



## **Annual Report for FY 15-16: Sweetwater Union High School District Citizens Bond Oversight Committee**

The Citizens Bond Oversight Committee (CBOC) is pleased to forward its ninth annual report on the \$644 million general obligation Proposition “O” bond initiative. This report will cover the 2015 -2016 fiscal year for the period of July 1, 2015 through June 30, 2016.

Principal duties of the CBOC are to ensure that proceeds have been expended for the purposes set forth in the Proposition “O” ballot language, report the progress annually to the public and provide a compliance statement. Education Code Section 15278 (b) provides the specific role of our CBOC:

- *The purpose of the citizens' oversight committee shall be to inform the public concerning the expenditure of bond revenues.*
- *The citizens' oversight committee shall actively review and report on the proper expenditure of taxpayers' money for school construction.*

The Sweetwater’s Board of Trustees is responsible for monitoring, prioritization of projects commenced and spending levels of individual projects. The CBOC has no authority over how money is spent. However by reporting on the proper expenditure of funds and holding the District accountable for their decisions, we may have an impact on future spending decisions.

This report highlights many of policy and programmatic issues addressed by the CBOC. During the 2015-2016 fiscal year, the Committee met monthly and where appropriate called Special Meetings.

This year once again emphasized site tours. These site tours are extremely eye opening and bring to light issues which may have not otherwise come to light had we just held our meetings at the District Central Offices.

There were detailed monthly Chair Reports presented to the Board outlining the results of our monthly meetings and key reports related to the Bond Program. The District completed the following required efforts:

- Financial Audit – Annual, performed by Vavrinek, Trine, Day & Co.; LLP
- Performance Audit - Annual, completed by Moss Adams.

All audits were performed under the guidelines of Proposition 39, as well as the Generally Accepted Government Accounting Standards (GAGAS). For the fourth time, Committee members participated in the Request for Proposal and interview processes for the annual performance audit. The District is to be commended for involving the CBOC in the Audit process.

Pursuant to the Education Code 15278 and Passage of Proposition 39 and subsequent legislative revisions, the Bond Oversight Committee did fulfill its role of independence and representation of the citizens of this District. Where appropriate compliments were given. If issues needed more information or improvements needed, the CBOC exercised its independence and made forthright comments and recommendations.

This Annual Report will consist of the following: 1) Citizen's Bond Oversight Committee Report on Proposition O Bond Program and Expenditures 3) Performance Audit Results and Comments 3) Financial Summary 4) Closing Comments

As was the case last year, this CBOC was actively engaged and committed to doing our job by being actively engaged in an Oversight process. We were clearly independent and asked the tough questions where appropriate.

Fiscal Year 2015-16 was another significant year of progress for the Sweetwater Union High School District Bond Program and progress in our Oversight role. We had two new members who added their significant professional expertise and experience to the CBOC.

### **Citizen's Bond Oversight Committee Report on Proposition O Bond Program and Expenditures**

The CBOC presents monthly Chair Reports which summarize the activities of the Oversight Committee during year. In effect the Board and public receive a "mini" Annual Report each month so key issues and areas of concerns can be reported on a timely basis. The issues and comments provided were below were discussed in one or more of these monthly Chair Reports:

1. The District made improvements or took actions that will result in the improved accuracy and completeness of information provided to the CBOC. An Information Log tracking outstanding requests for CBOC Data was rigorously followed as part of our CBOC meeting. There was a contract executed for a new Program Management Software Accountability).

Acquisition of this software will improve the completeness of information presented to the CBOC and is hoped to improve the communication among District Departments. Completeness and timeliness of information presented to the CBOC has been an issue of continuing concern but did improve during the fiscal year.

2. The CBOC continued to press for improved reports to the Committee and Public. Vice Chair Gutowski presented options for presentation of information. Data such as original budget and revised budget, projected versus actual expenditures to date, original vs. revised completion date need to presented in a clear format. There was still room for improvement.

3. The CBOC played an active role in commenting on Project Labor Agreements for the Bond Program. The issue of Project Labor Agreements was a controversial and challenging issue for the CBOC. Our Committee definitely felt it was appropriate to report to the Public and Board our views on the merits of such an approach.

