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February 21, 2017

To: President Arturo Solis
Vice President Paula Hall
William Kowba, Community Member
Marisela Garcia-Centeno, Community Member
Karen Michel, Chief Financial Officer
Frances Martinez, Internal Auditor

From: Nick Marinovich, Chair
Sweetwater Union High School District Bond Oversight Committee

The purpose of this memo is to provide our initial thoughts and observations regarding the upcoming Performance Audit of the Proposition O Bond Program for FY 16/17. I convened our Ad Hoc Audit and Finance Subcommittee via email correspondence (Terry McKearney, Ditas Yamane, Daniel Gutowski and myself). While this correspondence has incorporated their input, the memo should not be interpreted to represent the full views of the Citizen's Bond Oversight Committee (CBOC).

Our CBOC will be meeting Wednesday February 22, 2017 to discuss the Performance Audit. At that time we will discuss the Performance Audit further and I will be able to report the results in the Chair Report before the full Board on February 27, 2017.

Background

At the February 13, 2017 Board meeting after hearing the status of recent Audit and Finance Subcommittee report by Trustee Hall, I mentioned during public comment the importance of CBOC involvement in the Annual Performance Audit. As Chair, I have had ongoing concerns the CBOC did not seem as involved as in past Performance Audits.

On Wednesday February 15, 2017 I received a phone call from Dr. Aguirre indicating Trustee Hall would like CBOC input on the Audit and there was an Audit and Finance Subcommittee meeting on Tuesday February 21, 2017 to discuss Performance Audits. Subsequent to these events, there has been the email correspondence between the Ad Hoc Audit and Finance Subcommittee members.

Audit Scope Recommendations

Our specific recommendations at this time are as follows. References to the existing Scope are included:

1. The Audit should contain a detailed review the District's Long Range Facility Master Plan and its Implementation Process. (Relates to Scope Item 7A-Master Planning; Scope Item 4A Design and Construction Schedules Cash Flow Analysis)

Discussion: The analysis should assess the completeness of the priority setting process for bond projects and the appropriate phasing of such a Plan consistent with projected funding. The first step in such a review would be an evaluation of whether the District Master Facility Plan is “best practice” or “industry standards” and/or where specific improvements need to be made in the Plan.

2. The Audit should assess the efficiency and effectiveness of the coordination between Planning and Construction, Purchasing, and the Maintenance Departments as it relates to the Bond Program. (Relates to Scope Item 6-Bidding and Procurement Procedures)

Discussion: This review could include bidding outreach procedures, cost/benefit review of proposed change orders and contract scope, and the evaluation and selection process for District consultants. There needs to a review of the internal protocol and approval processes for purchase orders and contracts from both historical and current practice perspectives.

3. There should be an analysis/assessment of staffing/resource allocation requirements associated with a potential new bond measure. (Relates to Scope Item 3-District and Professional Services Staffing Plan for the Bond Program)

Discussion: This review would consider current staffing/expertise and options for accommodating additional workload (e.g. hiring new staff, blend of staff/consultants, or a managed competition approaches).

4. Initial Review and Evaluation of Project Labor Agreement Project(s).

Discussion: It is recognized the District is just starting implementation of its Project Labor Agreement with the huge HVAC retrofit being the first such project. The consultant could review the initial startup and PLA documentation launch. The Price/Cost Proposals from the Design Build Consultant should be reviewed for PLA Compliance and documentation and cost/benefits derived from the Project Labor Agreement identified. It is not to soon to identify potential process improvements.

5. There should be a sixth month review of implementation Recommendations and staff responses from the FY 15/16 Audit.

Discussion: While not part of the actual Audit but could be part of the consulting contract, the CBOC strongly believes there should be a review of Bond Program progress improvements. This will provide significant input into our update of the attached Future Bond Scorecard (attached).

Evaluation Criteria for Performance Audit Firm

As mentioned in your Scope of Work, the Audit must be conducted in Accordance with Generally Accepted Audit Procedures (GAGAS). With respect to GAGAS there are the following sections that are excerpted for your reference and incorporation in the Request for Proposals:

Competency Section 3.72 *“The staff assigned to conduct an audit in accordance with GAGAS should collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that audit. The staff assigned to a GAGAS audit should collectively possess a. knowledge of GAGAS applicable to the type of work they are assigned and the education, skills, and experience to apply this knowledge to the work being performed;”*

Training: Section 3.76 *“Auditors performing work in accordance with GAGAS, including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with GAGAS, should maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work in accordance with GAGAS should complete, every 2 years, at least 24 hours of CPE that*

directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.”

