4,297,903.
- In **FY 2022-23**, the District issued $40,000,000 of Measure I bonds and $19,000,000 of Measure S bonds for a total of $59,000,000 available. The District expended a total of $15,583,198 of Measure J, Measure I, and Measure S bond funds, primarily on debt service (principal retirement), capital outlay, and contract services. The District ended FY 2022-23 with a total ending fund balance of $48,642,602 across all three measures.
- In **FY 2023-24**, the District did not issue any Measure I or Measure S bonds. Bond fund expenditures totaled $22,964,219, primarily on capital outlay and contract services. The District ended FY 2023-24 with a total ending fund balance of $27,135,728 in Measure I and Measure S funds. The ending fund balance of Measure J funds was $0.

Exhibit I.1: Proposition 39 Bond Fund Balances, Revenues, and Expenditures, FY 2021-22 to FY 2022-23

	Measure J, 2012 ($)	Measure I, 2016 ($)	Measure S, 2022 ($)	Total ($)
FY 2021-22				
Beginning fund balance: July 1, 2021	**$5,094,590**	**n/a**	**n/a**	**$5,094,590**
Revenues	**23,110**	**n/a**	**n/a**	**23,110**
Interest	*23,110*			*23,110*
Other financing sources	**0**	**n/a**	**n/a**	**0**
Expenditures	**819,797**	**n/a**	**n/a**	**819,797**
Salaries	*22,143*			*22,143*
Benefits	*13,259*			*13,259*
Contract services	*634,142*			*634,142*
Capital outlay	*150,253*			*150,253*
Ending fund balance: June 30, 2022	**4,297,903**	**n/a**	**n/a**	**4,297,903**
FY 2022-23				
Beginning fund balance: July 1, 2022	**$4,297,903**	**$0**	**$0**	**$4,297,903**
Revenues	**0**	**820,701**	**0**	**820,701**
Interest	0	*820,701*	*0*	*820,701*
Other financing sources	**0**	**40,000,000**	**19,107,196**	**59,107,196**
Proceeds from sale of bonds	*0*	*40,000,000*	*19,000,000*	*59,000,000*
Premiums on debt issuance	*0*	*0*	*107,196*	*107,196*
Expenditures	**3,694,356**	**11,461,682**	**427,160**	**15,583,198**
Salaries	*13,922*	*90,709*	*0*	*104,631*
Benefits	*8,274*	*47,800*	*0*	*56,074*
Supplies	*0*	*434,611*	*0*	*434,611*
Contract services	*558,501*	*1,451,598*	*336,779*	*2,346,878*
Capital outlay	*3,113,659*	*861,964*	*90,381*	*4,066,004*
Debt service: principal retirement	*0*	*8,575,000*	*0*	*8,575,000*
Ending fund balance: June 30, 2023	**603,547**	**29,359,019**	**18,680,036**	**48,642,602**
FY 2023-24				
Beginning fund balance: July 1, 2023	**$603,547**	**$29,359,019**	**$18,680,036**	**$48,642,602**
Revenues	**0**	**1,457,345**	**0**	**1,457,345**
Interest		*1,457,345*	*0*	*1,457,345*
Other financing sources	**0**	**0**	**0**	**0**
Expenditures	**603,547**	**21,840,812**	**519,860**	**22,964,219**
Salaries	*0*	*419,931*	*23,376*	*443,307*
Benefits	*0*	*204,531*	*9,414*	*213,945*
Books and/or supplies	*20,585*	*32,384*	*0*	*52,969*
Contract services	*412,771*	*731,822*	*33,820*	*1,178,413*
Capital outlay	*170,191*	*20,452,144*	*453,250*	*21,075,585*
Ending fund balance: June 30, 2024	**0**	**8,975,552**	**18,160,176**	**27,135,728**

Source: Audited financial statements, Measure J, Measure I, and Measure S General Obligation bonds; FY 2021-22, FY 2022-23, FY 2023-24.

Prior Audits and Assessments of the District

As part of our audit fieldwork, we reviewed three recent audits and assessments of the District's internal controls, fiscal health, and operational and financial practices:

- An Extraordinary Audit of the District issued June 2017 by the Fiscal Crisis and Management Assistance Team (FCMAT), which reviewed the policies, procedures, and internal controls for purchasing and contractual commitments at the District.
- An audit report of the District and its operational and financial practices, governance, and public transparency conducted by the California State Auditor, issued May 23, 2019.
- A Fiscal Health Risk Analysis conducted by FCMAT, issued August 2020, which evaluated the District's fiscal health and risk of insolvency and identified material weaknesses.

The scope of this *Operational Bonds Performance Audit* was limited to Measures I, J, and S bond proceeds and expenditures during the years FY 2021-22, FY 2022-23, and FY 2023-24. We discuss specific recommendations from prior reports relevant to our audit scope in the findings of this audit report, but we did not comprehensively evaluate whether and to what extent the District has implemented prior recommendations that are outside the scope of this audit. However, as part of our fieldwork, we did observe that the District has not yet implemented many of the FCMAT and State Auditor recommendations. These recommendations would improve the District's internal controls, operational and financial practices, governance, and public transparency for both bond funds and the District's overall operations.

We encourage the District and the Board of Trustees to review these prior reports and develop a framework to comprehensively implement all relevant recommendations during FY 2025-26.

Acknowledgements

We would like to thank the finance and business services staff at the District who assisted with our document requests and audit fieldwork for their collaboration on this *Operational Bonds Performance Audit*.

1. Bond Project Planning, Debt Management, and Accounting

The Alum Rock Union Elementary School District (ARUSD or the District) does not have sufficient capital planning, debt management, or long-term financial planning policies, processes, or procedures. Without policies in these areas, as recommended by multiple authorities, the District is at risk of misusing bond funds, not optimizing the use of these funds, and not sufficiently planning for its financial future to ensure it is able to meet its future debt service obligations. The absence of capital improvement planning and debt management procedures also reduces the transparency of the District's bond program overall. We recommend that the District: (a) regularly prepare and present to the Board of Trustees and the public a capital improvement plan, capital improvement budget, and long-term financial forecast; (b) review and revise its Debt Issuance and Management Policy and incorporate compliance with the policy into the District's regular ongoing operations; (c) develop a Finance and Accounting Policies and Procedures manual that is presented to and accepted by the Board of Trustees; and (d) prepare a detailed cost allocation study to establish and document the appropriate allocations of District staff time charged to bond projects and non-bond projects. These recommendations will: (a) improve the District's capital improvement planning and prioritization process, its long-term financial planning practices, its debt management practices, and its internal controls over invoice processing; (b) bring the District into compliance with statutory requirements related to debt issuances; and (c) ensure the appropriate use of bond funds.

Capital Improvement Planning and Bond Project Prioritization

The California Debt and Investment Advisory Commission (CDIAC), the Government Finance Officers Association (GFOA), and the International City/County Management Association (ICMA) all recommend that agencies issuing debt, such as Proposition 39 General Obligation bonds, develop capital improvement plans and capital improvement budgets to identify, plan for, and prioritize capital projects. CDIAC,[1] GFOA,[2,3] and ICMA[4] establish the following parameters and conditions of capital improvement planning and budgeting:

- A **capital improvement plan** should include projects needed to repair, maintain, and enhance an agency's capital facilities. An agency should consider assessments of useful life, life cycle costs, and estimated replacement costs (in both nominal and inflated dollars) when determining which projects should be included in a capital improvement plan.

[1] *California Debt Financing Guide*. California Debt and Investment Advisory Commission, June 2021. CDIAC No. 19.05.
[2] *GFOA Best Practices – Capital Asset Management*. Government Finance Officers Association, approved by GFOA Board March 2010.
[3] *GFOA Best Practices – Master Plans and Capital Improvement Planning*. Government Finance Officers Association, approved by GFOA Board February 2008.
[4] A. John Vogt, *Capital Budgeting and Finance: A Guide for Local Governments*. International City/County Management Association, 2004.

- A **capital improvement budget**, which differs from a capital improvement plan, details which specific capital projects should be funded and by how much, when they should be funded, and how they should be funded given the resources available to the public agency.
- Capital improvement plans and capital improvement budgets are distinct from facilities master plans, long-range facilities plans, or strategic plans. Capital improvement plans and budgets are typically shorter-term, more concrete plans. For example, a long-range facilities plan might cover a period of 15 to 20 years and include potential projects or "wish-list" projects, while a capital improvement plan would cover three to five years and identify specific planned projects and costs over that three- to five-year period. A capital improvement budget covers an even shorter term of one to two years. According to GFOA, the capital improvement plan is a financial blueprint that helps prioritize public improvement needs identified in a facilities master plan, and the level of funding in the capital improvement plan defines the financial capacity of an agency to reach the goals established in a facilities master plan.
- Capital improvement plans are based on policy decisions. The agency must decide which projects should be funded over the short, medium, and long term, and which projects should be prioritized over other projects.
- These capital planning documents should be easy to understand and clearly communicate the condition of an agency's capital assets, how long that condition should last, and what needs to be done to maintain or improve the condition. Similarly, GFOA recommends that at least once every three years, agencies provide a "plain language" report on capital assets, which should be made available both to elected officials and to the general public.

The Alum Rock Union Elementary School District (ARUSD or the District) has a Debt Issuance and Management Policy, approved by the Board of Trustees in May 2017, that assigns responsibility for capital planning to the Assistant Superintendent for Business Services and facilities staff. As stated in section 4.02 of the Debt Issuance and Management Policy, responsible staff should "supplement and revise any applicable facilities master plan in keeping with the District's current needs for the acquisition, development and/or improvement of District's real estate and facilities. Such plans may include a summary of the estimated cost of each project, schedules for the projects, the expected quarterly cash requirements, and annual appropriations, in order for the projects to be completed."

District Board Policy Manual section 7110 requires that (a) site selection criteria and processes, and (b) a capital planning budget both be included in the District's facilities master plan. According to District Board Policy Manual section 7000, the District Superintendent is responsible for supervising the implementation of the District's building program in accordance with the master plan, which (according to section 7110) should include these elements.

Inadequate Capital Planning and Budgeting for Bond Projects

Based on our review of materials provided to us by the District and conversations with District staff, we found that the District did not follow best practices or its own internal policies related to capital planning, budgeting, and reporting during FY 2021-22, FY 2022-23, and FY 2023-24. As described below, the District

was not able to provide us with any capital planning materials covering our audit scope years other than the District's 2023-2038 Long Range Facilities Plan.

Absence of Capital Plan or Budget

The District did not prepare a capital improvement plan or budget at any point during FY 2021-22, FY 2022-23, or FY 2023-24. The District's 2023-2038 Long Range Facilities Plan identifies capital project and facilities needs with a total cost of $1.2 billion, portions of which (immediate needs and 10-year deferred maintenance) are taken from facilities condition assessments prepared during 2022 and 2023. However, the Long Range Facilities Plan does not establish project timelines or budgets, identify which projects will be undertaken during which years, prioritize specific projects within larger project categories, or match individual projects with financing sources. Such information should be included in a District capital plan and capital budget, but neither document was prepared by the District during our audit scope years.

As a result, the District expended $819,797 in FY 2021-22, $15,583,198 in FY 2022-23, and $22,964,219 in FY 2023-24 on bond projects without the framework of a capital improvement plan or budget, and the District never documented what it planned to spend in those years or how it decided which bond projects should be funded. Similarly, the District issued $59 million in bonds in FY 2022-23 without the benefit of a capital improvement plan or budget to explain to the Board of Trustees and the public why this level of debt was needed and how the funds were going to be spent.

Absence of Long-Range Facilities Plan Prior to 2023

In addition to the absence of a capital improvement plan and capital budget, prior to 2023 the District did not have a Long Range Facilities Plan, despite the requirement in Board Policy Manual section 7110 (adopted in July 2013) that such a plan be developed and submitted to the Board of Trustees for approval. The District's 2023-2038 Long Range Facilities Plan did not include a capital planning budget or any site selection criteria or process, as required by Board Policy Manual section 7110. The District did prepare facilities condition assessments for each school site at the end of 2022 and beginning of 2023 and conducted school facility conditions evaluations using the Facility Inspection Tool (FIT), developed by the Office of Public School Construction, to evaluate whether facilities were in "good repair" in FY 2021-22 and FY 2023-24. .

As a result, during FY 2021-22 and part of FY 2022-23, the District expended $819,797 in FY 2021-22 and $15,583,198 in FY 2022-23 on projects not only without a capital improvement plan or budget, but also without a long-term facilities plan to comprehensively identify facility maintenance needs and priorities.

Unclear Bond Project Prioritization

The absence of capital planning documents puts the District at risk of inefficient use of bond funds, slow or delayed spending of bond funds, or using bond funds for projects that are not aligned with the District's strategic priorities. This deficiency also reduces the transparency of the District's overall bond project selection process and capital asset management.

Without a capital improvement plan or budget and associated regular reporting, it is not clear why certain bond projects were selected or prioritized over other projects during the audit scope period. It is also not

clear whether the District's bond fund spending is on track with a plan. The Board of Trustees, the public, and the District itself cannot evaluate key elements of the District's management of its bond program, such as how the District's actual bond spending compares to what it budgeted, whether bond projects are addressing the District's most urgent needs, or whether decisions regarding bond expenditures have been made in line with the District's strategic priorities.

Capital Budgeting, Planning for Bond Issuances, and Expenditures

As summarized in the Introduction to this report, the District has not consistently or expediently issued the total amount of bonds that were authorized by the voters for particular ballot measures. Specifically:

- Measure G (approved in June 2008) authorized the District to issue up to $179 million in Proposition 39 bonds, but as of June 2016 the District had only issued approximately $39 million of Measure G bonds. The remaining $140 million was re-authorized by Measure I in 2016.
- Measure J (approved in November 2012) authorized the District to issue up to $125 million in Proposition 39 bonds, but as of November 2022 the District had only issued $53.5 million of Measure J bonds. The remaining $71.5 million was re-authorized by Measure S in 2022.
- Measure I was approved by the voters in June 2016, but the District did not issue its first series of Measure I bonds until 2022.

With the absence of capital planning and budgeting documentation, we cannot verify why the District did not issue some or all of these bonds, or if these amounts and issuance timings were in line with the District's assessment of its capital financing needs, its overall debt capacity and compliance with debt limits, or other considerations. Additionally, because the District did not prepare a capital budget that identifies what it planned to spend in the three years of our audit scope, we cannot compare the District's actual expenditures to budgeted expenditures and see whether it is underspending or overspending bond funds. A capital budget would allow the District to identify potential problems or barriers to spending and decide whether any action should be taken to correct an issue, either with a particular project or with the District's bond program overall.

