

**LONG BEACH UNIFIED SCHOOL DISTRICT
Measure K Bond Program**

PERFORMANCE AUDIT REPORT

**For the Fiscal Year Ending
June 30, 2010**

christy **WHITE** *A Professional Accountancy Corporation*

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Governing Board Members and
Measure K Citizens' Oversight Committee (COC)
Long Beach Unified School District
Long Beach, California

INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

We have conducted a performance audit of the Measure K Bond Program of Long Beach Unified School District's (the District) compliance with California Proposition 39, as incorporated in Article 13A of the California Constitution and Education Code Section 15264 et seq., during the fiscal year that ended on June 30, 2010. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our performance audit.

We conducted this performance audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The attached performance audit report as referenced in the table of contents presents the objectives, scope, and methodology of the audit. The performance audit report also includes the results of our performance audit, including our findings, conclusions, and recommendations. Management's responses to the findings of our performance audit are indicated in the accompanying schedule of audit findings and management's responses. We did not audit management's responses and, accordingly, we express no opinion on them.

We have audited the financial statements of the Measure K Bond Program for the fiscal year ended June 30, 2010, and have issued our report thereon dated October 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In our opinion, the Measure K Bond Program complied, in all material respects, with the aforementioned requirements during the fiscal year that ended on June 30, 2010. This report is intended solely for the information and use of the District's Governing Board, the Measure K COC, management, and the taxpayers of Long Beach Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Chintalata Accountancy Corporation

San Diego, California

October 26, 2010

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Long Beach Unified School District (the District) has implemented controls over the expenditure of Measure K school construction bond proceeds, to comply with Proposition 39 requirements as well as the requirements of the Measure K ballot measure. The performance audit evaluated Measure K Bond Program internal controls and Measure K expenditures, and identified no exceptions with the use of Measure K Bond Program funds for approved Measure K purposes.

The District's plans for prudent use of Measure K Bond Program funds properly considers critical school needs, including school and student safety issues, enrollment trends, class sizes, energy efficiency and computer technology, and seismic safety. The scope of the Measure K Bond Program was defined in the formulation of the Measure K ballot language that was approved by District voters on November 4, 2008. The Priority School Project Lists of the final Measure K ballot language reflects the Governing Board's evaluation of safety, class size reduction, and information technology needs of the District.

This report is the second annual performance audit report of the Measure K Bond Program, as Measure K was approved by the District's voters during the fiscal year ended June 30, 2009.

Summary of Key Good Practices

- Coordination of District facilities staff with outside construction management and program management firms.
- A competitive selection process has been utilized for construction management and program management firms, exceeding minimum Government Code and Education Code standards.
- A Citizens' Oversight Committee (COC) is overseeing the activities of the Measure K Bond Program, in accordance with Education Code requirements.
- Compliance with the \$60 per \$100,000 of assessed value property tax limitation, in accordance with Proposition 39 requirements.
- Development of a comprehensive Facilities Master Plan for the Measure K Bond Program.
- The District is providing the COC with timely and accurate program budget reports, provided by program management consultant CPM. We noted an opportunity for improving these budget reports by segregating the presentation of Measure K and Measure A bond expenditures. The District implemented this recommendation in June 2010, separating the reporting of Measure K and Measure A bond expenditures.

Summary of Audit Findings

- The District's internal audit department may enhance oversight of the Measure K Program by participating in reviews over contractor payments, contract change orders, the vendor selection process, and other pertinent aspects of the program.
- District employees working on the Measure K Bond Program were charged to the District's General Fund for the fiscal year ended June 30, 2010. The District may charge compensation for employees directly working on the Measure K Bond Program to the Measure K Bond Building Fund.
- The District has a fraud hotline, but the District's fraud hotline is not advertised to contractors in the facilities area. To improve internal controls, we recommend that the District regularly advertise the fraud hotline to employees and contractors in the facilities area.

