

Sweetwater Union High School District

Proposition O Bond Fund Performance Audit Report
for the Fiscal Year Ended June 30, 2016

Prepared by:

MOSS ADAMS LLP
4747 Executive Drive, Suite 1300
San Diego, CA 92121

March 20, 2017

Board of Trustees
Sweetwater Union High School District
1130 Fifth Avenue
Chula Vista, CA 91911

Subject: 2006 Proposition O Construction Bond Performance Audit Report
for the Fiscal Year Ended June 30, 2016

Dear Board Members:

This report presents the results of our performance audit of the Sweetwater Union High School District's (SUHSD or the District) 2006 Proposition O Construction Bond (Bond Program) as required by District objectives and California Proposition 39, the "Smaller Classes, Safer Schools and Financial Accountability Act" (Proposition 39), California Constitution (State Constitution) Article XIII A, and California Education Code (Education Code) Section 15272. These California State (State) requirements specify that the proceeds from the sale of school facilities bonds are expended only on the specific projects listed in the proposition authorizing the sale of bonds (Listed Projects).

Both the State Constitution and Education Code require an annual independent performance audit to verify Bond proceeds are used on Listed Projects. Finally, Senate Bill 1473, "School facilities bond proceeds: performance audits" (SB 1473), approved by the Governor on September 23, 2010, amended California Education Code to add Section 15286, which requires that the annual performance audit is conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States.

Executive Summary

We conducted this Construction Bond Program performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The performance audit objectives, scope, methodology, conclusions, and a summary of the views of responsible District Officials are included in the report body.

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Based on the performance audit procedures performed and the results obtained, we have met our audit objective. We conclude that for the fiscal year (FY) ended June 30, 2016, Bond proceeds were used only for Listed Projects under the 2006 Proposition O, which authorized the sale of the bond; however, the District incorrectly spent \$135,760 within Propositions O's Bond account for District administrative office equipment and information technology upgrades, although funds were transferred in advance of the Bond fund to cover these expenditures. Additionally, we noted improvement recommendations, reported below, in Expenditure Management and Controls, Program Management, Budgetary Management and Change Order Reporting, Procurement Controls and Contract Administration, Claim Avoidance Procedures and Controls, Cost Benefit and Value Engineering Analyses, and Maintenance of District Asset Funded and Warranty Conditions Compliance.

Performance audit procedures, with the exception of Proposition 39 compliance testing, were expanded to cover the period of July 1, 2015 through December 31, 2016. For the FY 2014/15 audit, an addendum to the November 10, 2015 agreement for bond performance audit services was executed on February 10, 2016, with performance audit procedures, other than Proposition 39 expenditure and procurement compliance testing, to be expanded to cover the period from July 1, 2014 to December 31, 2015. Based on guidance provided by the District, the equivalent extended testing time period was applied during the FY 2016 audit. Proposition 39 expenditure testing and payment procedures were audited through June 30, 2016.

Based on our assessment, we identified a number of good management practices as described below.

Labor Cost Identification

- Timesheets were available to identify labor costs to the Bond Program for Management and Non-Management employees beginning on October 23, 2015 and April 1, 2016, respectively. In addition, the District was able to provide a retroactive labor charge analysis to justify cost allocations on an annual basis for the periods prior to timesheet implementation.

Budgetary Management and Reporting

- Construction project management software was implemented to report Proposition O projects for the Board of Trustees and Citizens' Bond Oversight Committee. For instance, the Active Projects Monthly Status Report allows end users to analyze key construction reporting metrics, such as financial performance relative to adopted budgets, budget to actuals, budget to protected expenditures, and a breakdown of costs by category (e.g., site cost, soft cost, hard cost, FF&E, and contingency) as recommended by the Government Finance Officers Association (GFOA). This was a joint effort between Planning and Construction and Fiscal Services (see Objective No. 4 and 6b).

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- A Capital Projects Financing & Reporting Manager position was created to support the District's capital program reporting requirements and add accountability to program reporting.

Materials Specifications

- The District Architect, a newly created position, provided the Board the draft district design standards and technical specifications in response to the Proposition O audit. The standards and technical specifications have also been provided for review by the District's instructional staff, Maintenance Department, Planning and Construction Department, and Citizens' Bond Oversight Committee. These are living documents that will be updated as educational facility needs and construction technology changes. They will be available to all bidders during the procurement process. The final adoption of the standards is expected in April 2017 (see Objective No. 8).

Facilities Programming and Master Plan Approach

- The District utilizes other revenue sources to maximize the impact of Proposition O funds.
- The District has an internal policy and procedure manual for its construction activities.

Communication and Fulfilment of Site Expectations

- Approved CBOC meeting minutes were posted on the CBOC website.
- The CBOC conducted site visits to school construction projects during the year.
- The Proposition O Bond Program website was updated periodically by DPC to provide key project information, including budget information, variance analyses, and project photos, as well as CBOC agendas and meeting minutes.

Additionally, we evaluated the effectiveness and efficiency of internal controls to provide an analysis of the School Construction Program so that those charged with District governance and oversight can use the information to improve program performance and operations. We identified the following internal control deficiencies related to compliance with Bond Program requirements, effectiveness, and efficiency of operations:

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Expenditure Management and Controls

- The District incorrectly spent \$135,760 for administrative office charges within the Bond Program's account, although funds were transferred in advance of the Bond fund to cover these expenditures. Per the Proposition ballot language, "No proceeds of the Bonds shall be used for refurbishment or reconstruction of the District's administrative or business offices." The District specified that this is a historic accounting procedure that no longer takes place starting with Bond Sale No. 2 (see Objective No. 1).
- The School's Construction procedures for approving invoices during the absence of Planning and Construction personnel lack clear guidance and documentation. For example, we noted one instance when a Project Manager signed off on behalf of the Director of Construction and Planning, and District procedures do not specify that this is allowable or outline a backup approval authority (see Objective No. 1).

