

SWEETWATER UNION HIGH SCHOOL DISTRICT

District Responses to Proposition O Performance Audit

2013/2014

April 22, 2015

Revised April 24, 2015

Response to the 2013-14 Proposition O Performance Audit

The 2013-14 Proposition O (Prop O) Performance Audit, as with most reports, has an executive summary as well as detailed objectives. This district response will not address the executive summary but rather provide some general comments and then address the objectives with recommendations.

General Comments:

The Office of the Chief Facilities Executive, the Planning and Construction Department, the Purchasing Department, the Facilities Accounting Department, and Citizens' Bond Oversight Committee (CBOC) should be commended for their hard work and accomplishments. There were no audit exceptions found in the following areas:

- Bond Pricing Goals
- Refunding of Outstanding Bonds (no refinancing is planned)
- Investment of Prop O Proceeds
- Compliance with the Ballot Language
- Bidding and Procurement Procedures
- Expenditure and Payment Procedures
- Small Firm Participation requirements (AR 7140)
- Citizens' Bond Oversight Committee (CBOC) Meeting Minutes
- Citizens' Bond Oversight Committee (CBOC) Compliance

The audit had comments and recommendations on the following areas:

- Staffing allocation
- Cash Flow
- Financial Reporting (segregate actual bond funds from state and other funds)
- Change Orders (only 2 of 221 change orders through June 30, 2014 had discrepancies)
- Claims Avoidance
- Procurement Processes
- Standards Manual
- Communication

The auditor and staff had only one month to complete the audit which did not allow staff responses to be reviewed by the auditor and included in the final audit. Staff recommends the Request for Proposal (RFP) for the performance audit be issued in late summer or early fall which will allow completion of the audit and staff responses well before the statutory March 31st deadline for delivery to the Board of Trustees and CBOC.

The audit referenced a number of non-California standards such as the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting. The auditor did not provide references to specific documents promulgated by

these organizations and staff was unable to determine which documents or policies were being recommended (GFOA has 186 documents under the Best Practices category alone).

Responses to individual Objectives:

Objective No. 4 – Compliance with Bond Language recommendation:

“The District should implement processes and controls needed to provide supporting documentation that validate that the applicability and accuracy of labor charged to Proposition O. Specifically, a time tracking system should be implemented so that all cost incurred are identifiable and have a beneficial relationship to the Bond Program and cost objectives.”

Objective No. 7 – District and Professional Services Staffing Plan for the Bond Program recommendation:

“The Staffing Plan should be updated to correlate Bond Program projects to Bond Program staffing needs.”

Objective No. 8 – Program Management Effectiveness recommendation:

“The Staffing Plan should be updated to correlate Bond Program projects to Bond Program planning, design and construction project needs.”

Response to Objective Nos. 4, 7 and 8:

The District received a similar recommendation regarding the allocation of staffing for Mello-Roos Community Facilities District (CFD) projects. The District has revised the staffing allocation model for both Prop O and CFD projects for 2015-16.

Objective No. 9 – Design and Construction Schedules Cash Flow Analysis recommendation:

“With the complexities the District faces regarding multiple funding sources, budgets, and expenditures in excess of the Bond issuance, cash flow analysis and forecasts are essential to managing cash. The District cash flow reporting should include revenues and expenditures by timeframe to determine that sufficient funding is available to meet financial requirements. The GFOA recommends that monthly reports be created to serve as an early warning system for identifying future cash flow shortfall. The District should create a cash flow analysis with forecast details to ensure that the District has the ability to meet future Proposition O project expenditure needs and to create transparency among report end users.”

Response to Objective No. 9:

Staff does not concur with the recommendation and does create cash flow projections when necessary. When proceeds from the first bond sale were received in 2008, cash flow projections

were prepared frequently for use by staff and the Chief Financial Officer. With greatly reduced Prop O cash balances, the question becomes: What purpose would the cash flow analysis serve?

- A primary purpose for analyzing cash flow is to make sure that revenue occurs prior to expenses. There is no revenue to project at this time (other than interest earnings), so the primary cash flow would only be expenditures. Projects are generally not approved unless the cash is available and therefore the exercise of a cash flow analysis would serve no purpose.
- Another purpose for cash flow analysis is to project interest earnings. With interest rates so low, the amount of interest earned is not likely to pay for the staff time to create the monthly cash flow. The meager interest earnings are added to contingency as they are reported.
- A third purpose for cash flow analysis is to determine if there are sufficient funds for temporary inter-fund transfers. The district does not make inter-fund transfers from the Prop O fund.