Prioritizing the Use of Bond Funds

As noted by CDIAC, capital improvement plans are based on policy decisions made by an agency about which projects should be funded over the short, medium, and long term, and which projects should be prioritized over other projects. The District expended $819,797 in FY 2021-22, $15,583,198 in FY 2022-23, and $22,964,219 in FY 2023-24 on bond projects without formal project selection, ranking, or prioritization, and did not document why it decided to fund specific projects and not fund other projects.

For example, the District's 2023-2038 Long Range Facilities Plan includes $4.5 million in immediate needs and $94.2 million in 10-year deferred maintenance costs identified in the District's facilities condition assessments. A capital improvement plan would specify which immediate and deferred maintenance needs should be prioritized and funded in 2023, 2024, or 2025, and which should be funded in later years. Because the District did not prepare a capital improvement plan, it does not have a blueprint or plan outlining what projects will be prioritized and which will be addressed in the near term, the short term, or the long term.

On a larger scale, a March 2025 report to the Board of Trustees indicates the District plans to spend $56 million of Measure S bond funds on a workforce housing project and has already spent $1.3 million on a workforce housing feasibility study, entitlements, and administrative, audit, and legal costs. As part of the development of the District's Long Range Facilities Plan, capital facilities project categories were presented in the Community Survey, the School Site Prioritization process, and to the Board of Trustees. However, workforce housing was not included in the $1.2 billion list of projects in the Long Range Facilities Plan. Nevertheless, the District has indicated it plans to dedicate a significant amount of its available bond funding to the workforce housing project.

Reference to workforce housing was included in the November 2022 ballot language for the District's $71.5 million Measure S bond authorization, along with improving science, technology, engineering, art, and math classrooms, increasing student access to computers and modern classroom technology, and improving student safety/campus security. However, the Measure S ballot language and other District documents we reviewed did not indicate how much funding would be allocated to workforce housing compared to the other possible uses, or specifically that $56 million, or 78 percent of the total $71.5 million authorized, could be allocated to workforce housing, leaving only $15.5 million for all other purposes. The absence of a capital improvement plan or budget means that the relative amounts to be expended on workforce housing versus facility and classroom improvements has never been reported in a District capital facilities management document.

As of May 2025, the District has issued $19 million in Measure S bond funds. Without a capital planning/budget process and a systematic evaluation of capital projects, the District has not evaluated whether workforce housing is the best use of this $56 million of Measure S bond funding or documented why workforce housing should be prioritized over the District's other urgent capital project needs. As noted above, the Long Range Facilities Plan identifies nearly $100 million in immediate facilities needs and 10-year deferred maintenance costs. Much of this total need cannot be covered by issued bond funding available to the District from Measures I, J or S, particularly if $56 million is dedicated to workforce housing. Given the District's slow issuance and spending of bond funds overall, a formal, documented capital planning process would allow the District to evaluate which of its capital facilities needs it has addressed, which capital projects were originally planned for bond funds, and which capital projects are outstanding and should be prioritized before deciding to spend $56 million on workforce housing.

Improving Capital Planning and Reporting

Unlike long-term and big-picture facilities master plans, which may contain more projects than an agency is capable of financing at one time, capital improvement plans and budgets are shorter-term documents that prioritize and establish timeframes and budgets for specific capital projects along with their financing sources, including the use of bonds and other debt financing. Board Policy Manual section 3100 ("Budget") does not require the District to prepare or present to the Board of Trustees a capital improvement plan or budget or to regularly report to the Board on capital assets. Similarly, Board Policy Manual section 7110 ("Facilities Master Plan") does not require the Superintendent to regularly report to the Board of Trustees and the public on the District's capital assets.

Recommendations: To improve the District's capital improvement planning and prioritization process, the Board of Trustees should amend Board Policy Manual section 3100 to require the District Superintendent to regularly prepare and present a capital improvement plan and/or budget document as often as annually but at least every two years. The Board of Trustees should also amend Board Policy Manual section 7110 to require the District Superintendent to regularly update the Board on the condition of its capital assets and to prepare a formal report on the condition of the District's capital assets at least once every three years.

According to District staff, the District has not had time to develop a capital improvement plan or budget due to school closures and staff turnover. The District's agreement with its municipal advisor firm includes financial management services as an additional service that may be performed for additional compensation at the direction of the District. Specifically, the District's municipal advisor firm may, if requested, develop financial policies, administrative regulations, and/or capital improvement plans on behalf of the District. Other comparably qualified firms could also provide such services to the District if it does not have the capacity to perform such work internally.

Recommendation: If the District is unable to develop a capital improvement plan or budget with in-house District staffing resources, the Board of Trustees should consider engaging the District's municipal advisor firm or another appropriately qualified firm to develop a capital improvement plan and budget on behalf of the District.

Long-Term Financial Planning

In addition to a capital plan and budget, CDIAC and ICMA also recommend that an agency develop a long-term financial plan or a multi-year financial forecast that aligns an agency's financial capacities with its long-term service objectives and debt capacity, in order to ensure long-term financial considerations are integrated into an agency's organizational and capital planning.

CDIAC identifies the following elements that should be included in a long-term financial plan:[5]

- A projection of financial condition at the end of the plan period;
- Projections of revenues and expenditures;
- Proposed changes in programming or capital financing;
- An assessment of economic conditions, service objectives, and financial challenges; and
- Financial policies regarding liquidity, debt capacity, or reserve requirements.

Debt service payments on bond issuances are fixed obligations and ongoing, long-term commitments for the District. If future revenues decline, these commitments could constrain the District's ability to meet future operational needs. As noted by ICMA, a financial forecast would allow the District to see the budget

[5] *California Debt Financing Guide*. California Debt and Investment Advisory Commission, June 2021. CDIAC No. 19.05. Page i-19.

implications of current decisions on future years and identify potential future problems, which would give the District time to develop appropriate responses. A financial forecast would show whether future revenues and resources will be sufficient to support the District's debt service and other capital financing needs on top of its ongoing operating expenditures.[6]

Board Policy Manual section 3100 states that the District's current-year budget and multi-year projections should include adequate provisions for addressing the District's long-term financial obligations, including the financing of facilities projects. Board Policy Manual section 3000 states that the Superintendent or their designee shall complete all required financial plans for meeting program needs and inform the Board of Trustees about the District's fiscal and non-instructional operations. However, the District did not prepare a long-term financial plan at any point during our audit scope years of FY 2021-22, FY 2022-23, or FY 2023-24. According to District staff, the District has not had time to develop a plan due to school closures and staff turnover. Likewise, we have not been made aware of any District long-term financial plans pertaining to bond expenditures for Measures J, I, and S from the years prior to our audit scope years. Low Measure J expenditures of $1 million or less per year in the four years through FY 2021-22 may have been part of an undocumented plan but it does not appear consistent with the level of need identified in the District's long-range facilities plan.

Recommendations: To improve the District's long-term financial planning practices, the Board of Trustees should amend Board Policy Manual section 3100 to require the District Superintendent to regularly prepare and present a long-term financial plan or multi-year financial forecast. If the District is unable to develop a capital improvement plan or budget with in-house District staffing resources, the Board of Trustees should consider engaging the District's municipal advisor firm or another appropriately qualified firm to develop this plan on behalf of the District.

Debt Management Policy and Practices

Both the Government Finance Officers Association[7] and the California Debt and Investment Advisory Commission[8] recommend that public agencies that issue debt develop and follow a debt management policy. A debt management policy can improve the quality of an agency's decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning. According to CDIAC,[9] without well-understood and well-communicated debt management policies, issuers may:

- Fail to control the type, structure, and maturity of debt;

[6] A. John Vogt, *Capital Budgeting and Finance: A Guide for Local Governments*. International City/County Management Association, 2004, page 338 and 339.
[7] *GFOA Best Practices – Debt Management Policy*. Government Finance Officers Association, approved by GFOA Board March 2020.
[8] *California Debt Financing Guide*. California Debt and Investment Advisory Commission, June 2021. CDIAC No. 19.05. Page i-42, i-43.
[9] ibid.

- Enter into service contracts that are not well understood and are potentially harmful; and/or
- Fail to meet disclosure and tax compliance obligations.

These failures could cause an issuer to be penalized by regulators, lead to credit rating downgrades, or cause a loss of investor and taxpayer confidence. Notably, the District did not timely file rating change notices with the Municipal Securities Rulemaking Board in connection with (a) the District's underlying S&P rating downgrade to BBB from BBB+ on May 29, 2020, or (b) the District's underlying Moody's rating downgrade to A1 from Aa3 on June 12, 2019. The District filed a notice of failure to file in a timely manner on April 17, 2023.

California Government Code section 8855 requires an agency issuing debt to certify that it has adopted local debt policies and that a prospective debt issuance is consistent with those local debt policies. The Code requires a debt policy to include: the purposes for which the debt proceeds may be used; the types of debt that may be issued; the relationship of the debt to, and integration with, the issuer's capital improvement plan or budget, if applicable; and the internal control procedures that the issuer has implemented to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

Improving the District's Debt Issuance and Management Policy

The District's Debt Issuance and Management Policy, which was approved by the Board of Trustees in May 2017, complies with the requirements established in California Government Code section 8855, but does not contain all of the elements recommended by GFOA as best practice for a debt management policy, as summarized in Exhibit 1.1 below. Specifically, the District's policy is missing:

- Criteria for evaluating when debt should be issued;
- Specific limits or acceptable ranges for each type of debt;
- Specific guidance regarding debt structuring practices, including:
    - Guidelines regarding the use of optional redemption features;
    - Guidelines regarding the use of variable or fixed-rate debt, short-term debt, and associated limitations;
    - Considerations for the use of structural features to bolster ratings and credit assessment, such as debt service reserve accounts and bond insurance; and
    - Guidelines regarding other structuring practices, such as capitalizing interest during the construction of a revenue bond project and deferral of principal, and/or other internal credit support, including general obligation pledges;
- Specific guidance on debt issuance practices, including:
    - The selection and use of professional service providers, including independent municipal advisors, bond counsel, and disclosure counsel;
    - Criteria for determining the method of sale;
    - The use of comparative bond pricing services or market indices as a benchmark in negotiated transactions, as well as to evaluate final bond pricing results;
    - Criteria for the issuance of taxable bonds;

  - The use of credit ratings, minimum bond ratings, determination of the number of ratings, and selection of rating services; and
  - Primary market disclosure practices and procedures;
- Specific guidance on debt management, including:
  - The investment of bond proceeds;
  - Budgeting for and making debt service payments;
  - Continuing disclosure procedures;
  - Tax law compliance monitoring;
  - Federal and state law compliance practices; and
  - Ongoing investor relations efforts;
- A determination of whether the District can or should use derivatives.

Exhibit 1.1: District Debt Issuance and Management Policy and GFOA Recommendations

GFOA Best Practice	District Debt Issuance and Management Policy
Debt Limits: Governments should consider criteria for evaluating when debt should be issued and set specific limits or acceptable ranges for each type of debt in their debt policies. Limits generally are set for legal, public policy, financial restrictions, and planning considerations.	Article V, item 5 of the District's Debt Issuance and Management Policy references the District's GO bond statutory debt limit in relation to assessed value growth within the school district. The Policy does not establish any specific debt limit or range for public policy, financial, or planning considerations. The Policy does not include criteria for evaluating when debt should be issued.
Debt Structuring Practices: The Policy should include specific guidelines regarding the debt structuring practices for each type of bond, including: maximum term; average maturity; debt repayment structure; use of optional redemption features; use of variable or fixed-rate debt, short-term debt, and associated limitations; considerations for the use of structural features to bolster ratings and credit assessment, such as debt service reserve accounts and bond insurance; and other structuring practices, such as capitalizing interested during the construction of a revenue bond project and deferral of principal, and/or other internal credit support, including general obligation pledges.	Articles V and VI of the District's Debt Issuance and Management Policy include guidelines related to debt terms, maturity, structure for GO bonds and lease-purchase obligations, and debt service structure, but generally not to the level of specificity recommended by GFOA. The Policy does not mention the use of optional redemption features; use of variable or fixed-rate debt, short-term debt, and associated limitations; considerations for the use of structural features to bolster ratings and credit assessment; or other structuring practices.
Debt Issuance Practices: The Policy should provide guidance regarding the issuance process, which may differ for each type of debt. These practices include: selection and use of professional service providers, including independent municipal advisors, bond counsel, and disclosure counsel; criteria for determining the method of sale; use of comparative bond pricing services or market indices as a benchmark in negotiated transactions, as well as to evaluate final bond pricing results; criteria for the issuance of taxable bonds; use of credit ratings, minimum bond ratings, determination of the number of ratings, and selection of rating services; and primary market disclosure practices and procedures.	The District's Debt Issuance and Management Policy does not address these elements.
Debt Management Practices: The Policy should provide guidance for ongoing administrative activities including: investment of bond proceeds, budgeting for and making debt service payments; continuing disclosure procedures; tax law compliance monitoring; federal and state law compliance practices; monitoring outstanding debt for refunding opportunities and establishing criteria for when to pursue a refunding; and ongoing investor relations efforts.	Article IV of the District's Debt Issuance and Management Policy describes considerations for refunding or restructuring outstanding debt. The Policy does not address the other recommended debt management practices, such as investment of bond proceeds, continuing disclosure procedures, or investor relations efforts.
Use of Derivatives: The Policy should clearly state whether or not the entity can or should use derivatives. If the Policy allows for the use of derivates, a separate and comprehensive derivates policy should be developed.	The District's Debt Issuance and Management Policy does not state whether or not the District can or should use derivatives.

Source: GFOA Best Practices – *Debt Management Policy*, Government Finance Officers Association. District Debt Issuance and Management Policy.

CDIAC also provides recommendations for debt management policies. Specifically, CDIAC recommends that a debt management policy include the following components:[10]

- Clear delegation of duties and roles;
- Staff training and technical support to designated officials;
- Due diligence reviews at regular intervals;
- Centralized recordkeeping and retention policies;
- Procedures reasonably expected to identify noncompliance promptly; and
- Procedures ensuring that the issuer will take steps to correct noncompliance promptly.