Program Management

- The District has taken steps to address the master plan of the Bond Program recommendation provided in the prior year's report; however, the Long Range Facilities Master Plan presented to the Board on March 14, 2016 did not clearly identify the priorities and associated budget allocations for the remaining issuances of Proposition O funds. The Plan did not establish prioritization objectives using criteria, such as facility safety, longevity, and educational requirements for scope items listed within the ballot language. The most recent Long Range Facilities Master Plan was approved in 2006. Bond Sale 2 budget allocations identified project scopes and cost estimates based on District calculations and criteria. Without an updated Board-approved Long Range Facilities Master Plan, it is unclear how projects and expenditures were prioritized through December 31, 2016 (see Objective 6a).
- The District and Professional Services Staffing Plan (Staffing Plan) for the Bond Program was compared to the number of Bond Program projects to assess the approach to in-house and consultant staffing for Bond Program projects, including planning, design, and construction project needs. The Staffing Plan considers both internal staffing and contract staffing and allocates the total personnel according to funding source, but it does not specifically address the construction project needs of the Bond Program (see Objective No. 2).

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Budgetary Management and Change Order Reporting

- The District's revenues and expenditures cash flow analysis and reporting was compared against practices provided by the GFOA and National Advisory Council on State and Local Budgeting. The District has a revenue and expenditures cash flow analysis and forecast for Proposition O. However, the District does not provide cash flow and forecast reports to the CBOC on a monthly basis (see Objective No. 3).
- The design and construction budget management practices were compared to GFOA standards to measure the effectiveness of controls surrounding Bond funded projects. Inconsistent change order narrative and/or inadequate change order total descriptions were noted within the monthly reporting. No details were available for contingency usage amount, description, and BOT approval date by project or in total for the program. Without consistent change order and contingency documentation and information, end users are unable to determine deviations from the original budget by key construction component (see Objective No. 4).

Procurement Controls and Contract Administration

- District procurement practices were evaluated against District procedures, California State School Requirements, and California's Public Contracting Code. The following observations resulted from our assessment:
 - Quote or Proposal requirements for a contract were not met, resulting in non-compliance with District procedures (see Objective No. 5a).
 - A non-pre-qualified consultant was selected for inspector of record services, resulting in non-compliance with District procedures, since the inspector was not on the list approved by the Board on August 19, 2013 (see Objective No. 5b).
 - The School's Construction procedures for specialized consultant selection lack clear guidance and documentation requirements. For example, the District does not have documentation requirements for validating that at least three firms were notified by the Project Managers as part of the selection process per procedure (see Objective No. 5c).
 - The prequalification list for required contractors and subcontractors is not updated on an annual basis. The District provided a list of prequalified contractors and MEP (Mechanical, Electrical, and Plumbing) subcontractors for projects that exceed \$1 million. However, solicitations through specific trade journals do not take place each year to ensure a complete list of interested and qualified contractors and subcontractors (see Objective No. 5d).

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Claim Avoidance Procedures and Controls

- District procedures and practices were evaluated for anticipating, identifying, documenting, and addressing potential claims. The District has a Claims Management and Dispute Claims Avoidance Procedure that was presented to the Board in June 2016. However, there is no formal procedure, documentation, or reporting available that addresses how to avoid potential claims (see Objective No. 7).

Cost Benefit and Value Engineering Analyses

- The District does not have a process in place for conducting cost benefit analyses and value engineering on its projects (see Objective 9).

Maintenance of District Assets Funded and Warranty Conditions Compliance

- The District does not maintain an Owner asset list for all assets incorporated into school site construction. As a result, the District is unable to provide specific information regarding warranted items (see Objective 10).

Management remains responsible for the proper implementation and operation of an adequate internal control system. Due to the inherent limitations of any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

This report is intended solely for the use of the District's Board of Trustees, District Administration, and the Citizens' Bond Oversight Committee. This report is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to express our appreciation to you and all members of your staff for your cooperation throughout this performance audit.

Sincerely,

MOSS ADAMS LLP

Moss Adams LLP

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BACKGROUND INFORMATION

Sweetwater Union High School District Approved Bond Funds

In 2006, San Diego County voters approved Bond Proposition O for \$644 million to provide improvements to SUHSD facilities. The Proposition O School Construction Bond funds were to be used for school repairs, rehabilitation, technology upgrades, health and safety needs, and asbestos and lead paint removal at the District's local schools. The Bond Program is in its tenth year of implementation.

Fiscal year ended June 30, 2016 Bond Program accounting records showed Proposition O Bond Program expenditures of \$5,277,708 in the current year.

California State Requirements

A Construction Bond Program performance audit is required for SUHSD 2006 Proposition O Construction Bonds by Proposition 39, State Constitution Article XIII A, and Education Code Section 15272. These State requirements specify that the proceeds from the sale of school facilities bonds are expended only on Listed Projects. Both the State Constitution and Education Code require an annual independent performance audit to verify Bond proceeds are used on Listed Projects. Finally, SB 1473, approved by the Governor on September 23, 2010, amended the California Education Code to add Section 15286, which requires that an annual performance audit is conducted in accordance with the GAGAS issued by the Comptroller General of the United States.

Proposition 39 was passed by California voters on November 7, 2000. Proposition 39 amended provisions to the California Constitution and to the California Education Code. The purpose and intent of the initiative was “to implement class size reduction, to ensure that our children learn in a secure and safe environment, and to ensure that school districts are accountable for prudent and responsible spending for school facilities.” It provided for the following amendments to the California Constitution and California Education Code:

- a) “To provide an exception to the limitation on ad valorem property taxes and the two-third vote requirements to allow school districts, community college districts, and county offices of education to equip our schools for the 21st Century, to provide our children with smaller classes, and to ensure our children’s safety by repairing, building, furnishing and equipping school facilities;
- b) “To require school district boards, community college boards, and county offices of education to evaluate safety, class size reduction and information technology needs in developing a list of specific projects to present to the voters;
- c) “To ensure that before they vote, voters will be given a list of specific projects their bond money will be used for;

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- d) “To require an annual, independent financial audit of the proceeds from the sale of the school facilities bonds until all of the proceeds have been expended for the specified school facilities projects; and
- e) “To ensure that the proceeds from the sale of school facilities bonds are used for specified school facilities projects only, and not for teacher and administrator salaries and other school operating expenses, by requiring an annual independent performance audit to ensure that the funds have been expended on specific projects only.”

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the performance audit included verification of SUHSD compliance with Proposition 39, which required that Bond proceeds only be used for school facilities projects that were listed with the Bond. The District created the 2006 Proposition O Bond funds under Proposition 39 and, as such, has been required to expend these fund proceeds only on Listed Projects, and not for school operating expenses, for the District FY ended June 30, 2016. The Proposition O Bond Program expended \$5,277,708 in FY 2016.