Auditors who are involved in any amount of planning, directing, or reporting on GAGAS audits and auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS audits should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2-year period) that enhances the auditor’s professional proficiency to perform audits. Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year periods. Auditors hired or initially assigned to GAGAS audits after the beginning of an audit organization’s 2-year CPE period should complete a prorated number of CPE hours.

In short the Performance Auditors staff must have knowledge of construction, project management, and capital facility planning principles and be periodically trained in new developments and knowledge bases. It is recommended the Performance Auditing firms submit information on their compliance with these two referenced sections of GAGAs and that this information be part of the evaluation criteria.

Concluding Remarks

While the CBOC appreciates the opportunity to provide input now into the Performance Audit and prior to its finalization, we should have greater involvement at the front end in its development. There are some very positive elements in the proposed scope most noteworthy being Scope Items as follows:

- District and Professional Services Staffing Plan for the Bond Program
- Bidding and Procurement Procedures
- Bond Program Master Planning and Reporting
- Material Specifications
- Cost Benefit and Value Engineering Analyses
- Maintenance of District Assets Funded with Proposition O and Warranty Conditions Compliance

The two specific subject areas not in your scope that are recommended for inclusion is a six month review of the FY 15/16 Performance Audit and the Project Labor Agreement.

The Performance Audit is the most important tool for the CBOC to do its job. The Board and staff should want our input as Citizens who spend significant time as volunteers in reviewing the Program. In addition, there is a wealth of experience and expertise on the CBOC for the particular areas being audited. The District should take advantage of the excellent individuals on this Committee.

Thank you for considering this input.

Sincerely,

Nick Marinovich

Nick Marinovich, Chair

Sweetwater Union High School District Bond Oversight Committee

Future Bond Sale Scorecard

Prop O Citizens Bond Oversight Committee

11/1/16 Ad Hoc Committee:

Diane Gerken, McKearney Terry, Munoz Rafae, and Ad Hoc Chair Daniel Gutowski

	Rating	Comments
1 Deferred Maintenance within District		
<i>Current Staff Performing at Capacity</i>	Green	Serverly Understaffed- not good
<i>Resources</i>	Red	Insufficiently Funded
<i>Oversight</i>	Red	Needs Better Direction
2 Project Selection and Bond Language		
<i>Better Preception/ Better Balance</i>	Yellow	Alternative Resources for Certain Projects to Assist with Perception & Balance
<i>Continue Improving Project Selection</i>	Yellow	Selection Process as a Whole Needs Continuous Process Improvement
3 Current Debt Level		
	Red	367 M Left in Authority to Issue, Public Burden
4 Ability to Manage Construction Projects		
<i>Hired More Qualified Project Managers</i>	Green	Kudos
<i>Better Construction Delivery Methods</i>	Green	More Kudos
<i>Planning & Coordination</i>	Yellow	Maintenance, Construction Planning and Admin. All Need to be on Same Page.
<i>Long Range Planning</i>	Red	Long Range Schedule and Cost of Projects
5 Transparency and Reporting		
<i>Financial Reports are Outstanding</i>	Green	Transformation was Time Consuming & Necessary
<i>Timelines and Follow Up</i>	Yellow	Master Timeline on All Projects, General Follow Up
6 Ability to Maintain Once Built		
	Red	Warranties, Document Storage and Organization
7 Should the CBOC Endorse a Future Bond		
	Yellow	Ad Hoc Would Like Entire CBOC to Consider our Analysis Before Commenting

Overall Comment

- 1 Continue to Improve the Maintenance and Construction Departments and Better Assess What is Needed.
- 2 Critical Analysis and Plan to Fully Staff Maintenance Dept. Based Upon Industry Standards.
- 3 Develop a Service Request Que/ Process to Assign Work Flow and Communicate with End User.

Exhibit I - Scopes of Work for Bond Audit

The scope of services for Proposition O Bond Performance Audit may include but are not limited to, the following:

1. Conduct performance audit procedures in accordance with Generally Accepted Government Audit Procedures (GAGAS).
2. Proposition 39 Compliance - Verification of SUHSD compliance with Proposition 39, which requires that Bond proceeds only be used for school facilities projects that were listed with the 2006 Proposition O Bond Fund.
3. District and Professional Services Staffing Plan for the Bond Program – Review of the District’s staffing plan for an approach to in-house staffing and consultant staffing that includes key metrics, such as, positions staffed, number of personnel, number of planned projects, and dollar value of planned projects utilized by the District to help determine organizational structure alignment with the Bond Program needs as segregated by modernization versus new project staffing needs.
4. Design and Construction Schedules Cash Flow Analysis – Review for the use of methods to track the schedule of available revenues and expenditures for all projects and to plan each building project in accordance with the availability of funds. Compare the District’s revenues and expenditures cash flow analysis and reporting to Government Financial Officers Association (GFOA) guidance on cash flow reporting and management guidance. Determine whether the District confirms the availability and appropriateness of revenue and cash sources for Bond Program financial management. Assess whether the District measures the adequacy of cash flow in relation to project requirements by timeframe for Proposition O.
5. Design and Construction Budget Management – Compare design and construction budget management practices to GFOA standards to measure the effectiveness of controls surrounding Bond-funded projects. Review for the use and reporting of adopted budget, budget-to-actual, budget-to-projected expenditures and revenue and means to clarify Bond Program progress and financial standing (e.g., narratives, graphs, charts, etc.). Analyze the design of budgetary management controls for the documentation and explanation of deviations from the original budget by key construction component for user reference.