Recommendations: To improve and strengthen the District's debt management practices, the Board of Trustees should direct the Assistant Superintendent of Business Services to (a) review and revise the District's Debt Issuance and Management Policy, in consultation with the District's bond counsel and/or municipal advisor firm as appropriate, to incorporate all of the elements of a debt management policy recommended by GFOA and CDIAC, and (b) present the revised Debt Issuance and Management Policy to the Board of Trustees no later than December 31, 2025.

Compliance with the District's Debt Issuance and Management Policy

The District has not enforced or adhered to several components of its Debt Issuance and Management Policy, as summarized in Exhibit 1.2 below.

[10] *California Debt Financing Guide*. California Debt and Investment Advisory Commission, June 2021. CDIAC No. 19.05. Page i-41, i-42.

Exhibit 1.2: District Debt Management Policy and GFOA Recommendations

District Debt Issuance and Management Policy	District Practice FY 2021-22 to FY 2023-24
Section 4.01: "In evaluating financing options for capital projects, both short and long-term debt amortization will be evaluated when considering a debt issuance, along with the potential impact of debt service, and additional costs associated with new projects on the operating budget of the District. The cost of debt issued for major capital repairs or replacements may be judged against the potential cost of delaying such repairs."	As discussed earlier in this section, the District was not able to provide us with any capital planning materials covering FY 2021-22, FY 2022-23, or FY 2023-24 other than the District's 2023-2038 Long Range Facilities Plan.
Section 4.02: "The Assistant Superintendent, Business Services and the facilities staff have responsibility for the planning and management of the District's capital improvement program subject to review and approval by the Board of Trustees. Staff will, as appropriate, supplement and revise any applicable facilities master plan in keeping with the District's current needs for the acquisition, development and/or improvement of District's real estate and facilities. Such plans may include a summary of the estimated cost of each project, schedules for the projects, the expected quarterly cash requirements, and annual appropriations, in order for the projects to be completed."	As discussed earlier in this section, the District did not prepare a capital improvement plan or budget during FY 2021-22, FY 2022-23, or FY 2023-24. The District does not have a plan that includes a summary of the estimated cost of each project, schedules for the projects, the expected quarterly cash requirements, and annual appropriations necessary in order for the projects to be completed.
Section 4.03: "1. Whenever deemed to be in the best interest of the District, the District shall consider refunding or restructuring outstanding debt if it will be financially advantageous or beneficial for debt repayment and/or structuring flexibility. 2. The District shall review a net present value analysis of any proposed refunding in order to make a determination regarding the cost-effectiveness of the proposed refunding. 3. The District shall time the refinancing of debt to maximize the District's expected net savings over the life of the debt. 4. The refunding of any existing debt shall comply with all applicable State and Federal laws governing such issuance."	We requested, but did not receive, documentation from the District demonstrating it complied with these requirements.
Section 6.02: "The Assistant Superintendent, Business Services shall have the responsibility, no less often than annually, to provide the District's Board of Trustees a written report which shall contain at least the following information: (i) the amount of the debt proceeds received and expended during the applicable reporting period, and (ii) the status of the acquisition, construction or financing of the school facility projects, as identified in any applicable bond measure, with the proceeds of the debt."	Based on a review of Board of Trustees agendas in FY 2021-22, FY 2022-23, and FY 2023-24, we did not find any such reporting. The District's annual audits provide information on the financial transactions for each bond issuance, but do not contain information on the status of the associated projects.
Section 6.02: "The District shall post on the District website the Annual Report of the District's Independent Bond Oversight Committee."	No Citizens' Bond Oversight Committee Annual Report has been posted online since 2019.

Source: District Debt Issuance and Management Policy; auditor observations.

The lack of adherence to and enforcement of the components of the District policy outlined in Exhibit 1.2 above indicate the District's policy is not a sufficient internal control document. District finance staff were unaware of and unable to locate a copy of the District's Debt Issuance and Management Policy when we requested it. (The document was ultimately provided to us by the District's bond counsel.)

Without a comprehensive debt issuance and management policy in place when the District issued $59 million of General Obligation bonds in FY 2022-23 (Measures I and S), District staff did not have written direction on all key matters related to the issuance of debt including the issuance process itself (e.g., timing, selection of municipal advisors, bond counsel and disclosure counsel, criteria for choosing the method of sale, etc.). Having a set of comprehensive procedures in place would reduce the risk of the District incurring unnecessary costs and would provide the Board of Trustees and the public assurance that District resources are being appropriately and effectively used.

Although the District's Debt Issuance and Management Policy was approved by the Board of Trustees in 2017, it was not added to the Board Policy Manual, and the District has not incorporated compliance with the policy into its regular operations. For example, although the policy requires the Assistant Superintendent of Business Services to plan and manage the District's Capital Improvement Program, as discussed earlier in this section, the District did not prepare a capital improvement plan or budget at any point in FY 2021-22, FY 2022-23, or FY 2023-24, the scope years for this audit. Similarly, although the policy requires the District to post annual reports of the independent Citizens' Bond Oversight Committee (CBOC), no CBOC reports have been produced or posted since 2019. (The Citizens' Bond Oversight Committee is discussed in more detail in Section 2 of this report.)

Separately, as mentioned above, California Government Code section 8855 requires an agency issuing debt to certify that its debt issuances comply with its adopted debt management policy. The District has certified this fact to CDIAC in its Reports of Final Sale and in Board of Trustees resolutions authorizing the issuance and sale of bonds. However, by not fully adhering to its own Debt Issuance and Management Policy, the District may not be fully in compliance with this requirement of the Education Code or with its own authorizing resolutions.

Recommendations: To bring the District into compliance with its own policy, the Board of Trustees should direct the Assistant Superintendent of Business Services to identify the steps necessary to incorporate the District's revised Debt Issuance and Management Policy into the District's regular ongoing operations. These necessary steps should be presented to the Board of Trustees at the same time as the District's revised Debt Issuance and Management Policy for approval. The Board of Trustees should also request the Assistant Superintendent of Business Services to report, no later than June 30, 2026, on the outcomes of the District's efforts to improve adherence to the revised debt management policy.

Accounting Internal Controls

As part of our audit fieldwork, we randomly selected a sample of 30 bond fund transactions to review. We requested the underlying documentation for these transactions from the District, as well as the District's available accounting policies, to evaluate how well the District is following its own policies as well as adhering to accounting best practices.

Signatures and Documentation Required for Invoice Payment

District Board Policy Manual section 3314 states that the Superintendent or their designee shall ensure that purchasing, receiving, and payment functions are kept separate. The policy also states that the

Superintendent shall ensure that invoices are paid expeditiously and that warrants have appropriate documentary support verifying that all goods and services to be paid for have been delivered or rendered in accordance with the purchase agreement. However, the Policy Manual does not provide any specific control activities that describe how District staff should implement these policies (such as, for example, requiring three separate approvals or signatures on an invoice to ensure the segregation of purchasing, receiving, and payment duties).

GFOA recommends that a government entity document its financial and accounting policies and procedures, which traditionally are recorded in a finance or accounting policies and procedures manual. The documentation should include (a) a list of key control activities, and (b) delineation between authority and responsibility of all employees, in particular the authority to authorize transactions and the responsibility for asset and record safekeeping.[11]

The District was unable to provide us with a requested finance or accounting policies and procedures manual or documentation until after the draft report was issued. Upon receipt of the draft report, the District provided a two page stand-alone Accounts Payable Desk Process and Procedures document that was not part of a comprehensive District accounting manual describing how Accounts Payable staff should review invoices for payment, including how to conduct a "three way match" to ensure that the purchase order and invoice match what was received. However, District accounting staff described a different internal procedure than the one described in the Accounts Payable Desk document, and they did not provide evidence that they were familiar with the document.

During our review of sampled invoices and supporting documentation, we found that some invoices for bond expenditures we sampled had two signatures (one bond program staff signature and one accounts payable signature) while some had three (two bond program staff signatures and one accounts payable signature). District staff reported that their established practice for invoices for amounts higher than $10,000 is to obtain three total signatures, although the Accounts Payable Desk Process and Procedures document requires one program manager signature on any invoice for a service. We observed that ten out of 17 invoice payments only had two signatures: one from either the Assistant Superintendent of Business Services or Chief Bonds Officer, depending on the date of the invoice, and one from accounts payable staff. Two of these ten invoice payments with only two signatures were for invoice amounts greater than $10,000.

The District should clearly delineate the number of approvals required for invoices of different dollar values, including bond program invoices, in its Accounts Payable Desk Process and Procedures document and recommended Finance and Accounting Policies and Procedures manual, and ensure all Accounts Payable and bond program staff are familiar with the document.

[11] *GFOA Best Practices – Policies and Procedures Documentation*. Government Finance Officers Association, approved by GFOA Board October 2021.

Recommendations: To ensure the adequacy and enforceability of the District's internal controls over invoice processing, the Board of Trustees should direct the Assistant Superintendent for Business Services to develop and submit to the Board of Trustees for approval a Finance and Accounting Policies and Procedures manual, incorporating all the elements that are recommended by GFOA, by December 31, 2025.

Timekeeping and Reporting for Salaries Charged to Bond Funds

Some of the transactions in our sample of bond fund expenditures were payments for District employee staff time allocated to bond projects, for which the District paid for associated staff salaries and benefits using bond funds. However, we observed that the supporting documentation for the transactions provided by the District did not include detailed time recording or a cost allocation study to support these expenditures. For example, although 25 percent of the Assistant Superintendent for Business Services' time was paid for using bond funds during a pay period in FY 2023-24, the District did not have supporting documentation showing that during the time period covered by that transaction, the Assistant Superintendent for Business Services actually spent 25 percent of their time working on bond-related activities.

We sampled eight bond payroll transactions and reviewed the supporting documentation that the District provided for each transaction. The supporting documentation for salary transactions included Change Code Forms, which instruct Human Resources to start charging a given percentage of the employee's time to different accounts, as well as screenshots from the District's accounting software that show the amount of time that is charged to each account, including bonds, both in the sampled pay period and for the entire fiscal year. Additionally, six of the eight sampled bond transactions were payroll tax transactions, including worker's compensation, Medicare, and state disability insurance. The documentation provided for the payroll tax transactions included screenshots of the District's accounting software showing the amount of each sampled employee's benefits that was charged to bonds and, for one sample, a Change Code Form and a printout of all Payroll Transfer Transactions for the given employee. None of this documentation demonstrates that the employees were actually working on bond projects for the given allocation of time (e.g., 15 percent, 25 percent, etc.) that their salaries and/or benefits are charged to bonds.

When paying for administrator salaries using bond funds, the California Association of Bond Oversight Committees, a nonprofit organization that provides information, education, training, and assistance on school bond oversight to citizens' bond oversight committee members and the public, recommends as best practice: (a) that a school district prepare a cost allocation study at the beginning of the bond program that is reviewed and approved by district finance, legal, and bond counsel and periodically updated, and (b) that the district implement a proper cost accounting methodology, including detailed time reporting for district employees and contractor personnel who split their time between allowable bond and non-bond activities.

The District has not prepared a cost allocation study or established timekeeping/time reporting requirements to generate documentation of the validity of employee salaries paid for using bond funds. As a result, the District does not have documentation to support the payment of administrator salaries

using bond funds, and we were unable to substantiate the appropriateness of the use of bond funds for these transactions. According to the annual independent financial audits of Measure J, Measure I, and Measure S, the District expended the following amount of bond funds on salaries and benefits: $35,402 in FY 2021-22; $160,705 in FY 2022-23; and $657,252 in FY 2023-24.

Recommendations: To ensure appropriate use of bond funds, the Board of Trustees should require the Assistant Superintendent for Business Services to prepare a detailed cost allocation study, in consultation with District finance staff, bond counsel, and municipal advisors, to establish and document the appropriate allocations of District staff time between bond project-related activity and non-bond-related activity. This cost allocation study should be reviewed and revised at least annually. The Board of Trustees should require the Assistant Superintendent for Business Services to request and retain detailed staff time reporting documentation to support the cost allocation study and review these reports when revising the study to ensure the District is accurately and appropriately charging staff salaries and benefits to bond projects.

Conclusion

Without sufficient and enforceable bond project planning, financial planning, debt management, and accounting documentation, the District is at risk of misusing bond funds, not optimizing the use of these funds, and not sufficiently planning for its financial future. The absence of capital improvement planning and debt management documentation also reduces the transparency of the District's overall bond program. Improvements in these areas would improve both internal controls and public accountability. There are multiple comprehensive resources and guidelines that the District can consult to improve its bond planning and management documents, including best practices developed by the Government Finance Officers Association and recommendations in the California Debt and Investment Advisory Commission's *California Debt Financing Guide*.

Recommendations

The Board of Trustees should:

1.1 Amend Board Policy Manual section 3100 to require the District Superintendent to regularly prepare and present a capital improvement plan and/or budget document, as often as annually but at least every two years, to the Board of Trustees and the public.

1.2 Amend Board Policy Manual section 7110 to require the District Superintendent to regularly update the Board of Trustees on the condition of its capital assets and to prepare a formal report on the condition of the District's capital assets at least once every three years.

1.3 Consider engaging the District's municipal advisor firm or another comparably qualified firm to develop a capital improvement plan and budget on behalf of the District if the District is unable to develop a capital improvement plan or budget with in-house District staffing resources.

1.4 Amend Board Policy Manual section 3100 to require the District Superintendent to regularly prepare and present a long-term financial plan or multi-year financial forecast to the Board of Trustees and the public.

1.5 Consider engaging the District's municipal advisor firm or another comparably qualified firm to develop a long-term financial plan or multi-year financial forecast on behalf of the District If the District is unable to develop one with in-house District staffing resources.

1.6 Direct the Assistant Superintendent of Business Services to (a) review and revise the District's Debt Issuance and Management Policy, in consultation with the District's bond counsel and/or municipal advisor firm as appropriate, to incorporate all of the elements of a debt management policy recommended by GFOA and CDIAC, and (b) present the revised Debt Issuance and Management Policy to the Board of Trustees no later than December 31, 2025.

1.7 Direct the Assistant Superintendent of Business Services to identify the steps necessary to incorporate the District's revised Debt Issuance and Management Policy into the District's regular ongoing operations. These necessary steps should be presented to the Board of Trustees at the same time as the District's revised Debt Issuance and Management Policy for approval.