We conducted this Construction Bond Program performance audit in accordance with GAGAS. As required by GAGAS, we planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objectives. Because GAGAS performance audit procedures require reasonable assurance, and these audit procedures did not require detailed examination of all transactions and activities, there is a risk that compliance errors, fraud, or illegal acts may exist that were not detected by us. Based on the performance audit procedures performed and the results obtained, we have met our audit objective.

Performance audit procedures, with the exception of Proposition 39 compliance testing, were expanded to cover the period from July 1, 2015, through December 31, 2016. Proposition 39 expenditure testing and procurement procedures were audited through June 30, 2016.

Management remains responsible for the proper implementation and operation of an adequate internal control system. Due to inherent limitations of any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

This performance audit did not constitute an audit of financial statements in accordance with *Government Auditing Standards*. Moss Adams was not engaged to, and did not render an opinion on the District's internal controls.

The performance audit objectives (as specified by the District and agreed upon for this performance audit) and methodology applied included the following:

1. Compliance with Ballot Language

We reviewed the Bond Program's financial records and expenditures to verify that funds were used for approved Bond Program purposes as set forth in the ballot language, Bond documents, Board-approved listed projects and Proposition 39 requirements. We reviewed the Bond Program's financial records and expenditures by obtaining the Comprehensive Annual Financial Report and comparing the balances to the District's detailed accounting records. We analyzed control processes, tested the Program expenditure cycle, and sampled supporting documentation to validate internal controls. Testing procedures included the use of Audit Command Language (ACL) to select a statistical, monetary unit sample to provide a 90 percent level

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of confidence that expenditure transactions from the Bond Program were compliant with Program and legal requirements. We tested 62 expenditures totaling \$3,282,396. These transactions included payments to contractors and vendors, and journal entries of inter-fund transfers. Our testing procedures were performed to verify:

- Expenditures were for Listed Projects.
- Approval of payment applications and invoices.
- Expenditure compliance with approved contract, purchase order, or other procurement documentation.
- Expenditures were recorded in the proper period, accurate, and complete manner on the District's books and records.
- Expenditure allocability and allowability for allowance and contingency usage per sampled job contract language.

We interviewed District and Bond Program personnel and analyzed key documentation to assess the design of controls over Bond expenditures, including review, authorization, and oversight of the District's listed projects, contracts executed, accounting for Bond proceeds issued, and payments made and recorded for FY 2016. The documents we analyzed to assess Bond Program risk and controls design included:

- Proposition 39 Bond language and Project Lists.
- The District's construction planning documentation.
- Board of Trustees meeting agendas and minutes.
- Applicable Construction Program contract documentation.
- Accounting for Bond Program proceeds and supporting documentation for expenditures taken from the District's books and records.
- Review of Project Expenditures (15/16) and Voter Approved Ballot Language

We analyzed the associated sampled expenditure contracts for a more in-depth review of the project expenditures. Supporting documentation for District labor charged was analyzed for complete identification of staff activities incurred and accurate allocation of cost between the Bond Program and other District activities.

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2. District and Professional Services Staffing Plan for the Bond Program

We reviewed 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.

3. Design and Construction Schedules Cash Flow Analysis

We reviewed the methods used 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. We compared the District's revenues and expenditures cash flow analysis and reporting to GFOA guidance on cash flow reporting and management guidance. We determined whether the District confirms the availability and appropriateness of revenue and cash sources for Bond Program financial management. We assessed whether the District measures the adequacy of cash flow in relation to project requirements by timeframe for Proposition O.

4. Design and Construction Costs Budget Management

We compared design and construction budget management practices to GFOA standards to measure the effectiveness of controls surrounding Bond-funded projects. We reviewed the 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.). We analyzed the design of budgetary management controls for documentation and explanation of deviations from the original budget by key construction component for user reference.

5. Bidding and Procurement Procedures

We validated that support for the use of sole source procurement was documented. For competitive bids, we verified compliance with California school construction state requirements, the Public Contracting Code, and state and other relevant laws and regulations. We evaluated procurement controls for the application of competitive and compliant contracting practices. We reviewed increases to competitively bid projects for compliance with District procedures and Public Contracting Code.

6a. Master Planning

We reviewed that the design and implementation of a master plan identifies construction program scope priorities for the use of Proposition O funds. We assessed whether the plan established prioritization objectives using criteria such as facility safety, longevity, and educational requirements. We assessed the support for estimates used for establishing master plan budgets and

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that the master plan priorities were used to determine the use of Bond Program funds. We assessed the basis for approval of Form 3500 requests, verified applications for required approvals, and ascertained the prioritization of those approvals.

6b. Bond Program Reporting

We reviewed for separate and distinct financial and budgetary reporting for Proposition O. We assessed 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. We reviewed 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, we verified 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 being submitted to the District Board of Trustees.

7. Claim Avoidance Procedures

We reviewed the implementation of procedures designed to prevent claims filed against the District related to construction projects for the period.

8. Materials Specifications

We determined whether the District has and uses a standardized items list and educational specifications for Bond Program materials procurement to identify facilities material requirements. We assessed whether District materials requirements are available to project architects and designers and verified whether materials specifications are used in procurements and provided to all bidders during the procurement process. We reviewed how the cost-benefit analysis was used to set materials standards and for District Management approvals required for significant materials specification changes.

9. Cost Benefit and Value Engineering Analysis

We reviewed the cost benefit and value engineering analyses procedures and documentation of practices applied. We verified whether analyses were conducted to determine if the requirements (i.e., materials, assets, systems) 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. We assessed 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. We compared District practices to guidelines recommended by SAVE International®.

10. Maintenance of District Assets Funded with Proposition O and Warranty Conditions Compliance

We reviewed District practices for maintenance of a list for all assets incorporated into school site construction and complete and accurate information regarding warrantied items. We verified 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.

Interviews

We interviewed key personnel responsible for administering the Bond Program, including senior management and staff from the District and Bond Program Management Team responsible for overseeing the work associated with the Bond Program. We also interviewed members of the Citizens' Bond Oversight Committee. The individuals interviewed are listed in Appendix C of this report.

AUDIT RESULTS

Objective No. 1 – Compliance with Ballot Language

1) **Observation:** We conclude that for FY 2016, Bond proceeds were expended only on allowable Proposition 39 expenses for which the sale of bond were authorized; however the District incorrectly spent \$135,760 for District administrative office equipment and information technology upgrades.