6. Bidding and Procurement Procedures – Validate support for the use of sole source procurement was documented, cost justification was available and required approvals were applied. Summarize sole source procurement documentation reviewed and instances where the specifications were narrowly defined to be vendor specific. For competitive bids, verify compliance with requirements of the California school construction state requirements, Public Contracting Code, and state and other relevant laws and regulations. Evaluate procurement controls for application of competitive and compliant contracting practices. Review contractual pricing and change orders for increases to competitively bid project amounts when then project scope did not change.
7. Bond Program Master Planning and Reporting:
 - a. Master Planning – Review for the design and implementation of a master plan that identifies construction program scope priorities for the use of Proposition O funds. Determine whether plan established prioritization objectives using criteria such as facility safety, longevity and educational requirements. Assess the support for estimates used for establishing master plan budgets and use of the master plan in priorities in determining the use of Bond Program funds. Assess the basis for approval of Form 3500 requests, verify application of required approvals and ascertain the prioritization of approved requests, alignment with Master Plan priorities and status reporting.
 - b. Bond Program Reporting – Review for separated and distinct financial and budgetary reporting for Proposition O. Assess whether a standalone Proposition O report is provided to the Board of Trustees and Public to summarize progress against Bond Program plans with actual and forecasted cost comparison to budgets for planned projects. Review construction change order information reporting to required end users per District Policy to identify total change order impact for each project with cause and responsibilities for the change identified. Additionally, verify the application of Public Contract Code section 20118.4 for supporting documentation of cost and cause analysis applicable to change order approval decisions prior to change orders submission to the District Board of Trustees.
8. Claim Avoidance Procedures – Review for the implementation of procedures designed to prevent claims filed against the District related to construction projects for the period.

9. Materials Specifications – Determine whether the District has and uses a standardized items list and educational specifications, for Bond Program materials procurement, to identify facilities material requirements. Assess whether District materials requirements are available to project architects and designers, and verify whether materials specifications are used in procurements and provided to all bidders during the procurement process. Review for cost-benefit analysis performed in setting materials standards and for District Management approvals required for significant materials specification changes.
10. Cost Benefit and Value Engineering Analyses – Review cost benefit and value engineering analyses procedures and documentation of practices applied. Verify whether analyses conducted to determine if the requirements (i.e., materials, assets, systems, etc.) of the project or equipment purchase could be obtained at a lower price or for a better value, specifically when weighing cost, time and function. Assess whether value is determined by objective criteria that may include, but need not be limited to, price, features, functions, lifecycle costs and other criteria deemed appropriate by the District. Compare District practices to guidelines recommended by SAVE International®. Assess whether the District determined a cost threshold for the application of value engineering in a practical manner.
11. Maintenance of District Assets Funded with Proposition O and Warranty Conditions Compliance – Review District practices for maintenance of a list for all assets incorporated into school site construction and complete and accurate information regarding warrantied items. Verify the District implementation of controls surrounding the required maintenance of its assets in accordance with warranty terms, application of a formal system of logging this information for inventory purposes and use of warranties where possible.

END OF DOCUMENT

PERFORMANCE AUDIT TIMELINE

Time Period	Responsible Party	Action
February	Audit/Finance Subcommittee CBOC	Review performance audit scope
March	Audit/Finance Subcommittee CBOC	Finalize performance audit scope
March 28th Board of Trustees' meeting	Board of Trustees	Approve performance audit RFP
April, May & June	Staff	RFP process (to include advertisement of district proposal/ evaluation of audit firm proposals/panel interview of prospective firms)
June 26th Board of Trustees' meeting	Board of Trustees	Approve recommendation of the audit firm
July, August, September, October	Audit firm	Conduct performance audit & prepare draft audit
October	Audit/Finance Subcommittee CBOC	Review draft performance audit
November	Audit/Finance Subcommittee CBOC	Review final performance audit
December 11th Board of Trustees' meeting	Board of Trustees	Accept final performance audit