1.8 Request the Assistant Superintendent of Business Services to report, no later than June 30, 2026, on the outcomes of the District's efforts to improve adherence to the revised debt management policy.

1.9 Direct the Assistant Superintendent for Business Services to develop and submit to the Board of Trustees for approval a Finance and Accounting Policies and Procedures manual, incorporating all the elements that are recommended by GFOA, by December 31, 2025.

1.10 Require the Assistant Superintendent for Business Services to prepare a detailed cost allocation study, in consultation with District finance staff, bond counsel, and municipal advisors, to establish and document the appropriate allocations of District staff time between bond project-related activities and non-bond project-related activities. This cost allocation study should be reviewed and revised at least annually.

1.11 Direct the Assistant Superintendent for Business Services to request and retain detailed staff time reporting documentation to support the cost allocation study and review these reports when revising the study to ensure the District is accurately and appropriately charging staff salaries and benefits to bond projects.

Benefits and Costs

These recommendations will (a) improve the District's capital improvement planning and prioritization process, its long-term financial planning practices, its debt management practices, and its internal controls over invoice processing; (b) bring the District into compliance with statutory requirements related to debt issuances; and (c) ensure the appropriate use of bond funds.

These recommendations will require District staff time to implement. If the District is unable to develop certain financial policies in-house with existing resources, engaging the District's municipal advisor firm or another comparably qualified firm to develop them on behalf of the District will incur additional external costs to the District. These costs are not specified in the District's contract with its current municipal advisor firm, and the District should request a quote or estimate from that firm and others for these services before proceeding.

2. Bond Program Oversight, Public Transparency, and Communications

The Alum Rock Union Elementary School District (ARUSD or the District) did not adequately report on bond projects to the Board of Trustees or the public during our audit scope years of FY 2021-22, FY 2022-23, or FY 2023-24. The District has not appointed sufficient members or provided support to its Proposition 39 Citizens' Bond Oversight Committee, as the California Education Code requires, and there is no documentation that any citizen oversight activities, such as reviewing annual audits, conducting site visits, or reviewing project expenditures, were carried out for District bond projects or bond expenditures since 2021. The District was also unable to provide evidence of any significant public outreach on the bonds program besides the District's website, which is missing key information. Citizen oversight of bond expenditures and regular public reporting and communications about bond projects improves the transparency, accountability, and oversight of the District's bond program and functions as an important external control over the use of bond funds. We recommend that the District ensure its Citizens' Bond Oversight Committee has sufficient membership and support, formalize requirements for reporting to the Board of Trustees on bond expenditures and the bond program overall, and update its bonds program website at least quarterly. These recommendations will ensure the District adheres to all statutory requirements for bond oversight and will improve the internal and external controls over its bond program.

Citizens' Bond Oversight Committee

California Education Code sections 15278, 15280, and 15282 require school districts to establish and support independent citizens' bond oversight committees (CBOCs) for Proposition 39 general obligation bonds. The stated purpose of CBOCs is to "inform the public concerning the expenditure of bond revenues," to "actively review and report on the proper expenditure of taxpayers' money for school construction," and to "advise the public as to whether a school district […] is in compliance" with Proposition 39 bond requirements.[1] CBOC activities, as established in the Education Code section 15278, may include:

- Ensuring that bond revenues are expended only for allowable purposes, and that no funds are used for teacher or administrator salaries or other school operating expenses.
- Receiving and reviewing the independent performance and financial audits of Proposition 39 bonds.
- Inspecting school facilities and grounds.
- Receiving and reviewing a school district's deferred maintenance proposals or plans.
- Reviewing efforts to maximize bond revenues by implementing cost-saving measures.

[1] Education Code section 15278(b).

As stated in Education Code section 15280, the CBOC is required to issue a report on the results of its activities at least once a year. Minutes of CBOC proceedings, documents received, and reports issued are public records and should be made available online on a website maintained by the governing board of the district. CBOC proceedings are open to the public and should be noticed in the same manner as the school district's governing board. Without expending bond funds, the Education Code requires a school district's governing board to provide the CBOC with any necessary technical and/or administrative assistance and sufficient resources to publicize the CBOC's conclusions.

CBOC membership consists of at least seven members who serve minimum terms of two years without compensation. CBOC membership for school districts, as established in Education Code section 15282, must include:

- One member who is active in a business organization representing the business community located within the school district.
- One member who is active in a senior citizens' organization.
- One member who is active in a bona fide taxpayers' organization.
- One member who is the parent or guardian of a child enrolled in the school district.
- One member who is both a parent or guardian of a child enrolled in the school district and active in a parent-teacher organization, such as the Parent Teacher Association or school site council.

According to Education Code section 15284(a), if a district's governing board has "willfully failed to appoint the citizens' oversight committee in violation of the requirements of Section 15278," then […] "an action to obtain an order restraining and preventing any expenditure of funds received by a school district" may be maintained by "a citizen residing in the school or community college district."

The District's CBOC Has Not Met Since May 2021

In violation of the Education Code requirements outlined above, the Alum Rock Union Elementary School District (ARUSD or the District) did not establish and support a CBOC during our audit scope years of FY 2021-22, FY 2022-23, or FY 2023-24. The District's CBOC has not met since May 2021, before our first audit scope year began, and did not meet at any point during FY 2021-22, FY 2022-23, or FY 2023-24, even though the District expended Proposition 39 bond funds in all three fiscal years. Although five CBOC meetings were scheduled between August 2021 and August 2023 during the three years of our audit scope, all were canceled. According to correspondence related to the meeting cancelations provided to us by the District, the scheduled meetings were canceled due to lack of a quorum. No meetings have been scheduled since August 2023.

The Education Code requires (a) that the CBOC issue a report on the results of its activities at least once a year, and (b) that all CBOC reports be posted online on the District's website. However, the CBOC has not published an annual report since 2019, according to the District's website.

CBOC Membership Did Not Meet Established Requirements

During FY 2021-22, FY 2022-23, and FY 2023-24, the District's CBOC membership did not meet the requirements established in Education Code section 15280(b), as summarized in Exhibit 2.1 below.

Exhibit 2.1: District CBOC Membership, FY 2021-22 to FY 2023-24

Members' Affiliation Requirement	FY 2021-22				FY 2022-23				FY 2023-24			
	Jul-Sept 2021	Oct-Dec 2021	Jan-Mar 2022	Apr-Jun 2022	Jul-Sept 2022	Oct-Dec 2022	Jan-Mar 2023	Apr-Jun 2023	Jul-Sept 2023	Oct-Dec 2023	Jan-Mar 2024	Apr-Jun 2024
Business org.	filled											
Senior citizens' org.									filled			
Taxpayers' org.												
Parent/guardian*												
Parent/guardian in a PTA*			filled									
Parent/guardian in a PTA*					filled							
At large**									filled			
At large**										filled		
At large**											filled	

Source: CBOC membership information provided by the District. Membership considered filled if a member's term was active at any point during the three-month period.
Note: Email correspondence reviewed by the audit team indicates that there may have been additional CBOC members who served during this time period. However, the District did not provide us with information about these individuals' terms or membership categories, and as a result they are not included in the above exhibit.
* The Education Code states that one CBOC member shall be the parent or guardian of a child enrolled in the school district, and that another CBOC member shall be both the parent or guardian of a child enrolled in the school district and active in a parent-teacher organization. The roster maintained by the District does not distinguish between these two categories.
** These members are at-large members and do not satisfy a specific membership requirement in the Education Code, other than the requirement that the CBOC consist of at least seven total members.

As shown in Exhibit 2.1 above, the following membership deficiencies occurred during FY 2021-22, FY 2022-23, and FY 2023-24:

- There was no member active in a business organization representing the business community located within the school district for most of FY 2021-22, or at all during FY 2022-23 or FY 2023-24.
- There was no member active in a senior citizens' organization during FY 2021-22 or most of FY 2022-23.
- There was no member active in a bona fide taxpayers' organization at any point during FY 2021-22, FY 2022-23, or FY 2023-24.
- The Education Code states that one CBOC member shall be the parent or guardian of a child enrolled in the school district, and that another CBOC member shall be both the parent or guardian of a child enrolled in the school district *and* active in a parent-teacher organization. There was a brief overlap period during 2022 when the CBOC had two members who were each parents/guardians or a student and active in a parent-teacher organization. However, for most of the three-year period, there was only one parent/guardian member on the CBOC.
- At no point during FY 2021-22, FY 2022-23, or FY 2023-24 were there seven members serving on the CBOC, as required by the Education Code.

A 2019 audit of the District conducted by the California State Auditor (California State Auditor report 2018-131) found that the District did not maintain supporting evidence or sufficient records to demonstrate that CBOC members meet the statutory requirements for membership composition. The audit report recommended that the District verify and document representation of the CBOC committee members. We requested documentation from District staff demonstrating that it had verified and documented this representation for CBOC members appointed during FY 2021-22, FY 2022-23, and FY 2023-24, but the District did not provide us with any such documentation.

Recommendations: To ensure that the District complies with statutory CBOC membership requirements, the Board of Trustees should direct the District's Assistant Superintendent for Business Services to (a) develop a process to verify and document that CBOC members meet the statutory requirements for membership composition, and (b) work with current CBOC members to update the CBOC Bylaws to include this verification process.

CBOC Recruitment Challenges

The District does not have a formal CBOC recruitment strategy.[2] Documentation provided to us by the District shows that the District conducted CBOC membership outreach and recruitment using the following methods:

- Discussing outreach at regular CBOC meetings (March 2021)
- Communication with parent groups such as the Superintendent's Parent Advisory and Resource Council (May 2022)
- Posts on the District's website (January 2025)
- Social media posts on Instagram, Facebook, and LinkedIn (January 2025)
- A Google Forms survey for individuals to indicate their interest in serving on the CBOC (not dated; District staff report the survey was sent out in early 2025)

However, despite these efforts, the District was unable to successfully recruit sufficient members to satisfy the requirements established in the Education Code and ensure CBOC meetings had adequate attendance during FY 2021-22, FY 2022-23, and FY 2023-24. The California Association of Bond Oversight Committees, a nonprofit organization that provides information, education, training, and assistance on school bond oversight to CBOC members and the public, recommends that a CBOC and a school district work together to develop a methodology to find, qualify, and appoint CBOC candidates, including asking civic, business, senior citizen, and taxpayers associations, as well as parent-teacher organizations and school site councils, to nominate candidates. A CBOC application should also be available on the school district website as a best practice.[3]

[2] The District's CBOC Bylaws include high-level membership information, but do not include a strategy or procedure specific to member recruitment.
[3] California Association of Bond Oversight Committees, FAQ Section.

Recommendations: To address CBOC recruitment challenges, the Board of Trustees should direct the District's Assistant Superintendent for Business Services to collaborate with current CBOC members to develop a recruitment strategy to identify, qualify, and appoint CBOC candidates quickly when vacancies are anticipated. This strategy should include, at minimum, the identification of relevant groups and community organizations that can nominate candidates and should assign responsibility for specific recruitment activities to specific individuals. The strategy should also require the District to post a CBOC application on its website and conduct specific proactive outreach during the months before a current CBOC member's term ends.

CBOC Technical and Administrative Support

Education Code section 15280 requires a school district's governing board to provide the CBOC with technical and administrative assistance. According to a review of CBOC agendas and available posted meeting minutes from 2021, 2022, 2023, and prior years, the District's Assistant Superintendent for Business Services facilitated and attended CBOC meetings. Minutes were taken by District staff, typically the Executive Assistant to the Assistant Superintendent for Business Services. In 2023, the District's Chief Bonds Officer was also scheduled to present at a CBOC meeting, although (as discussed above) this meeting was canceled due to a lack of a quorum. According to District staff, the District's Chief Bonds Officer assumed responsibility for coordinating CBOC meetings at the beginning of 2024, although no CBOC meetings were scheduled. We requested documentation from the District showing whether any District staff person is formally assigned to facilitate and provide technical assistance to the CBOC, and whether this responsibility is included in any District employee job description or list of job duties. The District did not provide us with any documentation to this effect.

The 2019 audit conducted by the California State Auditor found that the Board of Trustees and the District did not provide adequate support to the CBOC in response to the CBOC's requests for technical assistance, based on their review of meeting minutes from FY 2013-14 through FY 2017-18. The audit report also found that the District did not maintain records describing technical support provided to the CBOC in response to requests for assistance. The audit report recommended that the District create a policy by August 2019 to require District staff to document assistance provided to the CBOC and to regularly report to the Board on the nature and frequency of this assistance. However, based on our review of the Board of Trustees Policy Manual, the CBOC Bylaws, and other policies and procedures provided to us by the District, the District did not implement the recommendation to create a policy to document CBOC technical assistance. Because the CBOC did not meet at any point during our audit scope, we were not able to evaluate whether or not the District provided adequate assistance in response to any requests from the CBOC.

Recommendations: To ensure that the CBOC receives all necessary administrative and technical assistance, the Board of Trustees should formally assign responsibility for facilitating, attending, and assisting the CBOC to the District's Assistant Superintendent for Business Services, and require the Assistant Superintendent for Business Services to update the Board of Trustees on the CBOC's activities after every CBOC meeting.

The Importance of Independent Citizen Oversight

As stated in the Education Code, the purpose of a CBOC is to provide information to the public about a school district's use of Proposition 39 bond funds, which improves the transparency, accountability, and oversight of bond expenditures and bond projects and functions as an important external control over the use of bond funds. According to the California Association of Bond Oversight Committees, a CBOC is meant to be "the eyes and ears of the community to hold the school district accountable for the spending of bond funds authorized by the voters."[4] Without a functioning CBOC that (a) satisfies the membership requirements of the Education Code; (b) holds regular meetings, and (c) produces regular reports on its activities and conclusions, the oversight, transparency, and public accountability functions of the CBOC are compromised.

There is no documentation that any citizen oversight activities, such as reviewing annual financial and performance audits or conducting site visits or reviewing project expenditures, were carried out for District bond projects or bond expenditures during our audit scope years of FY 2021-22, FY 2022-23, and FY 2023-24. In addition, as mentioned above, the CBOC has not issued an annual report since 2019.