A. The District incorrectly spent \$135,760 within Proposition O’s Bond account for District administrative office equipment and information technology upgrades, although funds were transferred in advance of the Bond fund to cover these expenditures. The following sampled expenditure costs were identified:

- a. Nexus IS, Inc., Invoice: JC782736 Tech for \$97,379 with an invoice Description of “Purchase of District office equipment.”
- b. Accent Electronics, Inc. dba Standard Electronics, Invoice: 22298 Tech for \$38,382 with an invoice description of “Installation of District Office Wireless Drop for all departments.”

Per the Proposition ballot language, "No proceeds of the Bonds shall be used for refurbishment or reconstruction of the District's administrative or business offices." The District specified that offsetting revenue from Fund 35 was booked in FY 2014/15. The revenue entry specified was observed; however, the supporting documentation did not specifically identify these two expenditures. The District agreed to remove these incorrectly coded expenditures and the associated revenues from the Proposition O fund account resulting in a net impact of zero in FY 2016/17. Additionally, the District specified that this is a historic accounting procedure that no longer takes place.

Improvement Recommendation: The District should only record allowable expenditures within Proposition O’s expenditure fund. Non-compliant expenditures should be removed from Proposition O’s accounting fund and expenditure population.

B. The District had taken steps to address the labor direct cost identification recommendation for FY 2015/16 provided in the prior year’s report (Moss Adams 2015 Objective No. 3 and Moss Adams 2014 Objective No. 4); however, a full year implementation of labor charge allocations based on actual timecards has not taken place. Timesheets were available to identify labor costs to the Bond Program for Management and Non-Management employees starting October 23, 2015 and April 1, 2016 respectively. Management employees are defined as Project Managers and above and Non-Management employees are defined as Planning Specialist and Accounting staff. The timecards included information such as employee name, dates, and time worked, cost objective description, and employee and manager dated signatures. Timecards for both management and non-management staff were kept within the Planning and Construction Department and were reconciled at year end by the Internal Audit Department. The prior allocation methodologies were utilized for dates prior to timesheet

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implementation; however, the District was able to provide a retroactive labor charge analysis to justify cost allocations on an annual basis.

Improvement Recommendation: The District should continue the processes and controls needed to provide supporting documentation to validate that the applicability and accuracy of labor charged to Proposition O for a whole fiscal year. Specifically, the time tracking system should ensure that all costs incurred are identifiable and have a beneficial relationship to the Bond Program and cost objectives.

2) Additionally, we evaluated the effectiveness and efficiency of internal controls to provide an analysis of the School Construction Program so that those charged with District governance and oversight can use the information to improve program performance and operations. We identified one instance of a control deficiency and improvement opportunity related to the overall effectiveness and efficiency of the Bond Program:

A. The School's Construction procedures surrounding invoice approval for absent Planning and Construction personnel lack clear guidance and documentation. The Vendor Invoice Approval Form for Ninyo & Moore's Invoice No. 192935, PO No. SF SF782730, in the amount of \$1,814.82 required both the Project Manager and Director of Planning and Construction's approval signature. However, the Project Manager, signed on behalf of the acting Director of Planning and Construction at the time, due to the Director's scheduled absence. District procedures did not specifically address this authoritative approval process in absence of the Director of Planning and Construction.

Improvement Recommendation: The District should update vendor invoice authorization procedures to incorporate sign off procedures in case of absent personnel and/or authorized threshold amounts by employee type.

Objective No. 2 – District and Professional Services Staffing Plan for the Bond Program

Observation: The District and Professional Services Staffing Plan (Staffing Plan) was analyzed in order to compare the number and magnitude of Bond Program projects and to determine in-house and consultant staffing for Bond Program projects. **The District has not taken steps to address the staffing plan recommendation provided in the prior year's report (Moss Adams 2015 Objective No. 6).** Through December 31, 2016, the Staffing Plan, or Project Status Report, considered both internal staffing and contract staffing, and allocated the total personnel according to funding source, but did not specifically consider the project needs of the Bond Program. The Staffing Plan does not currently base staffing requirements on the Bond Program project needs and excludes key metrics such as the number of personnel, number of planned projects (segregated by modernization and new construction), and dollar value of planned projects, which could be analyzed to help determine if the Bond Program organizational structure is aligned with the Bond Program needs.

Improvement Recommendation: The Staffing Plan should be updated to correlate Bond Program projects to Bond Program staffing needs.

Objective No. 3 – Design and Construction Schedules Cash Flow Analysis

Observation: The District’s revenues and expenditures cash flow analysis and reporting was compared against GFOA and the National Advisory Council on State and Local on Cash Flow reporting practices. **The District has taken steps to address the design and construction schedules cash flow analysis recommendation provided in the prior year’s report (Moss Adams 2015 Objective No. 8).** During FY 2016, the District implemented the Account-Ability software system that allows the Planning and Construction Department to manage projected revenues and expenditures for Proposition O's Bond Sale No. 2 projects. A cash flow report was provided to the County of San Diego on September 6, 2016 for Bond Sale No. 2. The Cash Flow reported aggregated budgets and expenditures by timeframe for Proposition O’s Bond Sale No. 2 projects on a standalone cash basis. This information had not been provided to the Board or to the CBOC through December 31, 2016. Equivalent standalone reporting was not available for Proposition O, Bond Sale No.1, given the complexities of prior account mapping and documentation.

Improvement Recommendation: With the complexities the District faces regarding multiple, combined funding sources, budgets and expenditures in excess of the Bond issuance, cash flow analysis, and forecasts are essential to managing cash. As a best practice, District cash flow reporting should include revenues, cash, and expenditures by timeframe to document that sufficient funding is available to meet financial requirements for Proposition O, Bond Sale No. 2. This information should reconcile to the newly developed Capital Projects Monthly Status Report (see Objective No. 4 for further details) and be provided to the CBOC on a monthly basis.