The CBOC adopted the following recommendation regarding PLA's:

*In the interest of public trust and transparency the CBOC requests a 4 month moratorium on Resolution No. 4391 to assess data on the pros and cons of Project Labor agreements. In addition the CBOC would like to assess and recommend; better construction delivery methods, pre qualification requirements for the contractor pool, inspection process, and methods of project management that would address the totality of the problems impacting projects from being on budget, on time, and with quality work.*

The overall theme in this CBOC discussion can be summarized as a question: “What are the current significant issues with the Bond Program that are going to be solved with a PLA that could not be dealt with by another approach?”. The corollary question to this is “Where is the data that can provide the metrics of these project issues needing to be solved?”

4. There was a persistent emphasis on the need for a clear and logical priority setting process for Projects and improvements. The CBOC continued to emphasize the importance of having appropriate priorities with an emphasis on a classroom first approach to funding. The Site tours have highlighted the disparity in improvements by campus. There was significant dismay on how some schools who had substantial Proposition O improvements could still be without air conditioned classrooms.

5. There was an active role by the CBOC in questioning the adequacy of warranty compliance by District staff. The Performance Audit outlined significant concerns regarding complying with warranties and preserving the assets funded with Proposition O. The Performance Audit stating the following:

The District does not maintain an Owner asset list for all assets incorporated into school site construction and is therefore unable to provide complete and accurate information regarding warrantied items. The District has limited controls surrounding the required maintenance of its assets and no formal system of logging this information for inventory purposes. Criteria have not been established to determine which assets have warranty conditions and which do not, impacting the District’s ability to consistently satisfy necessary warranty requirements. Currently, the District does not have a list of all warrantied items, including the conditions that are essential to the acceptance of the warranty. A detailed maintenance log is not in place to ensure that warranty conditions are followed for Bond Program projects.

The CBOC will continue to play an active discussion on this issue until it is resolved to our satisfaction.

6. The CBOC took a strong position against the District seeking a new Bond Measure at this time. At our March 23, 2016 Citizen 's Bond Oversight Committee we adopted the following recommendations relative to the pursuit of a November 2016 bond election:

- ✓ It is too soon to ask voters for additional school bond taxing authority bond what has been authorized for in Proposition O.
- ✓ The District needs more time to fully implement management and programmatic improvements before asking for additional taxing and spending authority.
- ✓ Prior to going forward with a new bond measure the District needs to review: *better construction delivery methods, prequalification requirements for the contractor pool, inspection process, and methods of project management that would. address the totality of the problems impacting projects from being on*

*budget, on time, and with quality work .*

- ✓ Before there is new Bond Program the District should demonstrate clearly the reasons why they must go for a new Bond measure when there is remaining authorizations pending in the Proposition O Program.

In summary, it was too soon to ask the voters for a tax increase absent further process and program improvements in the bond program. Much more public involvement and input was needed before making a decision on seeking additional bond funding. The Board decided not to pursue such a Bond Election.

7. There was strong support for maintenance of District Assets funded with Bond Proceeds via a robust Deferred Maintenance Program. The Site Tours brought to light clear areas that required deferred maintenance. Periodic reports were presented by staff on plans for Deferred Maintenance. A study was conducted by the County Office of Education on potential process improvements for District Maintenance and Operations. As mentioned above, the area of warranty compliance which is related to deferred maintenance was a significant area of concern by our CBOC. Record keeping for projects and District Deferred maintenance documentation and best practice for asset preservation are two areas of particular concern. The CBOC remains committed to reviewing such deferred maintenance and proposals as well as making sure through the entire design/construction/inspection process that these public assets are designed and constructed appropriately and preserved to get maximum benefit while reducing future costs through effective deferred maintenance (e.g. warranty compliance).

8. There was a challenge in getting a breakdown in legal costs related to the Bond Program. The June 2016 Chair Report stated the following: "While we fully understand not releasing any information that would compromise pending litigation, there has to be a way to get more information than just aggregate data on expenditures by firm. Moreover there is a concern there may be some actual legal expenditures that have not been accounted in the information provided to us. An example question what are the legal fees by campus associated with the Title IX case? What components of the Gilbane Law Suit being paid to outside firms.