BACKGROUND INFORMATION

BACKGROUND INFORMATION

The Measure K Classroom Repair and Safety Measure was approved by District voters on November 2008 to provide \$1.2 billion in improvements to Long Beach Unified School District facilities. Measure K is a Proposition 39 bond, requiring 55% favorable vote for passage and requirements per Article 13A of the California Constitution, as paraphrased:

- Proceeds from the sale of bonds will be used only for the purpose of construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities, and not for any other purpose, including teacher and administrative salaries and other school operating expenses.
- A list will be developed for the specific school facilities projects to be funded, and certification that the school district board has evaluated safety, class size reduction, and information technology needs in developing that list.
- A requirement that the school district board conduct annual, independent financial and performance audits until all of the bond proceeds have been expended for the school facilities projects. The performance audit is done to ensure that the funds have been expended only on the specific projects listed.

Per the Measure K ballot language at Exhibit B of the ballot, Measure K will enable the District to "...retrofit schools for earthquake safety/handicap accessibility, repair restrooms/plumbing/roofs/fire safety, remove lead paint/asbestos, upgrade vocational classrooms/technology/energy efficiency, expand after-school programs, [and] reduce overcrowding, by acquiring, repairing, constructing, equipping sites, facilities, [and] joint-use buildings."

The Priority School Project Lists section of the Measure K ballot language makes reference to the District's 2008 Facilities Master Plan for the specific projects that the District proposes to finance with the proceeds from the Measure K bonds. Listed projects are completed as needed at a particular school site according to Board-approved Project Listing Recommendations (per page 19b of the 2008 Facilities Master Plan). The Project Listing Recommendations were formulated by the District's Internal Executive Committee, and reflect recommendations made by the District's Community Advisory Committee.

Election of 2008 Series A and Series B bonds were sold in April 2009, generating \$260.0 million in bond proceeds for Measure K programs. The District plans to issue future series of Measure K bonds based on project financial needs, while preserving the applicable property tax limitation.

Christy White Accountancy Corporation was engaged by the District to provide the required annual Measure K Bond Program financial and performance audits for the fiscal year ended June 30, 2010.

**OBJECTIVES
AND
SCOPE OF THE AUDIT**

OBJECTIVES AND SCOPE OF THE AUDIT

Christy White Accountancy Corporation (CWA) met with District management and the Measure K Citizens' Oversight Committee (COC) to outline key objectives and audit scope prior to beginning the financial and performance audit fieldwork. The objectives and scope items listed below provided the framework for the Measure K Bond Program performance audit engagement for the fiscal year ended June 30, 2010. CWA believes the objectives and scope items listed below are sufficient for us to render our auditor's opinion on performance regarding the District's Measure K Bond Program.

1. Bond Requirements and Controls

- a. Determine compliance with Bond requirements and controls established to assure efficiency and effectiveness of the construction program.
- b. Specific items addressed include evaluation of the District's Facilities Master Plan, COC composition and activities, annual performance and financial audits, and compliance with applicable state laws.

2. Bond Expenditures

- a. Validate expenditures against Bond projects listed in the Measure K ballot language, permissible purposes, and contract terms and conditions.
- b. Specific items addressed include evaluation of the Priority School Project Lists in the 2008 Facilities Master Plan and Measure K ballot language, compliance with the Public Contract Code, and project budget and expenditure reporting to the COC.

3. Bond Management Practices

- a. Determine the current status of legally mandated management practices, internal controls and best business practices, for managing bond construction programs.
- b. Specific items addressed include scope, schedule, and budget controls; vendor selection and procurement procedures; and payment procedures.

4. Other Specific Procedures

- a. Other specific procedures performed include:
 - i. Inspection of Measure K ballot language and bond official statements
 - ii. Facilities planning documentation, such as the 2008 Facilities Master Plan
 - iii. Documentation of internal controls, policies, and procedures
 - iv. Review of bond management plan, staffing plan, and status of bond projects
 - v. Inspection of vendor selection documentation
 - vi. Inspection of contracts
 - vii. On a sample basis, inspection of payment applications and invoices
 - viii. Inspection of relevant financial records and transactions, including payroll charges for District employees working on the Measure K Bond Program
 - ix. Inspection of Governing Board and COC meeting minutes and reports
 - x. Interviewing District personnel and stakeholders
 - xi. Performing site walks

**AUDIT METHODOLOGY
AND
RESULTS OF TESTING**

AUDIT METHODOLOGY AND RESULTS OF TESTING

Following is a summary of the audit methodology and results for the performance audit we performed for the fiscal year ended June 30, 2010.

