

# **ANAHEIM UNION HIGH SCHOOL DISTRICT**

## **RESPONSES TO FINDINGS AND RECOMMENDATIONS**

### **GRAND JURY REPORT “THE ANAHEIM UNION HIGH SCHOOL DISTRICT MEASURE Z CAPITAL PROGRAM: THE TIP OF THE ICEBERG”**

August 24, 2007

## **FINDINGS**

In accordance with California Penal Code sections 933 and 933.05, each finding will be responded to by the government entity to which it is addressed. The responses are to be submitted to the Presiding Judge of the Superior Court. The 2006-2007 Orange County Grand Jury has arrived at the following findings:

- F-1. The AUHSD Board of Trustees lacked the training and expertise to properly oversee the entire Measure Z program. The majority of the Trustees had no experience in construction, capital program management, and related financial matters, and when the Measure Z program began to move into the construction phase, the Board became dysfunctional in dealing with the program.

**The Measure Z program was the biggest undertaking for the District, its staff and the Board of Trustees. Individual Trustees had a varied level of experience in the areas involved in the implementation of a major construction program and those experiences did not directly relate to this type and magnitude of program. The Board recognized the need for new management, leadership and control of construction projects and the entire District. This realization led to newly hired staff and the Board's support for their work.**

- F-2. Since the end of 2005, the AUHSD management and staff have generally maintained effective control and oversight of the Measure Z program, although some problems still remain. Most of the recommendations in the *Operational Forensic Performance Audit* have been either fully or partially implemented. Reporting on program status is more accurate, transparent and timely.

**Yes, changes in staff and adequate utilization of consultants have improved controls and oversight of the Measure Z program. Efforts to resolve past issues still continue and systems are in place to prevent further lapses. Regular reports to the Board of Trustees and the Measure Z Oversight Committee have increased accuracy, transparency and timing of the dissemination of information.**

- F-3. Prior to late 2005, AUHSD management and staff oversight was inadequate. There was not sufficient staff with knowledge of managing complex construction projects, or of obtaining matching State funds, and workload in certain key administrative areas at District headquarters effectively doubled with no increase in staffing.

**District staffing and contracted professional support was underestimated for the implementation of the Measure Z Program. The compression of time and volume of projects created an unmanageable situation for what already was a very ambitious program. We concur with this finding regarding the pre-2005 status of the Measure Z program. The administrative team put in place by the Board of Trustees mid/late 2005 addressed these and other issues identified in**

**the *Operational Forensic Performance Audit*. At this point, operational and oversight improvements are well underway and an ongoing improvement effort is being maintained.**

- F-4. The frequent changes in the AUHSD's management – three new superintendents in four years, combined with other turnover in key personnel with responsibilities for the Measure Z program – impacted the continuity of top management oversight on the entire program prior to July 2005.

**We concur with this finding regarding the pre-2005 status of the Measure Z program. The administrative team put in place by the Board of Trustees mid/late 2005 addressed these and other issues identified in the *Operational Forensic Performance Audit*. Proper program controls would have reduced the impact of staff changes and would have allowed continuity in the implementation of the Measure Z Program. Currently, operational program improvements are well underway and future staff changes would have a lesser impact on program oversight.**

- F-5. Prior to late 2005, certain processes under Measure Z, such as unit price contracts and the bulk purchasing program, were not sufficiently differentiated from normal AUHSD operating procedures in terms of approvals, workflow, and data collection. As a result, there was confusion in both the handling and logistics of materials as well as cost allocations between Measure Z and the District's day-to-day operations.

**Significant efforts by the new administration and the Program Management team have addressed all of these issues. The team was able to segregate the District activities for Maintenance and Operations from the Measure Z program, and cost allocations were corrected. Bulk and unit price contracts are no longer being used by the District.**

- F-6. Prior to the *Operational Forensic Performance Audit*, reporting by District Staff on Measure Z was not transparent. Schedule updates were presented without the prior or original planned schedules for comparison; actual expenditures were presented in overwhelming detail with insufficient summarization; not enough focus was placed on the drop in the construction contingency as the program continued; budget numbers and estimates of available program funds repeatedly changed with little or no explanation or tie-back to prior presentations; and program status and financial reporting was frequently delayed until the information was obsolete.

**The District agrees with this finding as noted in our response to F-4. Proper contract controls would have allowed for adequate oversight, continuity of data in reports and presentations and smoother transition when staff changes occurred. Currently, new projects have been bid with a new set of contract documents which include language regarding scheduling requirements that are above and beyond typical industry standards. All budgetary and document controls are being managed utilizing industry standard project/program management software tools.**

- F-7. The OCDE/Superintendent of Schools has no effective computerized system available for tracking and controlling multi-year capital expenditure programs like Measure Z.

