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May 22, 2015

To: President Frank Tarantino
Board Member Nick Segura
Board Member Kevin J. Pike
Board Member Paula Hall
Board Member Arturo Solis

Dear President Tarantino:

Greetings. Thank you for the opportunity to submit the monthly Bond Oversight Chair Report. Here are the highlights of Citizen's Bond Oversight Committee (CBOC) activities since the April 27, 2015 Board of Trustees Regular meeting:

BOND OVERSIGHT MEETING MAY 20, 2015 AT SOUTHWEST HIGH SCHOOL

Issues and Topics were a follows:

1. Site Tour. A 25 minute site tour was conducted by Principal Lee Romero. The CBOC largely observed the areas of the school that need further improvement, rehabilitation and refurbishment. Southwest High received significant funding (\$17.8 million) for a new 29,231 square foot two-story building including classrooms, science labs, an ASB room and media production room. New shade structures for lunch were also built. The project was completed in July 2012.

Special note is made of the relatively poor condition of the athletic facilities and the overall need for significant refurbishment in the older classrooms. What struck the Chair and Committee visually was the significant difference in conditions of the older classrooms and the "newness" of the recently completed project that was toured several years ago.

As the Master Plan Project Priority process is eventually fully developed, our CBOC will consider the costs/benefits of making refurbishments to existing buildings versus construction of new facilities. One of the challenges any bond program has is to resist the temptation, where appropriate, to construct new more visible buildings and improvements when it may be more cost effective to remodel and upgrade existing assets.

2. Moss Adams Presentation on the Performance Audit. The vast majority of the meeting was devoted to the presentation by Moss Adams of the performance audit. The Chair Report will not go into many of the specific audit findings as this is being handled in a separate Agenda Item and presentation at the Board meeting.

The CBOC was complementary of the overall work effort by Moss Adams, particularly in light of the significant time constraints they had to complete their work. The CBOC was instrumental in the selection of this auditor.

Highlights and “take aways” from the CBOC review of the audit findings are as follows:

A. Lack Documentation on Actual Staff Workload between Bond and Non Bond Projects. The District presently does not keep track of labor hours by project but estimates workload between bond and non-bond projects (e.g. Mello Roos). Specifically the Audit States:

*For Bond Program purchases, the performance audit procedures applied provided reasonable assurance in accordance with Generally Accepted Government Auditing Standards (GAGAS) for the fiscal year ended June 30, 2014, that Bond proceeds were expended only on the Listed Projects with Proposition O which authorized the sale of the bonds. For District labor charges, we **take exception to the ability of the District to demonstrate these charges were accurately and completely identified as Proposition O projects. (emphasis added)***

A “take exception” in an audit is significant in the jargon of accounting/audits. It is not best practice to be without a specific accounting i.e. timesheets by project/program. The audit recommends:

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.

This finding is representative of several findings of the Audit i.e. the level of Documentation for use of District resources and processes needs to be improved.

B. District Accounting for Bond Expenditures needs to be improved particularly in the area of Change Order Justifications, evaluation criteria for selection of consultants and firms, and documentation of the reasons/rationale for project decisions. The process improvements include the initiation of cost/benefit analysis for project scoping decisions, tighter control over change orders, and close out controls for projects.

C. The Project Priority Process and documentation of proposed Project Spending needs substantial improvement. It is often difficult to determine how project priorities were developed and decisions made. In the opinion of the Chair and consistent with the CBOC comments and Audit results, there probably should be an annual Capital/Project Improvement Plan which lays out proposed projects and priorities and phasing in one central report or document.

D. Substantial Improvement is required in the Procurement Specifications, including development of consistent and standard specifications for building equipment and materials. The Audit states:

The District was unable to produce standard specifications identifying specific materials, equipment and other item requirements for facilities installation (material types, standard equipment, manufacturer specification numbers, etc.).

This was an area flagged several months ago by the CBOC in relation to roof warranties.

The CBOC adopted the following recommendation:

“The CBOC appreciates the quality and thoroughness of the audit and requests that the Board of Trustees direct staff to implement the recommendations and also request the next Performance Audit begin by November 1.”

The CBOC is ready to begin the process for next year’s audit in the near future so we can start much earlier and give the auditor adequate time for the best quality report possible.

3. Terms of Existing Parent Representatives. In the California Education Code there are several statutory requirements for members of the bond oversight committee:

For a school district, one member shall be both a parent or guardian of a child enrolled in the district and active in a parent-teacher organization, such as the Parent Teacher Association or school site council.

Both members Edgar Guerrero and Ditas Yamane have been valuable members of this CBOC. Edgar is an expert in IT matters and served as a translator/interpreter for Spanish/English at our meetings. Ditas, who has a business, was instrumental in our call for an expanded Performance Audit that resulted in the selection of Moss Adams. Member Yamane has a student graduating this spring.

The Chair sent out an email to the California League of Bond Oversight Committees (CALBOC) Board of Directors regarding the parent representatives. There presently are no hard and fast rules on whether the Parent must leave after their student graduates. While CALBOC does not have an official position or policy on this issue both

the current president and the original co-founders of CALBOC felt it was appropriate for the members to finish their terms.

The CBOC recommended Members Edgar Guerrero and Ditas Yamane be allowed to finish out their terms as Parent Representatives. When the CBOC By Laws are periodically reviewed for modifications, it is also suggested this recommendation be codified in these By Laws.

It was also announced at the meeting Kevin O'Neill, a Community Representative, will be resigning in the near future from the Committee. The Chair will work with Human Resources. As Chair and on behalf of the whole Committee I want to thank Member O'Neill for his advice and counsel on this CBOC. He was very helpful.

4. Master Plan Process. It is understood the Master Plan Process is "regrouping" with the recent personnel changes. The Master Plan and its Priorities as determined by Board Policy will be extremely important in setting in motion significant spending decisions for the Bond Program. We must "get it right" but continue to move forward.

In the foreseeable future each CBOC meeting will have an agenda item to review and discuss the Master Plan and developments since our last CBOC meeting. Nearly \$400,000 in bond dollars was spent on this plan. We must put the work to good use. The Master Plan is a high priority item for this CBOC and our Committee will hold the District accountable for its decisions as we move forward.

CALIFORNIA LEAGUE OF BOND OVERSIGHT COMMITTEES ANNUAL CONFERENCE.

On May 18 and 19 I met with CALBOC members and attended the annual conference in Sacramento. Due to time constraints in getting this Chair Report, more information will be presented in separate special report to the Board.

However, some of the highlights of the conference:

- There are several substantial potential savings for District associated with cooperative purchasing agreements of standardized materials.
- The State of California is moving away from statewide general obligation bonds/state match program towards an annual facilities grant that would be funded similarly to the concept of the Local Control Funding Formula (LCFF).
- The Governor does not have a position yet if at all on a voter initiative for state general obligation school bonds.
- The State does recognize the cost effectiveness of deferred maintenance expenditures.

- State grants for school facilities would be based in large part based on unmet needs.
- There was a presentation by a certified fraud examiner and the inspector general for the scandal plagued Los Angeles Unified School District.

The detailed special report to the board will focus on the Inspector General presentation and potential state grant program.

Sincerely,

A handwritten signature in black ink, appearing to read 'Nick Marinovich', with a stylized, cursive script.

Nick Marinovich, Chair
Sweetwater Bond Oversight Committee