We reviewed the agendas posted online for several CBOC meetings that would have occurred between August 2021 and August 2023 if the CBOC had been able to achieve a quorum. These agendas describe some of the oversight and accountability activities that could have taken place, including:

- Information/Discussion/Action: Approve or Request Changes to the Draft CBOC Annual Report for 2020 (meeting scheduled September 13, 2022)
- Information/Discussion/Action: Bonds Program Manager Update; Current/Recently Completed Projects; and District's Intent to Request Voter Approval for Reauthorization of Measure J Bonds (meeting scheduled September 13, 2022)
- Information/Discussion/Action: 2021 Annual Report: Consider Forming Annual Report Committee (meeting scheduled September 13, 2022)
- Information/Discussion: Workforce Housing Update (meeting scheduled August 15, 2023)
- Information/Discussion: Energy Conservation Program (meeting scheduled August 15, 2023)
- Information/Discussion/Action: New Leaders Nomination: Chair / Vice Chair / Secretary (meeting scheduled August 15, 2023)

However, because the CBOC did not meet, these oversight activities and public reporting did not take place. Regular public CBOC meetings and annual reports could have included the CBOC's evaluation of whether bond expenditures have been made in accordance with voter-approved ballot measures and the requirements of Proposition 39 bonds and would have functioned as an important external control over District bond expenditures and bond project management.

As discussed in more detail later in this section and in Section 1 of this report, we identified deficiencies in the District's overall communications and reporting on bond projects as well as a lack of documentation

[4] California Association of Bond Oversight Committees, FAQ Section.

of its capital planning, budgeting, and project prioritization processes. Regular CBOC meetings, reporting, and discussion of the topics described above would improve the reporting and information available to the Board of Trustees, as well as provide important public oversight and accountability.

External As-Needed CBOC Assistance

The District's agreement with its municipal advisor firm includes CBOC assistance as an additional service that may be performed for additional compensation at the direction of the District. Specifically, the District's municipal advisor firm may, if requested, assist the District with CBOC member recruitment, member education, annual reports to the Board and the community, and bylaws review and compliance.

Recommendations: If the District is unable to satisfactorily recruit and educate CBOC members, or if the CBOC is unable to produce annual reports and comply with all other statutory CBOC requirements, the Board of Trustees should consider engaging the District's municipal advisor firm or another comparably qualified firm to provide CBOC assistance. The District must ensure that bond funds are not expended for this purpose, as prohibited by Education Code section 15280.

District Communications with the Board of Trustees and Public

Annual Reporting

The District should be submitting annual reports to the Board of Trustees on its bonds program, according to best practices as well as the District's own Debt Issuance and Management Policy. However, the District did not submit any such annual reports during the audit scope period. The District's Debt Issuance and Management Policy states that the Assistant Superintendent for Business Services should report at least annually to the Board of Trustees on (a) debt proceeds received and expended, and (b) status of projects financed with debt proceeds. The District did not provide evidence that they submitted any such report on debt proceeds, or projects financed with debt proceeds, to the Board.

Additionally, bond management best practices recommend annual reporting to an agency's governing board and the public. In 2015, the California State Treasurer convened a task force on bond accountability to study common issues with bond management for public agencies and develop a set of best practices. The task force on bond accountability included best practices on public accountability and reporting in their final recommendations:

- The agency should provide an annual report to its governing body and its taxpayers or ratepayers to account for bond expenditures. The report should highlight the purpose and use of the proceeds to the extent that the agency has defined objectives that produce an accounting of its success in meeting these objectives. The agency should present the annual report as an agenda item at a meeting of its governing body. The agency should provide an internet report to the public that creatively displays what the bond program accomplished, and it should keep the information up to date.
- In general, reporting on the bond program should provide the status of bond proceeds and bond-funded projects over the term of the financing. Reports may also include audits that address the

agency's compliance with applicable bond documents and the financial obligations made to investors. Just as important is the information audits can provide on the agency's appropriate and timely use of bond proceeds.

Source: California Task Force on Bond Accountability, "Task Force Final Report." December 2015.

The District did not provide the Board of Trustees, its taxpayers, or parents and guardians with an annual report or presentation detailing the use of bond funds or the status of bond-funded projects. Annual reporting to the Board of Trustees would allow the Board to provide appropriate oversight over the bonds program. In the absence of a CBOC, as discussed above, Board of Trustees oversight is the only oversight of ARUSD's bonds. Reporting to the Board of Trustees also serves as reporting to the public since Board meetings are open to the public and materials and presentations are posted online on the Board's website afterwards.

Recommendations: The Board of Trustees should require District staff to report at least annually on (a) debt proceeds received and expended, (b) the status of projects financed with debt proceeds, (c) the status of bond-funded projects, (d) high-level progress towards bonds program goals, and other relevant information about the bonds program over the course of the year.

Cost of Issuance Reporting

California Education Code Section 15146 states that a school district governing board must "present the actual cost information for the sale [of the bond] at its next scheduled public meeting." Costs associated with making a bond sale include underwriter fees, legal fees, and other administrative costs. School districts should present the actual costs of issuing the bonds at the public meeting following the meeting approving the sale.

ARUSD was not able to provide evidence that it presented cost of issuance information to the Board of Trustees at the meeting following the sale for the three bonds that were issued during the audit period. The Board of Trustees approved bond sales during our audit scope years on May 12, 2022, March 9, 2023, and June 13, 2024. The Board heard a presentation on the actual cost of issuance of the March 9, 2023 sale at its meeting on June 8, 2023. However, this meeting was not the meeting immediately following the sale of the bonds, and was therefore in violation of the Education Code requirement. There is no evidence that the Board heard presentations on the cost of issuance for the other two bond sales on May 12, 2022 and June 13, 2024. Furthermore, District staff confirmed via email that they do not have evidence of any Board presentations for the three bond sales.

District Communications with the Public

The District was unable to provide evidence of significant public outreach related to the bonds program besides its website, which is missing key information. The 2015 California State Task Force on Bond Accountability recommends that public agencies make information about their bond program publicly available. Specifically, the task force states that "the agency should provide the public with information on its bond program, including FAQs that help to meet the interests of various stakeholders." Additionally,

the task force recommends having an up-to-date bond website: "The information should be made available via the Internet or other electronic means."

The District did not provide any evidence of public outreach efforts in response to our request for all bond-related public outreach and communication materials from FY 2021-22 to FY 2023-24. We specified that the District should include any outreach or informational materials provided to voters and District parents/guardians, as well as to any other bond stakeholder groups, and any campaign materials or project lists distributed to voters when each bond was placed on the ballot. The District was unable to provide documentation of any such materials.

The District has a section about its bonds program on its website.[5] The website does not include a FAQs section, as recommended by the task force, nor does it include up-to-date information on in-progress or completed bond-funded projects or any upcoming bond projects or bonds program goals or strategic plans. The website also does not include the District's most recent (FY 2023-24) financial and performance audits required by State law for its Proposition 39 bonds, although prior year audits are posted. The website contains a list of Notices of Completion for projects from FY 2022-23 only, some information on Measure S for voters regarding its reauthorization in November 2022 (including information on its cost, what it would fund, and what taxpayer protections the District has in place), a link to a YouTube video describing the Department's 2023-2028 Long Range Facilities Plan, a link to the District's Community Workforce Agreement, and a glossary of construction terms.

While the majority of this information is useful for the public, the Community Workforce Agreement and the glossary of construction terms are both better suited for internal staff and contractor use, and are not relevant to the average stakeholder looking for information on the District's bonds program. Furthermore, the District's website lacks any information about bond-funded projects aside from the Notices of Completion in FY 2022-23. For example, the website could include the following: a section listing projects completed by year; a list and description of projects currently in progress; or information about the schedules and budgets of future bond projects.

The website contains reports that the District is required to produce by state law, including annual financial and performance audits of each of the three bonds. (As noted above, the website is missing the FY 2023-24 financial and performance audits, although we verified the audits were completed.) However, because the District's CBOC has not met since May 2021, the CBOC annual reporting on the District's website stops after 2019, and CBOC agendas and minutes are only posted up to May 2021. Other updates and presentations to the Board of Trustees are also sparse: monthly updates appear to have been posted online in FY 2015-16 and then stopped with the exception of the 2019 annual report presentation to the Board.

[5] https://www.arusd.org/district/departments/business-services/bonds-oversight-committee.

Our benchmarking review of several other school districts in Santa Clara County (see Section 4 for more details) included a brief review of each district's bonds program website. The results of this review are summarized below in Exhibit 2.2.

Exhibit 2.2: Santa Clara County School District Bond Websites

District	Is there project information on the website (updated within the last year)?	What is the date of the most recent annual report available online?
Cupertino Union High	Yes*	FY 2022-23
East Side Union High	Yes*	FY 2023-24
Franklin-McKinley Elementary	No	FY 2021-22
Gilroy Unified	No	FY 2018-19
Milpitas Unified	Yes	FY 2022-23
Mount Pleasant Elementary	No	FY 2023-24
Palo Alto Unified	No	FY 2022-23
Alum Rock Union Elementary	No	FY 2018-19

Source: BLA analysis of district websites

*District has a distinct website dedicated to its bonds program.

Exhibit 2.2 shows that five out of the seven districts we chose for comparison have at least either information about bond-funded projects updated within the last year on their websites or an annual report (from the CBOC) from at least the last few fiscal years. ARUSD has neither. The District should aim to make more information about the bonds program, particularly about bond-funded projects, available online for the public to view.

Recommendations: The Board of Trustees should direct District staff to update the District's bonds program website and other regular communications forums with District parents and guardians to provide up-to-date information about the bonds program, in particular about bond-funded projects, at least quarterly. The Board should also direct staff to post all annual reports and any other updates to the Board or CBOC (once the CBOC begins meeting regularly) online.

Negative Effects of Inadequate Communications

Without adequate communications related to Proposition 39 bonds to the Board of Trustees and the public, the Board of Trustees is unable to exercise appropriate oversight over the District's bonds program and the District's taxpayers are not appropriately informed about how the District is spending their tax dollars. Furthermore, the District is violating state law, and its own internal policies, by not reporting to the Board of Trustees at least annually and by not holding CBOC meetings.

Conclusion

The District needs to significantly improve the oversight and reporting on its bond program. By supporting its independent Citizens' Bond Oversight Committee, formalizing and enforcing reporting requirements to the Board of Trustees, and improving its communications with and outreach to the public, the District can ensure that the Board and the public are sufficiently informed about the District's use of bond funds.

Recommendations

The Board of Trustees should:

2.1 Direct the District's Assistant Superintendent for Business Services to (a) develop a process to verify and document that CBOC members meet the statutory requirements for membership composition, and (b) work with current CBOC members to update the CBOC bylaws to include this verification process.

2.2 Direct the District's Assistant Superintendent for Business Services to collaborate with current CBOC members to develop a recruitment strategy to identify, qualify, and appoint CBOC candidates quickly when vacancies are anticipated. This strategy should include, at minimum, the identification of relevant groups and community organizations that can nominate candidates, and should assign responsibility for specific recruitment activities to specific individuals. The strategy should also require the District to post a CBOC application on its website and conduct specific proactive outreach during the months before a current CBOC member's term ends.

2.3 Formally assign responsibility for facilitating, attending, and assisting the CBOC to the District's Assistant Superintendent for Business Services, and require the Assistant Superintendent for Business Services to update the Board of Trustees on the CBOC's activities after every CBOC meeting.

2.4 Consider engaging the District's municipal advisor firm or another comparably qualified firm to provide CBOC assistance if the District is unable to satisfactorily recruit and educate CBOC members or if the CBOC is unable to produce annual reports and comply with all other statutory CBOC requirements and incorporate any resulting recommendations into the Board of Trustees policy manual. The District must ensure that bond funds are not expended for this purpose, as prohibited by Education Code section 15280.

2.5 Require District staff to prepare a single report to the Board of Trustees and the public at least annually on: (a) debt proceeds received and expended, and (b) status of projects financed with debt proceeds, (c) the status of bond-funded projects, (d) high-level progress towards bonds program goals, and other relevant information about the bonds program over the course of the year.

2.6 Direct District staff to update the District's bonds program website, along with other regular communications forums for District parents and guardians, to provide up-to-date information about the District's bonds program, in particular about bond-funded projects, at least quarterly. The Board should also direct staff to post all annual reports and any other updates to the Board or CBOC (once the CBOC begins meeting regularly) online.

Benefits and Costs

These recommendations will improve the overall transparency, accountability, and oversight of the District's bond program, and will ensure the District complies with all statutory requirements for independent citizen oversight and reporting on Proposition 39 bonds.

These recommendations will require District staff time to implement. If the District is unable to adequately recruit for and support the CBOC, engaging the District's municipal advisor firm or a comparably qualified firm to provide this support on behalf of the District will incur additional external costs to the District. These costs are not specified in the District's contract with its current municipal advisor firm, and the District should request quotes from qualified firms for these services before proceeding. These costs cannot be paid for with bond funds and would need to be covered by the District's general fund or a separate funding source.

3. Bond Program Management

The Alum Rock Union Elementary School District (ARUSD or the District) lacked sufficient bond program management capacity beginning in 2023 and as a result was unable to provide evidence of bond program record-keeping or reporting. During the three-year scope of our audit, the District violated several agreements and statutory requirements, including a District-wide Community Workforce Agreement and the State requirement for a Citizens' Bond Oversight Committee. The District transitioned from external to in-house bond program management in 2023 but has been unable to hire the in-house positions it identified as needed to staff this effort. Additionally, the District is unable to provide evidence that it followed its internal procurement policies for a sample of bond program Requests for Proposals (RFPs)/Requests for Qualifications (RFQs) and resulting bids and contracts that we requested to review for this audit. Staff does not conduct performance evaluations or contract monitoring for bond program contractors, despite a recommendation from the California State Auditor in 2019 that they do so. The State Auditor also recommended that the District determine which contractors should be required to file statements of economic interests, but the District reported that it has not implemented that recommendation and does not require any contractors to disclose their financial interests and potential conflicts of interest.

We recommend that the District review and possibly modify its recruiting efforts for the vacant bond program management positions, update its purchasing handbook, adopt and implement a contract monitoring policy, and determine which contractors should be required to disclose their financial interests through a California Form 700 financial disclosure statement. Implementation of these recommendations will improve District procurement processes and outcomes for the bonds program, improve staffing levels and therefore improve bonds program capacity, and bring the District in line with procurement and contract monitoring best practices.

Bond Program Suffers from Insufficient Management and Staff Turnover

During the audit review period the District's bond program suffered from staff turnover. The District unsuccessfully transitioned from external to in-house bond program management, which resulted in insufficient staffing levels to successfully execute the bond program and ultimately a lack of evidence that certain required activities, including reporting, took place.