Objective No. 4 – Design and Construction Costs and Budgets

Observation: The design and construction budget management practices were compared to GFOA standards to measure the effectiveness of controls surrounding Bond-funded projects. **The District has taken steps to address the design and construction budget recommendation provided in the prior year’s report (Moss Adams 2015 Objective No. 9 and 11).** During FY 2016, the District contracted with the San Diego County Office of Education to implement the Account-Ability construction project management software to report Proposition O projects for the Board of Trustees and Citizens’ Bond Oversight Committee. New monthly reporting from Account-Ability included the following reports:

- Consolidated Budget and Expenditure Monthly Status Report that includes project budgets, recommended new and adjusted budgets, project encumbrances, and project expenditures.
- Active Projects Monthly Status Report that includes project description, construction status, breakdown of budget and expenditures by cost group, budget history and commitments, project status photos, and key issues.
- Current Budget Detail Monthly Report that provides a detailed listing of the funding source for each of the Sweetwater Union High School District’s Capital Projects.

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The Active Projects Monthly Status Report allows end users to analyze key construction reporting metrics such as financial performance relative to adopted budgets, budget to actuals, budget to protected expenditures, and a breakdown of costs by category (e.g., site cost, soft cost, hard cost, FF&E, and contingency) as recommended by the GFOA. This report was provided to key stakeholders, including District Management, the Board of Trustees, and the CBOC on a monthly basis starting in October 2016. The District developed “Instructions for Completing the Active Project Monthly Status Report” on September 26, 2016 to document procedures performed. Project status photos and narratives surrounding key issues and change orders were available. However, construction project change order reporting differed by project. For example, in the October 2016 CBOC Report, Chula Vista High School had approved change orders of \$417,000 and no change order narrative, whereas Mar Vista High School had approved change orders of \$1,000,000 and the change order narrative included change order amounts, description, BOT approval dates and change percentage. The total change order amounts listed in the narrative did not total the \$1,000,000 approved change order amount reported. Inconsistent change order narrative or inadequate change order totals descriptions were also noted on other projects such as National City Middle School - Project 2, Sweetwater High - Parking Lot, Sweetwater High - Track & Field, etc. No details were available for contingency usage amount, description, and BOT approval date by project or in total for the program. Without consistent change order and contingency documentation and information, end users are unable to determine deviations from the original budget by key construction component.

Improvement Recommendation: As a best practice and consistent with the GFOA, we recommend that the District 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. Consistent change order impact and assigned responsibility details are needed within monthly Project Financial Reports to ensure that change order information is sufficiently reported to District Management, the BOT, and the CBOC. Change order, change amounts, and contingency change documentation should be reported in a consistent manner as defined by the District and include information such as change amount, percentages, descriptions, change responsibility, date of BOT approval, subtotals, and totals for easy end user reference. Change order, change amount, and contingency documentation should be available at both the project level and at the program level with both detailed and summary level information.

Objective No. 5 – Bidding and Procurement Procedures

Observation: District bidding and procurement practices were compared to the California State School Requirements and the Public Contracting Code. We assessed the bidding and procurement practices for sampled vendors that utilized Bond fund money and noted the following instances of non-compliance with District procedures and improvement opportunities:

- A. **Observation:** **Quote or Proposal requirements for a contract were not met resulting in a non-compliance with District procedures.** Sport Supply Group, Inc.’s PO No. 782918 in the amount of \$50,743.84 with a PO date of April 26, 2016 for bleachers at Montgomery High School’s softball field was prepared by the Purchasing Manager, and approved by the Director

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of Planning and Construction. Per Sweetwater’s Master Program Management Plan, personal property with contracts between \$8,000 and \$84,100 require “three quotes or proposal are needed or formal bid.” No other quotes or proposals were received and there was no formal bid for this scope of work. The District confirmed this was a deviation from procedures and no documentation was available to substantiate why this instance did not follow procedures.

Improvement Recommendation: We recommend that the Planning and Construction Department ensure that complete bid and procurement files are maintained to support all bids, awards, and awarded contract values. Controls should be implemented to prevent contract award selection differing from requirements per District procedures. The District should add procurement oversight controls and/or training to staff personnel to ensure compliance with policy.

- B. Observation: A non-pre-qualified consultant was selected for inspector of record services, resulting in potential non-compliance with District procedures.** Construction Quality Assurance Group, LLC was selected for Inspection of Record Services on PO No. 82681 and 782830 dated April 20, 2015 and September 28, 2015 in the amounts of \$129,500 and \$7,400 respectively. The consultant selection was ratified by the Board; however, per the District’s Master Program Management Plan under Selecting the Appropriate Consultant, specialized “consultants should be selected from the pre-approved list maintained by the Purchase Department.” The pre-qualified consultant list, approved by the Board on August 19, 2013, did not include the Construction Quality Assurance Group, resulting in potential noncompliance with procedures.

Improvement Recommendation: The Planning and Construction and Procurement Departments should comply with procedures and clarify whether consulting contracts should only be executed if they are on the pre-qualified consulting list. The District should review and update the controls surrounding contract execution, purchase order issuances, disbursements, and procurement reporting to prevent noncompliance with procedures. A checklist or equivalent mechanism, with appropriate sign-offs on procurement requirements, can serve as a good tool to for all relevant parties (Accounting as well as Planning and Construction and Procurement) to validate compliance with policy and procedure requirements. Additionally, given the last Board approval date was August, 19 2013 for the pre-qualified consultant list, the District should consider including specialized consultants scopes of work, as specified by the District’s procedures, in specific trade journals (see Observation 5d for further information) to generate an updated list of interested consultants.

- C. Observation: The School’s Construction procedures surrounding specialized consultant selection lack clear guidance and documentation requirements.** Per the District’s Master Program Management Plan under Consultant Contracts, “the Project Manager (PM) will review the pre-qualified consultant list and select at least three firms (if available) for each consultant needed.” The District does not have documentation requirements to validate that at three least firms were notified by the Project Managers. The following specialized consultants were selected by the District without documentation validating that at least three firms were solicited:

- a. Roesling-Nakamura Architects, Inc., PO No. 781647, dated March 19, 2014 in the amount of \$453,411.

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- b. Platt/Whitelaw Architects, PO 78098, dated November 13, 2015 in the amount of \$300,464.
- c. Inspector Group, PO No. 782508, dated November 9, 2015 in the amount of \$156,960.
- d. Ninyo Moore, PO No. 782660, dated April 23, 2015 in the amount of \$3,901.