1. Bond Requirements and Controls

We found in our testing that bond requirements were met and controls were operating effectively to assure the efficiency and effectiveness of the construction program. The District coordinates with its legal and financial advisors to ensure that Measure K bond issuances do not exceed the property assessed valuation limitation in the District's area. The issuance of the first series of Measure K bonds in April 2009 resulted in an increase in taxpayers' property tax rates from 0.032% of assessed value to 0.086% of assessed value, or an increase of 0.054%. This translated to an increase in property taxes of \$4.50 per month per \$100,000 of assessed valuation, remaining well within the District's property tax limitation.

The Measure K COC was appointed by the District in April 2009, and beginning with the COC's first meeting in June 2009 the COC has actively monitored the District's Measure K Bond Program. We verified that the financial data being reported to the COC in 2009-10 is consistent with the data in the District's Finsys general ledger system.

We found that the District properly considered safety, class size reduction, and information technology needs in its adoption of the 2008 Facilities Master Plan, whose key objectives were presented to and approved by the Governing Board, and which served as the precursor to the Governing Board's review and approval of the Measure K ballot language. The Measure K ballot language at Exhibit B of the ballot certifies the Governing Board's compliance with this requirement per the California Constitution Article 13A, Section 1(b)(3)(B).

The Governing Board of the District approves facilities project priorities, subject to constraints set forth in the Measure K ballot language as well as the funding constraints presented by the local property tax limitation. Board-approved Project Listing Recommendations are located at page 19b of the 2008 Facilities Master Plan.

The first series of the Measure K bonds were issued in April 2009, and were properly deposited in the Measure K Bond Building Fund of the District. The Measure K bond issuance transaction, for Series A and B bonds, was audited in the fiscal year ended June 30, 2009.

The Governing Board and management have properly procured the required annual financial and performance audits for the Measure K Bond Program, including the financial and performance audits for the fiscal years ended June 30, 2009 and 2010, respectively.

2. Bond Expenditures

CWA tested thirteen (13) Measure K expenditures, representing \$2.7 million of Measure K expenditures made for the 2009-10 fiscal year. The expenditures tested were selected haphazardly from a listing of Measure K expenditures provided by the District for the fiscal year ended June 30, 2010. As part of our expenditure testing, we also selected for testing the payroll expenditures for District employees involved in Measure K during the fiscal year ended June 30, 2010, to ascertain how these employees' wages and benefits were being charged to District funds.

We found in all cases that the expenditures tested were for permissible Measure K purposes, in accordance with the Measure K ballot language. As discussed in #2010-2 Performance Audit Finding, we analyzed whether the District could charge salaries and benefits of employees working directly on the Measure K Bond Program to the Measure K Bond Building Fund rather than the General Fund, where they are currently being charged.

We performed testing of five (5) contracts that the District entered into for the Measure K program to verify compliance with the applicable contractor selection requirements. These contracts included the awards of program management services to Capital Program Management (CPM), software and consulting services to Colbi Technologies, and construction management services under the lease-leaseback construction delivery method to McCarthy Building Co. (New Middle School #1 site) and Sundt Construction (ECATS site). We found that in all cases that the contracts were awarded in compliance with the competitive selection statutes as found in the Government Code and Education Code.

3. Bond Management Practices

We made inquiries of management, members of the Governing Board and COC, and inspected and obtained project scheduling and budgetary documents in our evaluation of bond management practices. Under the Measure K ballot language, and in accordance with their responsibilities, the Governing Board and management of the District have prioritized the Measure K projects that are currently in progress, as well as those that have not yet commenced.

Regular reporting on construction progress and future construction plans is made by the facilities department to the Governing Board, management, and COC. Project budget and expenditure reports are provided to the COC, as prepared by program management firm CPM. As previously noted, we tested without exception that the data presented in the project budget and expenditure reports agree with the District's Finsys general ledger system. These budget and expenditure reports provide funding and expenditure detail on an overall program level as well as at a project level. #2010-1 Performance Audit Finding indicates our recommendation that the periodic Measure K project budget and expenditure reports segregate Measure K expenditures from Measure A expenditures, because the Measure K COC has responsibility for monitoring the Measure K expenditures.