In 2021, the District issued an RFP for program management services and, following a competitive solicitation process, entered into a two-year, $1.7 million agreement with Cumming Management Group (Cumming) in December 2021. Under the terms of the agreement, Cumming was responsible for managing the District's bond program, including, according to the contract: creating construction cost budgets with project architects; monitoring project scopes, schedules, and budgets; advising the District on bond program developments; designing and scheduling the bond program with the District and designers, including creating high-level strategy; selecting and managing construction managers; and

coordinating all bid activities for the bond program. In addition to Cumming, the District had two in-house staff dedicated to the bond program: a Director of Bonds, Facilities, and Leases, and a Bonds Manager. The District also assigned a full-time accountant to the bonds program in February 2023.

District bond program staff opted not to renew or extend Cumming's contract when it expired in December 2023. Instead, staff chose to move management of the District's bond program in-house. According to an analysis prepared by District staff, in order to execute the bond program in-house the District needed one Chief Bonds Officer, one Director of Bonds, Facilities, and Leases, and two Bonds Managers. District staff presented this plan to the Board of Trustees, which approved the plan in October 2024. The Board of Trustees also approved (a) the promotion of the Director of Bonds to Chief Bonds Officer, and (b) the promotion of the Bonds Manager to Director of Bonds, which left two Bonds Manager positions vacant.

Effects of High Turnover and Vacancies

The two Bonds Manager positions were still vacant as of May 2025 despite being posted in October 2024. As a result, the District has not had sufficient staffing according to its own staffing plan for the bond program since at least December 2023. From December 2023 to May 2025 there have only been between one and three full-time employees dedicated to the District's bonds program, despite the staff recommendation that there be four, and none of these positions were roles dedicated to day-to-day bond manager work: they were either too high-level (e.g., the Chief Bonds Officer) or too narrow in focus (e.g., an accountant). Additionally, all of those employees started with the bond program between 2023 and 2024, so they do not necessarily have the institutional knowledge of how the District's bond program was managed under Cumming or even prior to Cumming. Below is a summary of bond program staffing resources during the audit period and including FY 2024-25:

- Assistant Superintendent: during our audit scope years, this position was performing duties that were later assigned to the Director of Bonds/Chief Bonds Officer when that position was hired in February 2023.
- Cumming Management Group: contract for bond program management services started December 2021, ended December 2023.
- Bonds Accountant: started February 2023, no longer with the District as of May 2025. Position vacant.
- Bonds Manager, promoted to Director of Bonds: started March 2024, still with Bonds Program as of May 2025.
- Director of Bonds, promoted to Chief Bonds Officer: started February 2023, no longer with the District as of March 2025. Position vacant as of May 2025.

Without sufficient staff or management capacity, the District was unable to adequately manage its bond program during our audit scope years. Specific consequences of the lack of consistent personnel include:

- **Documents were not sufficiently maintained:** The District was unable to provide procurement records for some bond projects, as detailed below, including evidence of bid advertisements, copies of all bids received, and final executed contracts. This type of record-keeping task should

be the bond program manager's responsibility. Much of this information was managed by Cumming, and upon termination of the contract Cumming transferred all of its records to the District. However, District staff are unfamiliar with the records from Cumming and are therefore unable to use or maintain them.

- **Some laws were not followed:** Bond staff were unaware of a District-wide Community Workforce Agreement[1] and were therefore issuing contracts in violation of the Agreement until August 2023. Once staff learned of the Agreement at a Board of Trustees meeting, they rectified these contracts. However, it is the responsibility of bond program staff to be aware of all rules and regulations governing District bonds. In addition, as discussed in detail in Section 2 of this report, the District has failed to adhere to requirements in the Education Code related to the Citizens' Bond Oversight Committee. It should be the responsibility of the District's bond program staff, along with the Board of Trustees, to ensure the District adheres to all these statutory requirements.
- **The District was not able to report on bond program progress or individual project progress:** The District could not provide us with a list of all bond projects undertaken during FY 2021-22, FY 2022-23, and FY 2023-24, our audit scope years, or basic bond project information including scope, schedule, budget, and current status or completion date.
- **High-level program management:** As discussed in Section 1 of this report, District staff report that they have not had time to develop critical capital improvement plans or long-term financial plans due to staff turnover, which leaves the District without publicly available official guidance for how its bond funds should be prioritized and spent. A sufficiently staffed bond program would give the District the capacity to write and implement a capital improvement plan and long-term financial plan.

Record-keeping for all stages of all bond projects, maintaining legal responsibility, status reporting, and high-level strategic planning are all components of a successful bond program that could be maintained with sufficient staffing resources.

The Importance of Bond Program Personnel

In 2015 the California State Treasurer convened a task force on bond accountability to study common issues with bond management for public agencies and created a set of best practices. The task force issued a report that contained 20 observations and 17 guidelines. Two of those observations and two of the guidelines relate to bond program staffing and management:

- **Observation 3:** "The use of external service providers does not absolve the governing body of its responsibility for providing and maintaining an internal control system."
- **Observation 5:** "The public agency should conduct a workload analysis to determine the level of staff required to properly administer the control system."

[1] A Community Workforce Agreement is a pre-hire collective bargaining agreement that is negotiated between project owners and workers that governs wages, benefits, and other work conditions.

- **Guideline 2:** "Establish the organization's structure and lines of reporting and appropriately assign authority and responsibility to staff to implement the internal control system."
- **Guideline 5:** "Commit to recruiting, enabling, and retaining competent personnel."

District oversight over Cumming was not sufficient to ensure that Cumming's documents, records, work processes, and other materials related to the bond program transferred to District staff. The District did conduct an internal analysis of the number of staff needed to run the bond program, but it has struggled to recruit and retain personnel.

The lack of day-to-day management and oversight increases the risk to the District that projects go off-schedule or off-budget. The District's unsuccessful attempt to create a bond management program in-house has left it without sufficient bond, construction management, and project management expertise. Without this expertise, either from in-house District staff or external experts, the District risks the success of its bond projects.

Recommendations: The Board of Trustees should direct District staff to review the District's recruiting efforts and approach for the two vacant Bonds Manager positions to determine whether another hiring approach should be taken, or if changes in salaries and benefits offered or other conditions of employment could improve recruitment. The Board should consider re-evaluating its decision to move bond program management in-house if these additional recruitment efforts are unsuccessful and the District remains unable to sufficiently staff its bond management program.

Bond Program Procurement and Contractor Management

The District was unable to provide evidence that it followed its own procurement policies for a sample of bond program Requests for Proposals (RFPs)/Requests for Qualifications (RFQs) and resulting bids and contracts that we requested for this audit. Further, the Board's policies on procurement and the District's internal purchasing manual do not include several procurement best practices. Additionally, the District was unable to provide evidence that it monitored the performance of several of its contractors during the audit review period.

Procurement Procedures

Board of Trustees Policy Manual section 3311 requires a competitive bidding process for many services, including those of architecture firms, construction firms, program management firms, and other firms related to the bonds program, for services that exceed the threshold amount, which for public works projects is $15,000 and otherwise is, as of FY 2024-25, $109,300. Policy Manual section 3311 requires the District to publish an advertisement for any bid in a local newspaper, sets requirements for what bids must include and how they must be submitted, and states that all bids received become public records. Additionally, Policy 3311 permits District staff to award a contract to any of the three lowest bidders for architecture firms, construction firms, and program management firms.

To evaluate the District's management of procurement for bond-related services, we requested documentation of procurement milestones based on a selected sample of 16 RFPs/RFQs from FY 2021-22

through FY 2023-24. We also reviewed the District's Purchasing Department Handbook, which describes some of the District's procurement workflows and outlines roles and responsibilities for certain purchasing tasks. The documents we requested for procurement milestones for the 16 sample bids are summarized below.

- Documentation of District outreach to potential bidders
- All proposals/bids received
- Pre-qualification lists, if applicable
- Pre-bid conference attendance, if applicable
- Proposal evaluation results, including bid evaluation weighting matrices if any
- Final executed contract(s) and any amendments
- Board of Trustees approval
- Reference checks
- Names and titles of proposal evaluators (District staff and external parties if used)
- Conflict of interest forms for evaluators

Compliance with Internal Policies

The District could only provide evidence that it followed all internal procurement policies for one of the 16 sample RFP procurement processes. The other 15 RFPs we sampled were missing some or all documentation of the procurement process, as detailed below:

- Nine out of 16 RFPs were missing evidence of newspaper advertisement outreach to potential bidders.
- Twelve out of 16 RFPs were missing copies of all of the bids received, which are public records per District policy.
- Fourteen out of 16 RFPs were missing evidence of a proposal evaluation that demonstrates that the District selected the winning bid in accordance with District policy.

The District's Purchasing Department Handbook does not delineate how staff should conduct a competitive bidding process in accordance with the District's policies. The Handbook does contain step-by-step instructions for staff on how to complete the stages of procurement that come after the competitive solicitation process, including who needs to approve the agreement (including the Board of Trustees) and how to create a Purchase Order. However, regarding solicitations, the Handbook only directs staff to consult with the Purchasing Department. According to the National Association of State Procurement Officials (NASPO) procurement guidebook, it is a best practice for purchasing and procurement manuals to clearly delineate to staff all procurement responsibilities in a written manual.

Recommendations: The Board of Trustees should direct District staff to incorporate procedures for procurement that include the District's bidding policies into its Purchasing Department Handbook. The Board should also require staff to maintain documentation demonstrating that all of the District's bidding requirements have been met, and required documentation should be clearly delineated in the Purchasing Department Handbook.

District Procurement Policies do not Align with Best Practices

In addition to not being followed consistently by staff, the District's procurement policies and procedures do not always align with best practices for public sector procurement. The National Association of State Procurement Officers (NASPO) publishes a guidebook on best practices for public procurement. The key best practices that NASPO recommends that ARUSD does not explicitly include in its Board policies or staff purchasing handbook are:

1. The analysis of bids and proposals should be documented in writing to show that the evaluation conformed to the law and to the solicitation, and to show that the process was fair and unbiased.
2. Those involved in evaluating bids should be completely unbiased.
3. The District should document everything for the purpose of protecting the District in the event of an unfair bid or bidder.
4. The agency should use an evaluation committee comprised of subject matter experts who are independent and unbiased to evaluate proposals.
5. The procurement policy should be broad enough to allow for best value as a standard for contract award as well as to authorize best value procurements.

As noted above, the District is not consistently documenting its RFP processes in writing (item 3), including its analysis of bids and proposals (item 1), and it is not routinely selecting proposal evaluators who can demonstrate their lack of biases in the process and are subject matter experts (items 2 and 4).

Best value as a standard for contract award means that procurement officials are allowed to award a contract not only to the lowest priced bid or proposal but to the proposal that provides the best value when taking other measurable factors into consideration. ARUSD's policy currently states that the Board of Trustees "may contract with any one of the three lowest responsible bidders" for architecture, construction, or program management services. The policy does not explicitly state that the Board should contract with the *best* of the three lowest responsible bidders.

Additionally, District staff reported that they do not typically conduct reference checks for bidders, nor do they require proposal evaluators to fill out conflict of interest forms. These are not required per District policy, but are recommended as procurement best practice to ensure the District procures the best services in a fair and accurate manner. Staff stated that typically proposals are evaluated by a team comprised of District bond program staff, consultants from the construction management firms the District contracts with, and (during the term of their agreement) staff from Cumming Management Group.

Recommendations: The Board of Trustees should consider revising its bidding policies and purchasing procedures to incorporate the National Association of State Procurement Officers best practices mentioned in this report, including making explicit the requirement that the best contractor be selected in competitive procurement for architecture, construction, and program management services.

Contract Monitoring

The District was unable to provide evidence that it monitored the performance of several of its contractors during the audit period. Contractor performance monitoring and evaluation are important tools for public

agencies to use to ensure contractors are delivering services under the terms of their agreements in a timely and satisfactory manner. NASPO recommends that professional services contracts (which include program management services contracts) include means of measuring contractor performance.

Additionally, the California State Auditor's 2019 audit of ARUSD included several findings and recommendations related to contractor performance monitoring. The 2019 audit found that the District did not have procedures to oversee its contractors' performance, document monitoring efforts, or define responsibilities for staff regarding documenting their contract monitoring efforts.

We found that the District has not implemented any of the recommendations from the 2019 State Auditor audit regarding contract evaluation, and that the District does not evaluate the work of its contracted bond program managers or bond construction managers. During the audit scope period, in addition to contracting with Cumming Management Group for program management services as discussed above, the District also contracted with a pool of eight construction management firms to oversee day-to-day construction of the bonds program projects. District staff confirmed to us that they did not produce any contract monitoring reports or performance evaluations on the quality of the work performed by either the program manager consultants or the construction manager consultants.

Further, the construction managers are responsible for oversight and evaluation of the work of the construction contractors under their agreements with the District, including managing change orders as they arise. However, the District was unable to provide evidence prior to January 2024 that the construction managers are (a) completing their required monitoring of the construction contractors and other on-the-ground work being done under the bond program, or (b) reporting the results to the District. The District maintains documents from the construction managers that demonstrate monitoring of construction contractors and construction sites as it pertains to change orders only but not their work otherwise.

The District does not have a policy that requires staff to conduct performance evaluations of contractors, nor does it have any written guidelines on how to do so. A contract monitoring policy and procedure would enable the District to clearly delineate the responsibility of staff to evaluate how well contractors perform relative to the scope of work in the contract, and whether they complete their work on time, within budget, and satisfactorily.

As mentioned above, in December 2023 the District chose to exercise its right not to renew its contract with Cumming Management Group (Cumming) for program management services. However, District staff could not provide documented evidence of the contractor's performance. Ending the contractual relationship with Cumming and subsequently shifting the program to an in-house staffing model was a major change in bonds program operations and significantly impacted the bonds program. It led to understaffing and a disruption in document sharing and workflows, as Cumming was managing many aspects of the bonds program and had to transfer files and workflow ownership to District staff. The District should have documentation of Cumming's performance but staff reported they do not.

Recommendations: The Board of Trustees should adopt a contract monitoring policy that incorporates the recommendations from the California State Auditor's 2019 audit of the District, including defined staff roles and responsibilities. The Board should direct staff to write and implement a contract monitoring procedure that guides staff through their contract monitoring responsibilities, including retaining evidence of monitoring efforts in a designated location.