Recommendation: The District should implement controls to confirm that Planning and Construction is obtaining at least three proposals for each consultant needed in order to ensure best value for services considering both total cost and hourly rates, or provide and document justification for not requiring this procedure. The District should review and update the controls surrounding consultant contract execution, purchase order issuances, disbursements, and procurement reporting to prevent noncompliance with policy and procedures. A checklist or equivalent mechanism, with appropriate sign-offs on procurement requirements, can serve as a good tool to for all relevant parties (Accounting as well as Planning and Construction and Procurement) to validate compliance with policy and procedure requirements.

D. Observation: **The prequalification list for required contractors and subcontractors is not updated on a yearly basis.** Per Sweetwater’s Master Program Management Plan’s Pre-Qualification of Prospective Bidders, The BOT has adopted a procedure requiring the prequalification of general contractors and mechanical, electrical, and plumbing subcontractors for projects that exceed \$1 million. The Purchasing Department is responsible for the pre-qualification process that includes the RFQ, pre-qualification forms, receiving and scoring the forms, and establishing the list of pre-qualified contractors. The District provided a list of prequalified contractors and MEP (Mechanical, Electrical, and Plumbing) subcontractors for projects that exceed \$1 million; however, yearly solicitation through specific trade journals did not take place.

Recommendation: As a best practice, the District should evaluate the current pre-qualification process and threshold amount to ensure that the list of pre-qualified bidders is complete and accurate and promotes competitive pricing for vendor selections on the Bond Program. The District should additionally consider implementing a solicitation requirement to ensure that the list is complete with interested and qualified contractors and subcontractors.

Objective No. 6 – Bond Program Master Planning and Reporting

6a. Master Planning

Observation: **The District has taken steps to address the master plan of the Bond Program recommendation provided in the prior year’s report (Moss Adams 2015 Objective No. 17); however, the Long Range Facilities Master Plan presented to the Board on March 14, 2016 did not clearly identify the priorities and associated budget allocations for the remaining issuances of Proposition O funds.** The Plan did not establish prioritization of objectives using criteria, such as facility safety, longevity, and educational requirements for scope items listed within the ballot language. The most recent Long Range Facilities Master Plan was approved in 2006. Bond Sale 2 budget allocations identified project scopes and cost estimates based on District calculations and

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criteria. Without an updated Board-approved Long Range Facilities Master Plan, it is unclear how projects and expenditures were prioritized through December 31, 2016. The next four sections provide analysis of the process to evaluate the estimates used for establishing master plan budgets and master plan priorities.

Background: Jacobs Engineering Inc. issued the Sweetwater Union High School District Facility Master Plan - State of School Facilities Report in May 2015. The facility condition assessment performed by Jacobs identified \$383.8 million in current need – \$60.3 was related to educational adequacy and \$323.5 was related to facility deficiency costs. Refer to the Jacobs Report Facility Deficiency by Building in the table provided below.

FACILITY DEFICIENCY BY BUILDING SYSTEM

Facility deficiencies are divided into 12 industry-standard building systems with multiple subsystems and subsystem types. The 12 systems include:

- Site • Interior • Fire and Life Safety
- Roofing • HVAC • Technology
- Exterior • Plumbing • Conveyances
- Structural • Electrical • Specialties

Table 6 shows building system type and their associations, in dollars, by priority. These amounts include both educational adequacy, as well as facility condition-related deficiencies. The table indicates that the majority of the deficiencies are related to the electrical system or roofing. The majority of the electrical deficiencies are Priority 4, whereas the majority of the roofing deficiencies are Priority 1, indicating a significant investment in the roofing systems across the district may be needed in the near future.

Table 6: SUHSD Building System Deficiencies by Priority Level

| Building System | Priority 1 | Priority 2 | Priority 3 | Priority 4 | Priority 5 | Total |
|-----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|
| Site | \$ 602,418 | \$ 979,032 | \$ 7,533,375 | \$ 12,221,712 | \$ 4,533,092 | \$ 25,869,630 |
| Roofing | \$ 33,318,578 | \$ 1,493,978 | \$ 6,250,162 | \$ 124,763 | \$ 2,013 | \$ 41,189,495 |
| Structural | \$ - | \$ - | \$ - | \$ 5,179,496 | \$ - | \$ 5,179,496 |
| Exterior | \$ - | \$ 6,420,790 | \$ 3,047,701 | \$ 4,274,308 | \$ 1,936,984 | \$ 15,679,783 |
| Interior | \$ - | \$ 293,061 | \$ 10,823,478 | \$ 1,834,063 | \$ 3,563,377 | \$ 16,513,980 |
| Mechanical | \$ - | \$ 20,695,451 | \$ 1,762,887 | \$ 2,281,688 | \$ 20,363 | \$ 24,760,390 |
| Electrical | \$ - | \$ 7,201,874 | \$ 12,466,313 | \$ 32,464,548 | \$ 795,008 | \$ 52,927,743 |
| Plumbing | \$ 1,159,445 | \$ 184,547 | \$ 10,333,600 | \$ 4,977,172 | \$ 16,473 | \$ 16,671,236 |
| Fire and Life Safety | \$ 24,249 | \$ 14,563,457 | \$ - | \$ - | \$ - | \$ 14,587,707 |
| Technology | \$ - | \$ - | \$ 4,045 | \$ 7,697,390 | \$ - | \$ 7,701,435 |
| Conveyances | \$ - | \$ - | \$ 89,553 | \$ - | \$ - | \$ 89,553 |
| Specialties | \$ 126,635 | \$ 1,767,290 | \$ 13,686 | \$ 1,572,545 | \$ 2,833,055 | \$ 6,313,210 |
| Educational Adequacy | \$ - | \$ - | \$ 60,342,884 | \$ - | \$ - | \$ 60,342,884 |
| District Requirements | \$ - | \$ - | \$ 95,932,986 | \$ - | \$ - | \$ 95,932,986 |
| Total | \$ 35,231,325 | \$ 53,599,481 | \$ 208,600,669 | \$ 72,627,685 | \$ 13,700,366 | \$ 383,759,526 |

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Additionally, students, parents, employees, and community members of SUHSD provided their opinions regarding District facilities through a series of evening meetings and an online survey. There were several issues that were common among many of the participants, including the following as provided within the Jacobs report:

- Lack of equity in the condition of the facilities. Participants were concerned that while some schools had facilities in great condition, fully equipped with AC, other schools had facilities that were in poor condition (some deemed them “unsafe”) and many spaces had no air conditioning.
- Lack of equity in the availability of some basic facilities. There were concerns about the lack of seating and/or covered spaces for meals. The lack of restrooms was also a concern.
- Lack of equity in the availability of some specialty facilities. Participants were concerned that some schools lacked what they deemed “basic” facilities, such as special education spaces, performing arts, art rooms, and science labs.
- Safety and security. Although most schools had adequate fencing, there were many concerns regarding traffic patterns, drop off areas, and security at the entrances. Safety was also a concern for athletic facilities. The poor condition of fields and tracks were an issue.