Therefore the preparation of a monthly cash flow analysis at this time would serve no purpose and would take limited funding and staff time away from projects. The District will create a cash flow analysis in the future when needed.

Objective No. 10 – Design and Construction Costs Budgets recommendation:

“The GFOA recommends that local government agencies evaluate their financial performance relative to the adopted budget with budget-to-actual and budget-to-projected comparisons of revenues, expenditures, cash flow and fund balance. Deviations from the original budget by key construction component should be clearly documented and explained for easy end user reference. Financial overviews by project should include narratives, charts and graphics, and provide clear information about capital plans, with key assumptions for revenues and expenditures highlighted.”

Response to Objective No. 10:

Monthly, the CBOC receives narratives and financial data on each project. These reports will be modified as requested by the CBOC to conform to the recommendation. These reports are available to the public and Board of Trustees as well.

Objective No. 12 – Change Order Procedures recommendation:

“Total change order impact and assigned responsibility details are needed within monthly Project Financial Report to ensure that change order information is sufficiently reported to District Management, the BOT and the CBOC. Absent this additional information, change order details are not adequately reported to end users.”

Response to Objective No. 12:

The monthly Project Financial Report referenced in the recommendation is provided to the CBOC at each meeting. Each month the Board of Trustees agenda change order item, which includes total change order impact and assigned responsibility, is provided to the CBOC. The total change order percentage for each contractor is included in the Project Financial Report each month. Staff will improve change order reporting and expand the detail provided.

Objective No. 13 – Claims Avoidance Procedures recommendation:

“Written policies and procedures for claims avoidance should be added to the Claims Management section of the District policy to cover all areas necessary for construction claims policy and procedures.”

Response to Objective No. 13:

Staff will implement the recommendation.

Objective No. 15 – Best Practices in Procurement recommendations:

- 1) “The District should ensure that complete bid and procurement files are maintained to support all bid, award and purchase order values. Additionally, during the bid analysis and evaluation phase the District should conduct a bid leveling analysis, which ensures that all bidders are accounting for the appropriate components within their bid amount (e.g., alternates, allowances, etc.) as defined by the bid, request for proposal [RFPs] or request for qualifications [RFQs] prior to contract award.”
- 2) “The PMP [Program Management Plan] and related practices should be expanded in the areas of surveying, analyzing, and ranking respondents and application of specific proposal evaluation criteria when selecting contractors. The District may want to consider utilizing the Federal Acquisition Regulations and guidance provided by the National Association of State Procurement Officials in its procurement processes.”

Response to Objective No. 15:

- 1) Staff does not concur with the recommendation because it is a statement of current practices (no exception was found for Objective 11, Bidding and Procurement Procedures). The recommendation is a result of a misinterpretation of the Public Contract Code. The \$35,454 difference noted the analysis is the amount of the bid alternates for the low bidder on the Bonita Vista HS HVAC project. The contract was awarded to the bidder with the lowest base bid as required by the Public Contract Code and the contract amount included these alternates as permitted by the code.

- 2) The recommendation to survey, analyze, and rank respondents with specific proposal evaluation criteria does not comply with the Public Contract Code for projects that are awarded to the lowest bidder. For alternative contracting methods such as lease-leaseback, the District already analyzes and ranks respondents to RFPs and RFQs using evaluation criteria (page 36 of the Program Management Plan). This has been the practice for all Prop O lease-leaseback contracts with the exception of the contract with the K-12 Public School Districts and Community Colleges Facility Authority for Montgomery HS Project 2.

Objective No. 16 – Delivered Quality Analysis recommendation:

“The District should create a comprehensive manual which provides details (material types, standard equipment, manufacturer specification numbers, types of material, etc.) of products and systems to be utilized within District facilities. This manual should be provided to project architects and designers, and required products and systems specifications should be provided to all bidders during the procurement process.”

Response to Objective No. 16:

Staff concurs in part and is in the process of preparing the Design Directives Manual which will be provided to design professionals for all projects. It will include direction to use District standard specifications and products. Staff does not concur with the recommendation to distribute the Manual to all bidders during the procurement process because the Manual is not a construction document used for bidding.