**Computerized financial systems typically used throughout State are optimal to handle single year program activity. Existing accounting computerized systems available to the District through the Orange County Department of Education/Superintendent of Schools, are not designed to easily handle multi-year projects, but instead are designed to effectively track programs that start and end in the same fiscal year.**

- F-8. Prior to October 2005, the AUHSD, along with other County school districts, lacked the internal expertise to develop a control and tracking system for large-scale multi-site capital programs, or to evaluate the adequacy of systems proposed by outside consultants.

**Prior to implementing any atypical program in general, and a major construction program in particular, most organizations lack the internal expertise to control, track, and evaluate new systems within the existing structure. Investment in specialized expertise, staff development and the commitment of adequate resources are critical components of the foundation of a successful program. Currently, new projects are being tracked utilizing industry standard project/program management software tools (see F-6).**

- F-9. Prior to the appointment of a new set of members in late 2006, the AUHSD Measure Z Citizens' Oversight Committee was ineffective. Members of the Committee were unclear about the Committee's purpose and purview, and in general the Committee did not receive, nor did it apparently ask for, information about the Measure Z program beyond what was offered to it in prepared presentations by the AUHSD staff. The Committee also appears not to have submitted some of the annual reports to the AUHSD Board of Trustees that it was chartered to prepare.

**Since the new members were appointed in 2006 the Citizens' Oversight Committee has met more frequently and its members have created working sub-committees to report on both financial and performance measures. The Citizens' Oversight Committee has chartered these subcommittees with the specific task to oversee the timely preparation of the required reports to the AUHSD Board of Trustees.**

- F-10. The AUHSD did not establish an effective priority classification of the work scope across all campuses, which led to an inequitable allocation of program resources once the program exceeded its budget, and which further contributed to the District not completing work on the Second and Third Wave schools.

**As noted, the priority classification was not effective. Additionally, market conditions such as an unusually large wave of inflationary factors in the economy in general, and in the construction industry in particular (e.g.**

escalation), exacerbated the funding problems for the District. As has been reported by local media, other funding sources are being currently pursued to address the highest priority needs at other campuses.

- F-11. Soft cost budgets for Measure Z were not realistic until December 2005. Normal good planning practice is to assume 25-30% soft costs. In the AUHSD's Measure Z program, the soft cost budget was only 16.63%. This was taken as a sign of low overhead rather than as a warning of insufficient program management capability.

**Yes, we believe this is the most important lesson that other agencies can learn from the AUHSD experience when they contemplate major construction programs with this level of complexity.**

- F-12. Program contingency budgets for Measure Z were not realistic until December 2005. The industry standard for estimating renovation projects is 10%. In the AUHSD's case the contingency figures were primarily "backed into" by subtracting the estimated construction budgets from available funds. Once the estimated contingency fell below 10%, it should have been a signal that costs were beginning to escalate.

**Yes, the District concurs with this finding. As previously noted, abnormal escalation exacerbated this problem, which would have existed even if proper contingencies had been planned and/or included.**

- F-13. There was no effective external independent project performance auditing through most of Measure Z's life, until the *Operational Forensic Performance Audit* in mid-2005. In order to minimize costs, the audits that were performed were limited to checking a sample of paid contractor invoices for adherence to District approval procedures and applicable law.

**The District agrees with this finding and has significantly increased the level of audit detail requested from its external auditors.**

- F-14. In-service training of the Board of Trustees on program management practices and on the Measure Z program appears to have been ineffective; training of the Citizens' Oversight Committee appears to have been nonexistent until late 2006.

**In-service training of the Board of Trustees is typically provided to allow a general understanding of the program. Professional staff is charged with research, data evaluation and formulation of recommendations for consideration by the Board of Trustees. When staff is unfamiliar with a particular area, the Board of Trustees is asked to commit the resources necessary to bring outside experts to support the process. Part of the training provided to the Board of Trustees and the Citizens' Oversight Committee are supported by these outside experts.**

- F-15. The District did not effectively manage the process of securing State matching funds

for the Measure Z program from February 2005 to September 2005. As a result, the entire program experienced a cash flow crisis.