No Conflict-of-Interest Statements for Contractors

The District does not require its contractors to disclose their financial interests, despite a recommendation from the California State Auditor in 2019 that District staff should develop and implement a procedure to assess whether contractors should be required to do so. According to District staff, the District does not require any financial disclosures or conflict of interest forms or statements, including Form 700,[2] from its bond project contractors, and the District did not implement the State Auditor's 2019 recommendation that the District develop and implement a procedure to determine which contractors should be required to disclose conflicts of interest. Not requiring contractors to disclose their financial interests or state their absence of any conflicts of interest increases the risk that the District may select contractors that cannot provide the highest quality services for the District due to their financial conflicts of interest and increases the potential risk of collusion. It may not be appropriate for all contractors, but District staff should make that determination for each contractor in advance of entering into agreements with potential contractors.

District contractors are not required to submit statements regarding conflicts of interest as part of their bid submission. Such a practice, where bidders are required to sign a statement indicating that they have not colluded with District personnel or other bidders in the preparation and submission of their bids, would reduce the potential for unethical behavior by District bidders. Bidders could also be advised as part of the bidding process that they may be required to file a Form 700 indicating their financial holdings in the event that they are awarded a contact with the District.

Recommendations: The Board of Trustees should require (a) that District staff determine which contractors should be required to file a Form 700, and (b) that bidders for District contracts file statements disclosing any conflicts of interest as part of their bid submission.

Conclusion

The District's bond program suffered from staff turnover and an unsuccessful transition to in-house bond program management without ever filling all needed positions and has been unable to adequately implement or manage the bond program since. The District was unable to provide evidence that it followed its own procurement policies, and the Board's policies on procurement and the District staff's internal purchasing manual do not include several procurement best practices. Additionally, the District was unable to provide evidence that it monitored the performance of several of its contractors during the audit period. Staffing, procurement, and contractor monitoring are all important to the success of the

[2] Form 700 is a Statement of Economic Interests that is required in the State of California for every elected official and public employee who makes or influences governmental decisions.

District's bond program and failure to staff the program and follow internal procurement policies and best practices has led to insufficient record-keeping, a lack of reporting, and the violation of several laws.

Recommendations

The Board of Trustees should:

3.1 Direct District staff to review recruiting efforts and approach for the two vacant Bonds Manager positions to determine if another hiring approach should be taken or if changes are warranted in salaries and benefits offered or other conditions of employment. Additionally, the Board should consider reassessing the decision to move bond program management in-house if these additional recruitment efforts are unsuccessful.

3.2 Direct District staff to incorporate procedures for procurement that include the District's bidding policies into its Purchasing Department Handbook for staff. The Board should also require staff to maintain documentation of all of the District's bidding requirements, and required documentation to be maintained in District records should be clearly delineated in the Purchasing Department Handbook.

3.3 Consider revising its bidding policies and purchasing procedures to incorporate National Association of State Procurement Officials best practices including making explicit the requirement that the best contractor be selected in competitive procurement for architecture, construction, and program management services.

3.4 Adopt a contract monitoring policy that incorporates the components from the California State Auditor's 2019 audit of the District, including defined staff roles and responsibilities. The Board should also direct staff to write and implement a contract monitoring procedure that guides staff through their contract monitoring responsibilities, including retaining evidence of monitoring efforts in a designated location.

3.5 Require (a) that District staff determine which of its contractors should file a California Form 700 statement of economic interests to avoid potential conflicts of interest in their work for the District, and (b) that bidders for District contracts file statements disclosing any conflicts of interest as part of their bid submission.

Benefits and Costs

These recommendations will improve District procurement processes and outcomes for the bonds program, improve staffing levels and therefore improve bonds program capacity, and bring the District in line with procurement and contract monitoring best practices. The recommendations are possible to implement with existing staff resources.

4. Benchmarking of Staffing and Administrative Costs

We compared the Alum Rock Union Elementary School District's (ARUSD or the District) Proposition 39 bond spending to a sample of peer districts' bond spending to benchmark expenditures on staffing and administrative costs for Proposition 39 bonds. We reviewed the FY 2021-22 or FY 2022-23 audited Proposition 39 bond financial statements for seven other school districts in Santa Clara County and found that ARUSD's spending on salaries, benefits, and supplies as a percentage of total Proposition 39 bond expenditures is comparable to the median of the seven selected peer districts' percent expenditures on these categories. Based on this comparison, we conclude that ARUSD is not spending a disproportionate amount of Proposition 39 bond money on salaries, benefits, and supplies compared to peer school districts in Santa Clara County.

District Spending on Salaries, Benefits, and Supplies

As shown in the Introduction to this report and summarized in Exhibit 4.1 below, in FY 2021-22, FY 2022-23, and FY 2023-24 the District spent between $819,797 and $22,964,219 of Proposition 39 bond funds each year across Measure J, Measure I, and Measure S.

Exhibit 4.1: Proposition 39 Bond Fund Expenditures, FY 2021-22 to FY 2022-23

	Measure J, 2012 ($)	Measure I, 2016 ($)	Measure S, 2022 ($)	Total ($)
FY 2021-22 Expenditures	**$819,797**	**n/a**	**n/a**	**$819,797**
Salaries	*22,143*			*22,143*
Benefits	*13,259*			*13,259*
Contract services	*634,142*			*634,142*
Capital outlay	*150,253*			*150,253*
FY 2022-23 Expenditures	**$3,694,356**	**$11,461,682**	**$427,160**	**$15,583,198**
Salaries	*13,922*	*90,709*	*0*	*104,631*
Benefits	*8,274*	*47,800*	*0*	*56,074*
Supplies	*0*	*434,611*	*0*	*434,611*
Contract services	*558,501*	*1,451,598*	*336,779*	*2,346,878*
Capital outlay	*3,113,659*	*861,964*	*90,381*	*4,066,004*
Debt service: principal retirement	*0*	*8,575,000*	*0*	*8,575,000*
FY 2023-24 Expenditures	**$603,547**	**$21,840,812**	**$519,860**	**$22,964,219**
Salaries	*0*	*419,931*	*23,376*	*443,307*
Benefits	*0*	*204,531*	*9,414*	*213,945*
Books and/or supplies	*20,585*	*32,384*	*0*	*52,969*
Contract services	*412,771*	*731,822*	*33,820*	*1,178,413*
Capital outlay	*170,191*	*20,452,144*	*453,250*	*21,075,585*

Source: Audited financial statements, Measure J, Measure I, and Measure S General Obligation bonds; FY 2021-22, FY 2022-23, FY 2023-24.

These expenditures are reported in the District's audited Proposition 39 bond financial statements for each fiscal year in several categories, including salaries, benefits, supplies, contract services, capital outlay,

and debt service. As shown in Exhibit 4.2 below, in each of the three years of our audit scope, between 3.1 and 4.3 percent of the District's total Proposition 39 bond funds were spent on salaries, benefits, and supplies, which we consider to be staffing and administrative costs (compared to capital outlay or direct construction costs).

Exhibit 4.2: Proposition 39 Bond Fund Expenditures on Salaries, Benefits, and Supplies, FY 2021-22 to FY 2022-23

	Measures J, I, and S Total ($)
FY 2021-22	
Salaries	$22,143
Benefits	13,259
Subtotal: Salaries, benefits, and supplies expenditures	**35,402**
Total Proposition 39 bond expenditures	**819,797**
Salaries, benefits, and supplies as percent of total expenditures	4.3%
FY 2022-23	
Salaries	$104,631
Benefits	56,074
Supplies	434,611
Subtotal: Salaries, benefits, and supplies expenditures	**595,316**
Total Proposition 39 bond expenditures	**15,583,198**
Salaries, benefits, and supplies as percent of total expenditures	3.8%
FY 2023-24	
Salaries	$443,307
Benefits	213,945
Books and/or supplies	52,969
Subtotal: Salaries, benefits, and supplies expenditures	**710,221**
Total Proposition 39 bond expenditures	**22,964,219**
Salaries, benefits, and supplies as percent of total expenditures	3.1%

Source: Audited financial statements, Measure J, Measure I, and Measure S General Obligation bonds; FY 2021-22, FY 2022-23, FY 2023-24.

As part of our audit fieldwork, we compared the District's bond spending to a sample of peer districts' bond spending, specifically the proportion of Proposition 39 bond money spent on salaries, benefits, and supplies relative to total Proposition 39 bond program expenditures. Our benchmarking methodology and peer district selection process is described below.

Peer District Selection

We selected a judgmental, non-representative sample of seven other public school districts in Santa Clara County. The sample includes both K-08 and K-12 districts and reflects a variety of enrollment sizes and student body socioeconomic compositions. Exhibit 4.3 below summarizes the enrollment and demographics of the seven peer districts for FY 2022-23.

Exhibit 4.3: ARUSD and Benchmarking Peer District Demographics, FY 2022-23

District	Grade Span	Enrollment	Percent Free/Reduced Lunch	Percent English Language Learners	No. of Sites
Cupertino Union	K-08	13,467	16%	16%	23
East Side Union High	K-12	24,514	37%	23%	34
Franklin-McKinley Elementary	K-08	8,107	57%	48%	26
Gilroy Unified	K-12	10,972	49%	27%	16
Milpitas Unified	K-12	9,967	28%	22%	15
Mount Pleasant Elementary	K-08	1,648	68%	43%	6
Palo Alto Unified	K-12	10,318	11%	9%	19
Alum Rock Union	**K-08**	**8,807**	**75%**	**44%**	**29**

Source: Auditor analysis of Education Data Partnership data available on www.ed-data.org.
Note: Enrollment includes charter schools and non-charter schools and is reported as Census Day Enrollment (rather than average daily attendance). School site count also includes charter schools.

ARUSD has the second-highest percentage of students eligible for free/reduced lunch out of all public school districts in Santa Clara County, and we selected four of the other top ten districts with the highest percentage of students eligible for free/reduced lunch in the County: Mount Pleasant Elementary, Franklin-McKinley Elementary, Gilroy Unified, and East Side Union High.[1] Several of these districts also had percentages of English Language Learners that were similar to ARUSD.

Lastly, we selected Cupertino Union, Milpitas Unified, and Palo Alto Unified because, although their demographics differ significantly from ARUSD's, we wanted to present how K-08 and K-12 districts in more affluent neighborhoods spend their bond money. We include K-12 districts in the comparison even though ARUSD is a K-08 district in order to increase the total number of comparators, and because we wanted to include East Side Union High, which is the district that ARUSD students feed into and is therefore located geographically close to ARUSD.

Benchmarking Results

We reviewed the audited financial statements for each Proposition 39 bond of each of these seven peer districts to compare their relative spending on salaries, benefits, and supplies. We reviewed the FY 2022-23 audited bond financial statements of three of the districts and, because the FY 2022-23 audited bond financial statements were not publicly available online for the remaining four districts, we reviewed the FY 2021-22 statements for those four. We compare these results to ARUSD's FY 2022-23 expenditures. Exhibit 4.4 below shows the results of our review.

[1] We did not include districts for which bond program information was not readily available online for review.

Exhibit 4.4: ARUSD and Peer District Proposition 39 Bond Fund Expenditures

Fiscal Year	District	Number of Bond Measures	Total Bond Expenditures	Expenditures on Salaries, Benefits, Supplies, and Other*	Salaries, Benefits, Supplies, and Other* Percent
2022-23	**Cupertino Union**	1	$6,213,806	$232,611	3.7%
2022-23	**East Side Union High**	5	64,812,677	9,870,852	15.2%
2021-22	**Franklin-McKinley Elem.**	2	12,900,572	1,217,615	9.4%
2021-22	**Gilroy Unified**	2	36,391,491	478,456	1.3%
2022-23	**Milpitas Unified**	1	63,239,336	1,306,416	2.1%
2021-22	**Mount Pleasant Elem.**	2	6,091,602	74,300	1.2%
2021-22	**Palo Alto Unified**	2	31,135,955	3,329,559	10.7%
2022-23	**Alum Rock Union Elem.**	**3**	**$15,583,198**	**$595,316**	**3.8%**
Median of Comparison Districts			**$31,135,955**	**$1,217,615**	**3.7%**

Source: Auditor analysis of publicly available audited Proposition 39 bond financial statements.
*Included in these totals are the following line items on districts' audited financial statements, if applicable: salaries, benefits, supplies, cost of issuance, and other operating.

Exhibit 4.4 above shows that ARUSD's FY 2022-23 percentage of total Proposition 39 bond expenditures spent on salaries, benefits, and supplies is 3.8 percent, or very slightly more than the 3.7 percent median of the seven selected peer districts' percentages of expenditures on these categories. Three districts' percentages of spending on these categories were more than double that of ARUSD, three districts' percentages of spending were half or less of ARUSD's, and one district's percentage of spending (the peer median) was only slightly higher than the District's.

Based on this peer comparison, we conclude that ARUSD is not spending a disproportionate amount of Proposition 39 bond funds on salaries, benefits, and supplies, compared to peer school districts in Santa Clara County.