3. Bond Management Practices, Continued

With a staff of 8 dedicated facilities personnel as of the time of audit testing in April 2010, we find that the District currently relies to a large extent on program management and construction management services provided by outside vendors. CPM is currently under contract with the District for the performance of Planning & Program Management, Budget & Accounting, Educational Technology, and Contract Services, in a three-year contract valued at \$12.8 million. The three-year cost breakout by service type is Planning & Program Management (\$8.0 million), Budget & Accounting (\$1.3 million), Educational Technology (\$2.9 million), Contract Services (\$0.5 million), and Reimbursable (\$0.1 million). An April 2010 invoice from CPM that we inspected indicated that 23 CPM employees had charged time to the Measure K program during the month of April 2010.

Planning & Program Management services delivered by CPM consist of program management services, assisting the District with its facilities implementation plan. Under Budgeting & Accounting, CPM assists in preparing financial reports for the COC, and assists in integration with District software. Educational Technology includes assisting the District's educational services personnel with a hardware and software implementation strategy. Contract Services involves CPM working with members of the District's legal counsel to develop templates for construction contracts, and providing assistance with the RFP process.

4. Other Specific Procedures

As part of our performance audit and financial audit procedures, we inspected voter material including the Measure K ballot language, and bond documents such as the Election of 2008 bond official statements. We reviewed the District's 2008 Facilities Master Plan, as it was presented to the Governing Board in 2008 prior to the formation and passage of Measure K. We verified in inspecting these documents that bond proceeds had been spent on permissible Measure K facilities purposes, and that the Governing Board had sufficiently planned for the Measure K Bond Program. We observed that the 2008 Facilities Master Plan provides a comprehensive roadmap for implementation of the Measure K program.

We made inquiries of District employees working in the fiscal services department and the facilities department as well as representatives of the District's construction management and program management contractors in order to determine the design and implementation of internal controls related to the Measure K bond program. Internal controls over procurement, construction expenditures, contract management, construction management, compliance with applicable laws and regulations, and project budgeting were examined. Detail testing of expenditures (vendor payments as well as payroll expenditures) and contracts procurement was performed to verify the operating effectiveness of the internal controls. We found that internal controls over the compliance requirements applicable to the Measure K Bond Program were operating effectively during the fiscal year ended June 30, 2010, except as noted in our performance audit findings.

4. Other Specific Procedures, Continued

In order to physically observe the existence of Measure K construction projects, we conducted a site walk of the New Middle School #1 site, where construction took place during the fiscal year ended June 30, 2010.

We found as a result of our site walk and expenditure testing that Measure K expenditures made during the fiscal year ended June 30, 2010 were resulting in the physical improvement of District facilities, and that the Measure K monies spent were permissible in accordance with the Measure K ballot language and the requirements of California Constitution Article 13A.

We noted during the course of our inquiries that the District's internal audit department is not currently active in the District's facilities area. We believe that, to the extent the District's internal audit department has the resources to devote to the monitoring of facilities, additional internal audit review of contractor payments, contract change orders, the vendor selection process, and other pertinent aspects of the Measure K Bond Program will be beneficial. #2010-3 Performance Audit Finding relates to our concern in the area of internal audit department involvement in monitoring the District's Measure K Bond Program.

We also noted during the course of our inquiries of District contractors working on the Measure K Bond Program that not all interviewed parties were aware of the District's fraud hotline. #2010-4 Performance Audit Finding relates to our recommendation that the District's fraud hotline be proactively advertised to employees and contractors involved in the Measure K Bond Program.

The accompanying schedule of Audit Findings and Management's Responses contains our audit findings from the other specific procedures performed.

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

SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES

Following is a summary of the audit findings and management's responses to the audit findings for the performance audit performed for the fiscal year ended June 30, 2010.