Staff in the Planning and Construction and Maintenance Department reviewed the facility condition maps prepared by Jacobs Engineering and created the “Priority Needs Matrix,” which ranked the top 10 schools for allocating bond funds from Bond Sale 2. The District developed an internally developed Priority Needs Matrix utilizing the following internally developed criteria:

- No Prop O – Assigned values to schools based on prior Proposition O funding amounts.
- Buildings – Assigned values to schools based on the Jacobs report issued in May 2015.
- Safety of Fields – Assigned values based on an evaluation by the Maintenance and Planning Departments.
- Title IX – Assigned values based on an evaluation by the Maintenance and Planning Departments.
- Infrastructure - Assigned values based on an evaluation by the Maintenance and Planning Departments.

Per the District, the Jacobs report had several omissions and/or lack of substantial exploration in Infrastructure and Athletic Facilities. The District felt each of these areas represents significant risk in terms of student (and staff) safety and potential for liabilities in the area of compliance with Title IX.

Planning and Maintenance Departments presented the First Reading of the updated LRFMP at the January 25, 2016 Board meeting based on the updated criteria. Presentation items included the following:

- Revised and updated maps depicting areas in need of work.

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- A comprehensive list of priorities needed and/or desired at each site, based on input from staff, students, and community stakeholders.
- Options for prioritizing work based on the above criteria and projected funding availability per the Maintenance and Planning Departments.

Maintenance and Planning staff reviewed each building at every school site with the administration teams of each school. There were revisions and corrections made to the site condition maps prepared by Jacobs Engineering based on feedback presented to the District through the various forums available. Per the District, through the multiple stakeholder meetings and other stakeholder engagement processes, there was a clear request from various stakeholders for the District to complete the work of outfitting all classrooms with Heating, Ventilation, and Air Conditioning (HVAC), and the Board of Trustees approved work at multiple sites to address Title IX facility needs. Form 3500 requests were not included within the Long Range Facilities Master Planning process and are subject to standard procedures.

The Priority Needs Matrix was presented to the CBOC on February 17, 2016. A second reading was conducted on March 14, 2016, which summarized the work that District staff performed and included the following documentation:

- Project priorities for Bond Sale 2
- Facility Condition Maps for each school site
- Prioritization of needs by school as identified by rubric developed jointly by staff from the Planning and Construction and Maintenance Departments)

The Board of Trustees selected option 3A which included HVAC for all classrooms and administrative spaces, artificial turf fields, a pool, and modernization. Through February 27, 2017, the budget allocations presented for Bond Sale No. 2 were as follows:

| Scope | Project Site | Amount (\$) in millions | Amount (%) |
|--------------------|--|--------------------------------|-------------------|
| HVAC Project | Various | 33.00 | 53% |
| Artificial Turf | Bonita Vista High School and Hilltop High School | 9.02 | 14% |
| Pool | Mar Vista High School | 6.00 | 10% |
| Modernization | Hilltop MS Modernization | 5.34 | 8% |
| Project Management | Various | 4.80 | 8% |
| Contingency | Various | 1.85 | 3% |

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| Scope | Project Site | Amount (\$) in millions | Amount (%) |
|------------------|---|-------------------------|-------------|
| Gym Bleachers | Castle Park High School and Southwest High School | 1.00 | 2% |
| Project Design | Various | 1.00 | 2% |
| Site Master Plan | Various | 0.84 | 1% |
| Total | | 62.85 | 100% |

Analysis of scopes of work identified that are greater than \$1 million:

- A. HVAC or mechanical upgrades (\$33 million or 53 percent), per the Jacobs Engineering report were estimated at \$24.5 million and were considered Priorities 2-5. Priority 1 requirements in the amount of \$35 million largely related to roofing (\$33.3 million). Priorities 1 and 2 were defined as follows per the Jacobs report:
- Priority 1 – Mission Critical Concerns: Deficiencies or conditions that may directly affect the school’s ability to remain open or deliver the educational curriculum. These deficiencies typically include items related to building safety, code compliance, severely damaged or failing building components, and other items that require near-term correction.
 - Priority 2 – Indirect Impact to Educational Mission: Items that may progress to a Priority 1 item if not addressed in the near term. Examples of Priority 2 deficiencies include inadequate roofing that could cause deterioration of integral building systems, and conditions affecting building envelopes, such as roof and window replacements.

HVAC was a high concern for the community and stakeholders. District calculations for the HVAC system were not provided to the Board for its review, nor was an explanation of the HVAC overages compared to the Jacobs report.

- B. Artificial turf (\$9.02 million or 14 percent) was not specifically identified as a requirement in the Jacobs report.

Per the District, “design of the Bonita Vista HS Artificial Track and Field project was approved by the Board of Trustees and subsequently submitted to and approved by the Division of State Architect (DSA). Bond Sale 2 was the only source of funds available prior to June 5, 2018 to preserve the investment of design and approval fees. The projects at Bonita Vista High School and Hilltop High School were approved by the DSA, therefore, if we had not moved to complete these projects, the lack of action would have translated to a lost prior investment to design and receive approval by DSA.”

The community also addressed concerns with the safety of athletics fields. However, the artificial turf specification was not a requirement per the community.

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C. Pool (\$6 million or 10 percent) was not specifically identified in the Jacobs report.

Per the District, “the pool is very old and has very significant maintenance and operations costs each year. It is a high priority to eliminate a drain on maintenance dollars as well as a high priority for the school and community. The \$6 million budget was developed to replace the pool in the same location. The current location requires public penetration of the campus (bad from a security standpoint) and therefore other options such as relocation are being considered. The pool at MVH serves multiple district campuses (Montgomery High School, Southwest High School, as well as Mar Vista High School). Therefore, this is an asset that serves broader student constituencies.”