**The cash flow crisis during these dates was a direct result of the staff changes at key levels addressed in F-3 and F-4 which occurred during critical time frames in the funding processes. However the entire problem was not limited to cash flow but to the actual acquirement of State matching funds. Assumptions made at the inception of the program and before the passage of Measure Z by the voters, were unrealistic and overly optimistic. This was probably caused by the assumption that all calculated eligibility for funding was available for actual funding of any projects without regard to the guidelines of the State Funding Program, which clearly specifies the types of projects eligible for funding.**

F-16. Circumstances beyond the AUHSD's control contributed to cost overruns in the Measure Z program. Unforeseen escalations in materials costs and construction management and architectural fees were being experienced during 2003-2006 by school districts statewide and even nationwide. Overall, construction costs increased 30% during this period.

**The impact of this unprecedented rise in construction prices can not be underestimated as evidenced by the impact to other school construction bond programs state-wide.**

F-17. Some cost overruns in Measure Z resulted from lack of accurate information about the existing conditions at specific construction sites. For example, unanticipated subsurface conditions at two high schools resulted in extensive change orders to remediate. Also, as-built information at some sites appears to have been inaccurate.

**Maintenance of as-built records for school buildings is a long term problem that has concerned districts throughout the State for decades. Some school buildings were built over 40-60+ years ago and documentation regarding those construction processes in many cases has been lost or damaged beyond repair. In many cases, designs were based on incomplete or non-existing as-built records. The District believes that the long term solution to this problem is to move towards digitizing all documents related to its facilities and has embarked on a process to do so.**

**Responses to Findings F-1 through F-17 are required from the Anaheim Union High School District.**

**Responses to Findings F-6, F-7, F-8, and F-16 are required from the Orange County Superintendent of Schools.**

### **RECOMMENDATIONS**

In accordance with the California Penal Code sections 933 and 933.05, each

recommendation will be responded to by the government entity to which it is addressed. The responses are to be submitted to the Presiding Judge of the Superior Court. Based on the findings of this report, the 2006-2007 Orange County Grand Jury makes the following recommendations:

- R-1. The members of the AUHSD Board of Trustees should improve their ability to work together as an effective oversight and policy setting body for the Measure Z program. More in-service training should be performed, so that all Board members have a reasonable comfort level in dealing with this information and in making decisions based on it. (This recommendation arises from Finding F-1.)

**The Board of Trustees has recently worked with an external facilitator to develop goals for its work and leadership of the District. This is facilitating the effective leadership of all Trustees.**

- R-2. AUHSD management and staff should continue to effectively control the Measure Z program and should continue to provide the Board of Trustees with timely, accurate and transparent program status reporting. (This recommendation arises from Finding F-2.)

**This effort began in mid-2005 has been implemented and the process of improvement is ongoing.**

- R-3. When a County school district begins a major new capital expenditure program affecting multiple school sites, program-specific systems and processes for expenditure authorization, procurement, tracking and control should be integrated with, but distinct from, the existing combined manual and automated systems for day-to-day District operations. (This recommendation arises from Findings F-5, F-6 and F-7.)

**The District agrees with this recommendation and as noted in this report, began this process in July of 2005.**

- R-4. The County Superintendent of Schools should investigate developing an automated system for tracking multi-year construction programs for use by County schools, since the Bi-Tech system is not well-suited for this type of multi-year program management functionality. (This recommendation arises from Findings F-5, F-6, F-7 and F-8.)

**District will be glad to participate in any effort initiated by the Orange County Office of Education.**

- R-5. The Citizens' Oversight function should have knowledgeable members who have real-world experience in construction, planning, finance, budgeting, and related systems and controls. They should be proactive, and not merely follow the AUHSD Board of Trustees' recommendations and directives. Consideration should be given to allowing the Citizens' Oversight Committee to have a direct written and verbal reporting relationship to the Board of Trustees. (This recommendation arises from Finding F-9.)

**The Citizens' Oversight Committee has met more frequently and its members have created active sub-committees to report on both financial and performance measures to both the community and AUHSD Board of Trustees.**

R-6. The AUHSD should consider developing an effective priority classification for the modernization work scope remaining in the District after the First Wave is completed, thereby allowing a more equitable allocation of resources to future construction projects. (This recommendation arises from Finding F-10.)

**As reported by local media, other funding sources are being currently pursued to address the highest priority needs at other campuses. Establishing future priorities will take into consideration various factors such as maximization of resources, adequacy of facilities and equity.**

**Responses to recommendations R-1 through R-6 are required from the Anaheim Union High School District.**

**Responses to recommendations R-3, R-4, and R-5 are required from the Orange County Superintendent of Schools.**