9. Issues were raised about a lack of Cost Benefit Analyses in evaluating project decisions and alternatives. During our discussion going through past requests for information, the discussion focused on processes used for evaluating the cost effectiveness of artificial versus natural turf. CBOC concerns raised while specific to the natural vs. artificial turf issue could be applied to all District Projects. There needs to be more rigid, consistent, and thorough cost benefit analysis for bond projects. This is consistent with the findings on the need for value engineering outlined in the Performance Audit.

10. Proposition O Bond proceeds were spend on the Charter School Funding at Southwest Middle School, a project that was not authorized by the voters and contained in the original bond language. Data presented by staff indicted that some Proposition O Bond Proceeds were spent on a Charter Elementary School within the Southwest Middle School site. While Charter School improvements can be made with bond proceeds, the bond language says nothing about improvements for any school less than its core. student base K7-K12.

11. There was some concern during the year that information was not being submitted enough in advance to the CBOC meeting. Frequently we received information well after the posting of the Agenda or at the meeting itself. This situation improved during the year.

### **Performance Audit Results and Comments**

A summary of the key issues and findings of the Moss Adams Performance Audit are as follows:

The District has not adequately justified their staffing costs in relation to bond program resource requirements.

- As of June 30, 2015 the District was still a “Take Exception” designation as it relates to documenting staffing costs charged to the Program.

- The District has good internal documentation of change orders, rationale etc. but the actual reporting of the change order information to the CBOC and Board needs improvement.

- Substantial work is needed in the area of cash flow analysis of the bond program. The District is in compliance with State of California policies with respect to bidding.

- The District does not have a consistent set of specifications applied to projects. This can add substantially to bond program costs. Dr. Aguirre said he was hoping to have this resolved by the end of June.

- Major improvements are needed in the area of Project Reporting (Note: Vice Chair Gutowski has done an excellent job at providing alternative reports formats).

- The District needs to make sure it clearly delineates its priorities in relation to future project expenditure decisions.

- There is not adequate or systemized Warranty tracking information process. It is best practice to determine specific project/facility warranty requirements at project close out.

- The District does not have a cost benefit analysis process. It was given several opportunities to produce such information.

- The District does not have a clear written claims avoidance procedure.

The CBOC was pleased with the overall work of Moss Adams.

<sup>1</sup>(Note: This process had been implemented in December. For this Performance Audit there were several components of the Audit that had to end at the end of the fiscal year ie. June 30. These were the legal requirements related to actual expenditures which include a determination that no operating expenditures were paid for from bond proceeds, expenditures were on projects listed on the ballot language, and expenditures were related to those facilities allowed by the Constitution aka capital projects and related costs).

## **Financial Summary**

As mentioned in the introductory statement to this Annual Report, the accounting firm of Vavrinek, Trine, Day & Co.; LLP completed a Financial Audit of the Proposition O Building Fund. This report was released on December 8, 2016 and approved by the Board on December 12, 2016. The Financial Audit focused on the accuracy and fairness of the Financial Statements prepared by the District on the Proposition O Building Fund. The following is a highlight from the Financial Audit:

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund (Proposition O) of the Sweetwater Union High School District at June 30, 2016, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During FY 15-16 the Proposition O Building Fund expenditures were \$5,107,000 with \$2,458,968 related to building and improvements. This Fiscal Year was characterized by significantly lower level of actual construction expenditures and overall spending on the Bond Program. From an expenditure standpoint there was emphasis on consultant staff costs related to Master and project planning efforts.

Attached to this report is a Planning and Construction Report that outlines in more detail Project efforts and status.

## **Concluding Remarks**

There was progress this year in this Bond Program under the leadership of Dr. Aguirre. However we still have a ways to go particularly in the area of record keeping, warranty compliance, and justification and documentation for project decisions. We need to continually emphasize the "classroom first" approach to expenditures consistent with the Bond Language approved by the Voters.

This was a challenging year in light of two significant policy issues. These were Project Labor Agreements and when to hold another Bond Election. The CBOC will continue to be actively involved in reporting our views on these and other subjects as they arise.