

# **2003-2004 SANTA CLARA COUNTY CIVIL GRAND JURY INQUIRY INTO THE EAST SIDE UNION HIGH SCHOOL DISTRICT AUDITS FOR ITS MEASURE G BOND**

## **Summary**

Responding to an external complaint, the 2003-2004 Santa Clara County Civil Grand Jury (Grand Jury) inquired into the lack of independent audits for the School Facility Improvement General Obligation Bond Issue (Measure G Bond) administered by the East Side Union High School District (District). Proposition 39 requires that any bond approved with a 55% approval requirement must have annual independent financial and performance audits. Although internal financial audits were done for the Measure G Bond for the first full fiscal year, neither independent financial audits nor performance audits were completed in a timely manner. Contracts to complete the audits for the first two years have now been issued by the District.

## **Background and Discussion**

Proposition 39 amended the California Constitution in 2000 to allow for the passage of a school bond issue by less than a two-thirds vote. With the bond backed by property taxes, Proposition 39 permits:

“Bonded indebtedness incurred by a school district . . . for the construction, reconstruction, rehabilitation, or replacement of school facilities . . . approved by 55 percent of the voters of the district. . . .

“This paragraph shall apply only if the proposition approved by the voters and resulting in the bonded indebtedness includes all of the following accountability requirements:

“(A) A requirement that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3), and not for any other purpose, including teacher and [school] administrator salaries and other school operating expenses.

“(B) A list of the specific school facilities projects to be funded and certification that the school district board, community college board, or county office of education has evaluated safety, class size reduction, and information technology needs in developing that list.

“(C) A requirement that the school district board, community college board, or county office of education conduct an annual, independent performance audit to ensure that the funds have been expended only on the specific projects listed.

“(D) A requirement that the school district board, community college board, or county office of education conduct an annual, independent financial audit of the proceeds from the sale of the bonds until all of those proceeds have been expended for the school facilities projects.”

District voters approved the Measure G Bond with those requirements on March 5, 2002, authorizing the issuance of \$298 million in bonds for school improvements. There was minimal activity under the Measure G Bond for the remainder of the fiscal year ending June 30, 2002, and independent performance and financial audits were not done. During fiscal year 2002-2003, \$60 million in bonds were issued and \$3 million in expenditures on school improvements were made.

A Citizens Bond Oversight Committee (CBOC) was established by the District Board of Trustees in accordance with the Strict Accountability in Local School Construction Bonds Act of 2000 (state legislation passed in conjunction with Proposition 39). The CBOC was chartered to monitor Measure G Bond activities.

The 2002-2003 CBOC annual report provides details of an internal audit for fiscal year 2002-2003 but no mention of independent financial or performance audits. The November 17, 2003, CBOC meeting minutes note that performance audits were discussed but “no significant decisions were made, no directions were given, and no conclusions were reached.” The internal financial audit did identify three items that were reclassified from the Measure G Bond expenditures to general fund expenditures. From the report:

“After a review, it was determined that the three following expenditures did not completely meet the bond language or education code criteria for Measure G.

- A Minolta Copy Machine for centralized reproduction at the district office—\$18,953.35.
- District portion ...of purchasing four 84 passenger low emission school buses—\$50,000.
- District portion of restructuring the Education Center Parking lot as part of the VTA project—\$133,631.44.

These entries are highlighted on the attached report. These three expenditures total \$202,566.79 [stet, actually \$202,584.79] and this amount has been credited to the Measure G program in fiscal year 2003-2004.”

On March 18, 2004, the District contracted with an external accounting firm to perform the required independent financial audits for \$2000. The performance audit was further delayed since the bid for an audit for the first year came in at \$75,000, but for a scope larger than

required by Proposition 39. A new bid was solicited and received for \$2000. On May 13, 2004, the District contracted with an auditing firm to perform the required independent performance audits. All are scheduled for completion before the end of June 2004.

The Grand Jury has not surveyed other school districts within the county to determine if they might be delinquent in complying with the relatively new responsibilities required by Proposition 39 and the associated Strict Accountability Act. However, in a previously issued report entitled “Inquiry into the Gilroy Unified School District’s Citizens Bond Oversight Committee,” the Grand Jury did find that another district was slow to implement some of the requirements. As documented in a State Controller’s report, it was found that a third district, San Jose Unified, had bond accounting problems and that “the bond oversight committee did not effectively perform its oversight function.”

## **Finding I**

The District was late in arranging for independent financial and performance audits as required by its Measure G Bond.

## **Recommendation I**

All boards of trustees for school districts in the county should ensure that, as part of a written job description, a business administrator in their district has the responsibility to coordinate compliance with bond requirements, including both audits and citizens bond oversight committee activities.

**PASSED** and **ADOPTED** by the Santa Clara County Civil Grand Jury on this 6<sup>th</sup> day of May 2004.

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Richard H. Woodward  
Foreperson

## References

### Documents

California Proposition 39: [http://vote2000.ss.ca.gov/VoterGuide/text/text\\_proposed\\_law\\_39.htm](http://vote2000.ss.ca.gov/VoterGuide/text/text_proposed_law_39.htm)

District CBOC Annual Report, including the text of Measure G, and meeting minutes: <http://www.District.org/esoc>.

Email from the District Auditor dated April 8, 2004.

Letter to the Grand Jury from the District Auditor dated March 22, 2004.

State Controller's Report, "San Jose Unified School District Audit Report Measure C Bond School Repair Program, June 3, 1997 through June 30, 2002."

Strict Accountability in Local School Construction Bonds Act of 2000, California Education Code, <http://www.leginfo.ca.gov/calaw.html>, Sections 15264-15276, 15278-15282, and 15284-15288.

### Interviews

Interviews with the District Auditor and the Superintendent on April 13, 2004.

Interviews with the District Chief Operating Officer and the Superintendent on March 17, 2004.

### Meeting Attended

District Board of Trustees Meeting, January 15, 2004.