Objective No. 18 – Effectiveness of Bond Communication Program recommendations:

- 1) “An updated and BOT-approved Master Plan should include the prioritization of projects, project budget amounts, project scope objectives and timelines and project change orders. The Master Plan should be reconciled to the available Bond funds and updated on an ongoing basis. This information is necessary in order to provide the BOT adequate information to sufficiently oversee and conclude on the Bond Program’s progress on behalf of the taxpayers. Once this information is approved and available, monthly reports should include construction status updates compared against the Master Plan to provide transparency on the Bond Program’s total progress in relation to the voter approved objectives.”
- 2) “Per BOT requirements and Education Code 15278, the CBOC should be provided any necessary information concerning the status of the Bond Program that is needed for them to perform their oversight role. The current financial reporting makes understanding the financial standing of Proposition O against the originally issued \$180 million difficult to quantify. A supplemental schedule or a revision in reporting is necessary to prevent potential confusion among end users, and to ensure complete and accurate conclusions regarding Proposition O revenues, expenditures, and remaining balances.”

- 3) “Form 3500 requests resulting in Proposition O related change orders should be clearly documented and reported to the BOT. The approved Form 3500 requests should be in line with the prioritization and project scope objectives from the Master Plan. This information is not only necessary for the BOT to conduct their required oversight, it will also provide visibility and transparency for administrators to effectively manage their schools and expectations of work to be completed.”
- 4) “The District should consider modifying its communication plan to include a more varied approach to public outreach and communication that will reach and solicit input from a wider range of people and provide them with timely updates about the Proposition O Bond Program. Any unused platforms (i.e., YouTube, Facebook, etc.) should be removed to avoid the appearance of a breakdown in communication due to outdated information.”

Response to Objective No. 18:

- 1) Staff concurs with the recommendation and the Long Range Facilities Master Plan is in the process of being updated.
- 2) Staff is willing to implement the recommendation to segregate Prop O funding from the Prop O Program in the Capital Facilities Financing Plan.
- 3) Staff concurs with the recommendation.
- 4) Staff concurs with the recommendation.

Objective No. 21a – Special Focused Analyses – Change Orders for National City Middle School recommendations:

- 1) “The Director of Planning and Construction should not sign change orders over \$150,000. The BOT should approve the change order to comply with District policies.”
- 2) “Change orders exceeding \$200,000 should not be executed by the District prior to BOT approval to comply with District Policies.”
- 3) “While District initiated changes are not uncommon for publicly funded capital projects and the change order work is in compliance with District policies and state regulations, the purpose and cost justification for District initiated change orders and scope additions should be clearly documented. This documentation should include the cost analysis between a change order and a new contract or competitive bidding documentation provided by the General Contractor. Management’s rationale for change order approval should be well documented. Absent this information and documentation, the District may pay excessive cost for District initiated change order work.”

- 4) “A defined policy should be implemented for updates to the Sweetwater Modernization Standards Specifications document. This policy should ensure that documentation exists including the requestor and date of request, description of change, cost benefit relationship for the change, approver and date of approval, and a time stamped updated specifications document. The cost-benefit analysis for significant specification changes should be prepared internally at the District and approved by District’s Management. Additionally, the Standard Specifications document should avoid including narrow scoped requirements to prevent non-competitive pricing or overbillings to the District. Absent this policy and documentation, when and why changes are made to the specifications document is unclear.”

Response to Objective No. 21a:

- 1) and 2): Staff concurs with the recommendation. However, the findings should have been placed in perspective (GAGAS section 7.16). Deficiencies were documented on two of 33 change orders approved during 2013-14 and two of 221 total change orders approved through June 30, 2014.
- 3) Staff will implement this recommendation in conjunction with Objective 12.
- 4) Staff will provide additional documentation and analysis where needed and staff will continue to have the District’s Educational Facilities Standards Committee review any proposed changes.

Objective No. 21b – Special Focused Analyses – Comparative Analysis of National City Middle School compared to Montgomery High School Projects:

The auditor did not provide any recommendations except for one reference to Objective 21a. Staff concurs with the conclusion that “District project management provides better opportunity to control budget, schedule, scope, change order management and final product” and that District staff manage “future projects to increase cost visibility and better control project budgets, schedule and scope.” The analysis contains factual errors which have been sent to the auditors.

Objective No. 21d – Special Focused Analyses – Analysis of the District’s Power Purchase Agreement and Related Change Orders:

The auditor did not provide any recommendations. Documentation was provided to the auditor but last minute exchanges of information were not able to be incorporated in the audit because of time constraints.