#2010-1: Performance Audit Finding: Separation of Measure K and Measure A Expenditures

Audit Finding: We found in audit testing that, prior to June 2010, expenditure information provided to the Citizens' Oversight Committee (the "COC") in budget and expenditure reports prepared by program management consultant CPM did not separate Measure K expenditures from Measure A expenditures. We believe that it is important to separately present Measure K expenditures in order for the COC to best meet its oversight responsibilities pertaining to the Measure K Bond Program.

Recommendation: We recommend that financial reporting to the COC continue to separate Measure K from Measure A expenditures, as done in the June 2010 Quarterly Financial Update.

Management's Response: The District will continue to separate Measure K and Measure A bond expenditures in the financial reports prepared for the Citizens' Oversight Committee as accomplished in the June 2010 Quarterly Financial Update.

#2010-2: Performance Audit Finding: Payroll Charges for Measure K Personnel

Audit Finding: As noted in the Performance Audit Report for the fiscal year ended June 30, 2010, District employees in the facilities department working directly on the Measure K Bond Program have been charged to the General Fund rather than the Measure K Bond Building Fund.

The District's Measure K ballot language permits charges to the Measure K Bond Building Fund for employees working directly on the Measure K Bond Program by stating, "proceeds of the bonds may be used to pay or reimburse the District for the cost of District staff when performing work on or necessary and incidental to bond projects." An opinion from the California Attorney General (No. 04-110, dated November 9, 2004) supports charging the compensation of certain District employees to bond proceeds. The opinion concludes by stating, "a school district may use Proposition 39 school bond proceeds to pay the salaries of district employees to the extent they perform administrative oversight work on construction projects authorized by a voter approved bond measure."

Recommendation: In order for the Measure K Bond Building Fund to reflect all costs incurred related to the Measure K Bond Program, and to minimize the impact of the Measure K Bond Program on the District's General Fund, we recommend that the District charge employees' compensation to the Measure K Bond Building Fund, to the extent that the employees have performed work on the Measure K Bond Program. Such employees may include the Executive Director of Facilities Development and Planning as well as Program and Project Managers.

Management's Response: The District will continue to assess the feasibility of charging employees' compensation to the Measure K bond fund where appropriate.

SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES, CONTINUED

#2010-3: Performance Audit Finding: Internal Audit Department Oversight

Audit Finding: We learned during the course of our inquiries that the District's internal audit department is not currently involved in monitoring the facilities area. We believe that the District may be able to increase its monitoring over the Measure K Bond Program by assigning its internal audit department to regularly monitor aspects of the Measure K Bond Program, including the contractor payment process, the contract change order process, the vendor selection process, and other pertinent areas.

Recommendation: We recommend that the District increase its monitoring over the Measure K Bond Program by involving the internal audit department in regular reviews over the contractor payment process, the contract change order process, the vendor selection process, and other pertinent areas as the District may identify.

Management's Response: The District reviews the role of Internal Audit annually and develops a formal audit plan based upon risk assessment. The plan includes areas of interest to review for internal controls, routine and random audits and other areas deemed appropriate. The Measure K bond program is and continues to be an area of consideration in the development of the annual audit plan.

#2010-4: Performance Audit Finding: Fraud Hotline

Audit Finding: Our inquiries of contractors working on the Measure K Bond Program and District employees resulted in our conclusion that, although the District maintains a fraud hotline, the existence of the fraud hotline is not consistently advertised to contractors working on the Measure K Bond Program or all District employees. Proactive efforts to publicize the fraud hotline to contractors and District employees may increase the possibility that an employee or affiliate of the District will report a potential concern through an anonymous means as provided by the District's fraud hotline.

Recommendation: We recommend that the District strive to make the best use of its fraud hotline by notifying contractors working on the Measure K Bond Program as well as District employees about the purpose of the fraud hotline, encouraging these parties to make use of the fraud hotline as an anonymous means to express any concerns that they may have.

Management's Response: Employees are encouraged to report any suspected fraud through the District Fraud Hotline promoted with posters located in each office and school site location. The District continues to communicate the availability of the Fraud hotline by posting in public areas frequented by staff, consultants and contractors and has since increased the posting of such notices at both the Facilities Branch office as well as at the current job site under construction at the New Middle School #1. In addition, the District can notify selected contractors for projects of the need to publicize the Fraud hotline to their subcontractors.