Appendix A: Alum Rock Union Elementary School District Response

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Item	Issue	Auditor Recommendation	District Management Comments	Proposed Action by District Management	Due By
Section 1: Bond Project Planning, Debt Management, and Accounting					
1.1	While The District puts significant focus on the General Fund Operating Plan and Budget, it does not regularly issue and use as a management tool, a Capital Improvement Plan and Budget. These Capital-related items are different from the long-range Facilities Plan that the District issued in 2023. A Capital Plan and Budget are necessary to: - ensure that Capital projects are aligned to the District's strategic priorities. - provide transparency around project prioritization and projected spend, as well as potential funding gaps. - improve control around spend by providing a mechanism to review budget vs. actual spending.	Amend Board Policy Manual section 3100 to require the District Superintendent to regularly prepare and present a capital improvement plan and/or budget document, as often as annually but at least every two years, to the Board of Trustees and the public.	District Management agrees with the recommendation and will assess which section of the Policy Manual is most appropriate to contain the amendment.	Propose the amendment to the Board. Update annually, a rolling 3-5 year capital improvement plan and budget which includes projects needed to repair and modernize the District's facilities.	Mar. 2026 June 2026
1.2	While Facilities Condition Assessments for each site were prepared in 2023, they are not prepared regularly. These are necessary in order to provide visibility into potential needs for updates to the capital improvement plan and budget.	Amend Board Policy Manual section 7110 to require the District Superintendent to regularly update the Board of Trustees on the condition of its capital assets and to prepare a formal report on the condition of the District's capital assets at least once every three years.	District Management agrees with the recommendation.	Propose the amendment to the Board. Prepare annually, a report on the condition of the District's building and improvements capital assets, based off FIT (Facility Inspection Tool) reports.	Mar. 2026 Feb. 2026
1.3	District Staffing has had too much turnover to create and maintain a Capital Plan and Budget.	Consider engaging the District's municipal advisor firm or another comparably qualified firm to develop a capital improvement plan and budget on behalf of the District if the District is unable to develop a capital improvement plan or budget with in-house District staffing resources.	The Senior Executive of Bonds/MOT has been able to recruit the staff necessary to develop the plan in-house.	Completed Dec. 2025.	N/A

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Item	Issue	Auditor Recommendation	District Management Comments	Proposed Action by District Management	Due By
1.4	While the District prepares and presents a multi-year financial forecast to the Board of Trustees and the public at least three times a year, it is primarily focused on the General Fund and does not go into significant detail about the Bonds Program.	Amend Board Policy Manual section 3100 to require the District Superintendent to regularly prepare and present a long-term financial plan or multi-year financial forecast to the Board of Trustees and the public. This includes the following from CDIAC (CA Debt and Investment Advisory Commission). - A projection of financial condition at the end of the plan period. - Projections of revenues and expenditures. - Proposed changes in programming or capital financing. - An assessment of economic conditions, service objectives, and financial challenges. - Financial policies regarding liquidity, debt capacity, or reserve requirements.	District Management agrees with amending the board policy manual, and with implementing CDIAC recommendations on how to enhance the Bond Program information already presented.	Propose the amendment to the Board. Regularly report to the Board regarding the Bonds Program, at least annually.	Mar. 2026 Ongoing
1.5	District Staffing has been too limited to create and maintain a multi-year financial forecast for the Bonds Program.	Consider engaging the District's municipal advisor firm or another comparably qualified firm to develop a long-term financial plan or multi-year financial forecast on behalf of the District If the District is unable to develop one with in-house District staffing resources.	The Senior Executive of Bonds/MOT has been able to recruit the staff necessary to develop the plan in-house.	Completed Dec. 2025.	N/A

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Item	Issue	Auditor Recommendation	District Management Comments	Proposed Action by District Management	Due By
1.6	The District's debt management policy does not specifically call out the following best practices, which are designed to help ensure that debt issuance and debt management guidelines consider: - Criteria for evaluating when debt should be issued - Specific limits or acceptable ranges for each type of debt - Specific guidance regarding debt structuring practices - Specific guidance on debt issuance practices - Specific guidance on debt management - A determination of whether the District can or should use derivatives	Direct the Assistant Superintendent of Business Services to (a) review and revise the District's Debt Issuance and Management Policy, in consultation with the District's bond counsel and/or municipal advisor firm as appropriate, to incorporate all of the elements of a debt management policy recommended by GFOA and CDIAC, and (b) present the revised Debt Issuance and Management Policy to the Board of Trustees no later than December 31, 2025.	District Management agrees that while the district's Debt Issuance and Management Policy (BOT approved May, 2017), is in compliance with CA Government Code section 8855, it should be updated to include the best practices recommended by GFOA and CDIAC in Exhibit 1.1.	Work with the municipal advisor and bond counsel to develop and propose a policy revision to the Board.	June 2026
1.7	The District is generally in compliance with the existing Debt Issuance and Management Policy. Additional steps need to be performed around capital planning as noted in 1.1, reporting to the CBOC as noted in 2.1, and providing documentation around the process used to assess debt refunding options.	Direct the Assistant Superintendent of Business Services to identify the steps necessary to incorporate the District's revised Debt Issuance and Management Policy into the District's regular ongoing operations. These necessary steps should be presented to the Board of Trustees at the same time as the District's revised Debt Issuance and Management Policy for approval.	District Management agrees with the recommendation.	Add the updated Debt Issuance and Management Policy into the Board Policy Manual.	June 2026
				Create a debt management cadence that aligns to the existing policy as well as the updated policy recommendations in 1.6.	June 2026
1.8	Additional documentation is needed to validate that the Debt Issuance and Management Policy is adhered to.	Request the Assistant Superintendent of Business Services to report, no later than June 30, 2026, on the outcomes of the District's efforts to improve adherence to the revised debt management policy.	District Management agrees with the recommendation.	Report to the Board to let them know that the new debt management cadence in 1.7 has been created and is working as expected.	June 2026

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Item	Issue	Auditor Recommendation	District Management Comments	Proposed Action by District Management	Due By
1.9	District Board Policy Manual section 3314 requires typical segregation of duties and documentation of 3-way matches on invoice payments. However, it does not include guidance on implementation of these policies, and there is no separate accounting manual which does. Without these controls in place, there is increased risk of collusion and incorrect payments.	Direct the Assistant Superintendent for Business Services to develop and submit to the Board of Trustees for approval a Finance and Accounting Policies and Procedures manual, incorporating all the elements that are recommended by GFOA, by December 31, 2025.	The District already has Accounts Payable control documents and job aides in place. The District will more formally develop an accounts payable policy specifically for the Bonds Program. Subsequent to receiving the audit report, District management reviewed the signature policy and process with Harvey Rose and believes that we are in alignment on adherence to the policy.	Update existing control documents and job aides as it relates to the Bonds Program.	June 2026
1.10	The District does not have documentation to support the payment of administrator salaries using bond funds, making it difficult to substantiate the appropriateness of the use of bond funds for these costs.	Require the Assistant Superintendent for Business Services to prepare a detailed cost allocation study, in consultation with District finance staff, bond counsel, and municipal advisors, to establish and document the appropriate allocations of District staff time between bond project-related activities and non-bond project-related activities. This cost allocation study should be reviewed and revised at least annually.	District Management agrees that for staff who are not 100% focused on Bond Programs, that additional support is needed to substantiate their time.	Completed July, 2025. District Management requires staff not 100% focused on Bond Programs to complete a monthly PARS report, the results of which can be used to create a cost allocation study.	N/A
1.11	In alignment with 1.10 above.	Direct the Assistant Superintendent for Business Services to request and retain detailed staff time reporting documentation to support the cost allocation study and review these reports when revising the study to ensure the District is accurately and appropriately charging staff salaries and benefits to bond projects.	In alignment with 1.10 above.	In alignment with 1.10 above.	N/A

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Item	Issue	Auditor Recommendation	District Management Comments	Proposed Action by District Management	Due By
Section 2: Bond Program Oversight, Public Transparency, and Communications					
2.1	A 2019 audit conducted by the CA State Auditor (Report 2018-131) found that the District did not maintain supporting evidence or sufficient records to demonstrate that CBOC members meet the statutory requirements for membership composition. The audit report recommended that the District verify and document representation of the CBOC committee members. The District was not able to provide documentation that these recommendations were implemented.	Direct the District's Assistant Superintendent for Business Services to develop a process to verify and document that CBOC members meet the statutory requirements for membership composition, as well as to work with current CBOC members to update the CBOC bylaws to include this verification process.	While District Management agrees with the recommendation, CBOC recruitment challenges from 2019 - 2024 were the primary driver of the District being out of Compliance with the 2019 audit recommendation. Subsequent to this time period, the District has been able to recruit new members to the CBOC and validate that the membership composition is in compliance.	Completed Dec. 2025.	N/A
2.2	CBOC recruiting efforts have not resulted in membership in compliance with statutory requirements.	Direct the District's Assistant Superintendent for Business Services to collaborate with current CBOC members to develop a recruitment strategy to identify, qualify, and appoint CBOC candidates quickly when vacancies are anticipated. This strategy should include, at minimum, an identification of relevant groups and community organizations that can nominate candidates, and should assign responsibility for specific recruitment activities to specific individuals. The strategy should also require the District to post a CBOC application on its website and conduct specific proactive outreach during the months before a current CBOC member's term ends.	As indicated in 2.1, the District has been able to recruit new members to the CBOC and validate that the membership composition is in compliance.	Completed Dec. 2025.	N/A
2.3	Ed Code section 15280 requires a school district's governing board to provide the CBOC with technical and administrative assistance. The 2019 audit conducted by the California State Auditor found that the Board of Trustees and the District did not provide adequate support to the CBOC. A recommendation by the auditor to provide support was not implemented.	Formally assign responsibility for facilitating, attending, and assisting the CBOC to the District's Assistant Superintendent for Business Services, and require the Assistant Superintendent for Business Services to update the Board of Trustees after every CBOC meeting.	District Management agrees with the recommendation. The Senior Executive of Bonds/MOT attends CBOC meetings and facilitates their requests for technical and administrative assistance.	Completed Dec. 2025.	N/A

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2.4	As indicated in 2.2 above, CBOC recruiting efforts have not resulted in membership in compliance with statutory requirements.	Consider engaging the District's municipal advisor firm or another comparably qualified firm to provide CBOC assistance if the District is unable to satisfactorily recruit and educate CBOC members or if the CBOC is unable to produce annual reports and comply with all other statutory CBOC requirements and incorporate any resulting recommendations into the Board of Trustees policy manual. The District must ensure that bond funds are not expended for this purpose, as prohibited by Education Code section 15280.	As indicated in 2.1, the District has been able to recruit new members to the CBOC and validate that the membership composition is in compliance.	Completed Dec. 2025.	N/A
2.5	While the District's Debt Issuance and management Policy requires District Management to update the Board and the Public on debt transactions and bond program spend, these updates have not occurred. These updates are necessary to provide transparency to and enable better oversight of debt funding and program spend.	Require District staff to prepare a single report to the Board of Trustees and the public at least annually on: (a) debt proceeds received and expended, and (b) status of projects financed with debt proceeds, (c) the status of bond-funded projects, (d) high-level progress towards bonds program goals, and other relevant information about the bonds program over the course of the year.	District Management agrees with the recommendation.	As indicated in 1.4 above, regularly report to the Board regarding the Bonds Program, at least annually.	Ongoing
2.6	California Ed Code Section 15146 states that a school district governing board must "present the actual cost information for the sale [of the bond] at its next scheduled public meeting." The District has not presented this information in the prescribed time frame. Additionally, as indicated in 2.5 above, the District does not regularly provide updates to the Board and the Public on debt transactions and program spend.	Direct District staff to update the District's bonds program website, along with other regular communications forums for District parents and guardians, to provide up-to-date information about the District's bonds program, in particular about bond-funded projects, at least quarterly. The Board should also direct staff to post all annual reports and any other updates to the Board or CBOC (once the CBOC begins meeting regularly) online.	District Management agrees with the recommendation.	Update the Board reporting cadence to add an agenda item to the next board meeting after a bond transaction has been completed.	Ongoing
				Update the Bonds section of the District Website to provide more current, relevant information to the Public.	Ongoing

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Section 3: Bond Program Management					
3.1	Recruiting and retention of Bonds Department personnel has been a challenge for the district.	Direct District staff to review recruiting efforts and approach for the two vacant Bonds Manager positions to determine if another hiring approach should be taken or if changes are warranted in salaries and benefits offered or other conditions of employment. Additionally, the Board should consider reassessing the decision to move bond program management in-house if these additional recruitment efforts are unsuccessful.	The Senior Executive of Bonds/MOT has been able to recruit the staff necessary to develop the plan in-house.	Completed Dec. 2025.	N/A
3.2	The District does not consistently document that it is following Board Policy Manual section 3311 which requires a competitive bidding process for most Bond contracts.	Direct District staff to incorporate procedures for procurement that include the District's bidding policies into its Purchasing Department Handbook for staff. The Board should also require staff to maintain documentation of all of the District's bidding requirements, and required documentation to be maintained in District records should be clearly delineated in the Purchasing Department Handbook.	While District Management believes that it utilizes a competitive bidding process, they agree that consistency and documentation need improvement.	Completed Dec. 2025. Bonds procurement policies have been documented and will be referred to in the FY26/27 purchasing department handbook.	N/A
				Completed Dec. 2025. Created an electronic storage location to house required documentation for each bid. See separate tab for required documentation.	N/A
				Create a checklist of required documentation, and have management sign off on the checklist prior to RFP approval.	Jun. 2026
3.3	Current policy does not consider "best value" from bidders (considered a best practice), as well as require reference checks and completion of conflict of interest forms by bidders.	Consider revising its bidding policies and purchasing procedures to incorporate NASPO (National Association of State Procurement Officers) best practices including making explicit the requirement that the best contractor be selected in competitive procurement for architecture, construction, and program management services.	Subsequent to the audit, the contract documents provided by legal counsel have been updated to incorporate best value and the conflict of interest form.	Completed Dec. 2025	N/A

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3.4	The CA State Auditor's 2019 audit of ARUSD included several findings and recommendations related to contractor performance monitoring and documentation of such monitoring. These recommendations were not implemented. Contractor performance monitoring and evaluation are important tools to ensure that contractors are delivering services under the terms of their agreements.	Adopt a contract monitoring policy that incorporates the components from the 2019 State audit, including defined staff roles and responsibilities. The Board should also direct staff to write and implement a contract monitoring procedure that guides staff through their contract monitoring responsibilities, including retaining evidence of monitoring efforts in a designated location.	District Management believes that since taking over from Cummings in January 2024, that sufficient performance monitoring had taken place by the former Chief Bonds Officer and that it has improved further with the hiring of the new Senior Executive of Bonds/MOT.	Enhance the documentation around contract monitoring.	Jun. 2026
3.5	The District does not require its contractors to disclose their financial interests, despite a recommendation from the California State Auditor in 2019 that District staff should develop and implement a procedure to assess whether contractors should be required to do so. Not requiring contractors to disclose their financial interests or state their absence of any conflicts of interest increases the risk that the District may select contractors that do not provide the highest quality services for the District due to their financial conflicts of interest, and increases the potential risk of collusion.	Require (a) that District staff determine which of its contractors should file a California Form 700 statement of economic interests to avoid potential conflicts of interest in their work for the District, and (b) that bidders for District contracts file statements disclosing any conflicts of interest as part of their bid submission.	District Management agrees with the recommendation.	District management will create a procedure to determine which contractors should be required to complete a Form 700, and will add a Form 700 request to the RFP Submission Packet as needed.	Jun. 2026