There was no documentation or analysis provided to the Board or the CBOC regarding annual maintenance and operations costs. Additionally, there was no evidence of a Maintenance Master Plan or an annual maintenance plan that would have highlighted this as a high priority.

D. Modernization (\$5.34 million or 8 percent) was allocated to the Hilltop Middle School and this was in line with the Jacobs report assessment. No specific details were provided to the Board regarding what scopes of work were included in modernization. For example, it is unclear whether these monies will be allocated to plumbing, roofing, site, or other priorities based on the information provided to the Board.

Benchmark

Per the California School Boards Association’s Facilities Master Planning article published, the steps for a comprehensive facilities master plan include the following:

- 1) Communicate the board’s priority on developing and implementing a thoughtful planning process that obtains perspectives from key stakeholders.
- 2) Allocate funding, other resources, and sufficient time for a thorough needs assessment.
- 3) Work collaboratively with all other local and state agencies.
- 4) Request that data be provided by the superintendent and district staff to the board regarding the projected enrollment for school sites. This data should include information from the city, county, census bureau, public records, and other agencies to determine potential changes in:
 - a. Housing costs and availability
 - b. Employment projections
 - c. Planned residential and commercial development
 - d. City master plans
 - e. Demographics

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- 5) Understand the historical development of the community, as well as its future direction.
- 6) Determine how new construction/modernization projects will correlate with district and community goals.
- 7) Establish parity across sites – set district standards for technology, aesthetics, equipment, fixtures, etc.
- 8) Prioritize funding and resources for individual construction projects. Communicate with staff and the public as to why some facilities/projects receive differentiated funding.
- 9) Provide clear policy direction regarding facilities planning and set expectations for regular reviews of facility’s needs. Establish clear guidelines and expectations for the group of stakeholders.
- 10) Conduct forums, focus groups and surveys to gauge the wishes of students and parents for the new or renovated school facility
- 11) Provide opportunities at board meetings for reports on the status and results of the needs assessment.
- 12) Use FMP data to identify concerns as well as to define goals and desired outcomes of the construction project(s).
- 13) Create a plan for communication and refer to your existing district communication plan. Be transparent with decisions; convey realistic project timelines and goals.

Long-range Facilities Master Plan Gap

A long-range facilities master plan is a critical component of a well-managed capital program. The District’s current Long Range Facilities Master Plan identified “Academic Program Priorities,” and was based on input from focus groups and surveys (see Benchmark No. 10 above) that allowed the Board to prioritize projects based on perspectives from key stakeholders (see Benchmark No. 1 above). While budget allocations and steps taken were clearly communicated to the Board for Bond Sale No. 2, many other critical benchmark components were not evident, and the rationale for allocation remains unclear.

The Academic Program Priorities list did not organize facility needs and set program priorities for construction projects in a way that ensured a data-driven priority list of projects to ensure fairness and fair and equitable distribution of resources. Community and District goals (see Benchmark No. 6), the listed projects within the ballot language, and facility needs have not been prioritized based on standardized criteria and/or clear policy direction regarding facility needs and expectations (see Benchmark No. 9) in order to establish clear guidelines, expectations, and status results for the group of stakeholders (see Benchmark No. 11). To evidence this, per the District’s LRFMP, Chula Vista Middle School’s and East Lake Middle’s Academic Program Priorities included “Building 400 roof is in poor condition needs to be replaced; building needs to check if it needs to be condemned” and “Existing science classrooms do not meet the educational requirements so remodel or new classrooms are needed” respectively; however, no budget allocations from Bond Sale No. 2 were allocated to these particular scopes of work. Without clear program goals and facility needs, procedures, and expectations, it is unclear why these scope items were omitted from Bond Sale No. 2; therefore, it is likely there is a lack of

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transparency among staff and the public as to why some facilities and projects receive differentiated funding and expectations of project timelines and deliverables (see Benchmark No. 8 and 14).

Accurate data and information on the facilities inventory are at the foundation of a well-managed capital program. The District did not have a complete, detailed, and thorough facilities needs assessment due to lack of completeness, as specified by the District, of the Jacobs Engineering report. The District was able to provide a replacement cost at a summary level for each School; however, detailed information by program goal, policy, or expectation was not available (see Benchmark No. 2). Without a complete and accurate detailed listing of facility and educational deficiencies by school site and scope objective as the basis of reporting and communication, it is unclear how the District provided opportunities at Board meetings on the status and results of the needs assessment (see Benchmark No. 12) or identified concerns as to defined goals and desired outcomes of the construction projects (see Benchmark No. 13).

Finally, no information was provided to the Board that evidenced collaboration with all other local and state agencies (see Benchmark No. 3) for identified scopes of work in Bond Sale No. 2 or consideration of projected enrollment and other demographic information (see Benchmark No. 4). It is unclear whether potential supplemental funding opportunities were available and whether project prioritization factored future demographic developments to meet future demands.

Improvement Recommendation: As a best practice, a BOT-approved Long Range Facilities Master Plan should include detailed documentation surrounding the prioritization of projects, project budget amounts, project scope objectives and timelines, and project change orders. The District needs to develop an LRFMP and an annual maintenance plan with clear goals, procedures, and expectations to validate need-based decision making and a data-driven priority project list to ensure fair and equitable distribution of resources. The District needs to complete a comprehensive facilities condition assessment, as well as educational suitability and technology readiness assessment at every campus within its jurisdiction that incorporates infrastructure and Title IX needs. As provided in the Jacobs engineering report, current detailed and accurate information on facilities needs to be maintained and compared to District standards to determine facilities deficiencies and education adequacy costs on a regular basis. Program goals and criteria applied to determine project prioritization need to be clearly defined and communicated to staff and stakeholders to ensure transparent decisions and convey realistic project timelines and expectations. The Long Range Facilities Master Plan should be reconciled to the available Bond funds and updated on an ongoing basis. This information is necessary in order to provide adequate information to sufficiently oversee and conclude on Bond Program 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.

6b. Bond Program Reporting

Observation: The District has taken steps to address the standalone financial reporting of the Bond Program recommendation provided in the prior year’s report (Moss Adams 2015 Objective No. 17.2). During FY 2016, the District contracted with the San Diego County Office of Education to implement the Account-Ability construction project management software to report Proposition O projects for the Board of Trustees and Citizens’ Bond Oversight Committee. Through December 31, 2016, the Project Financial Summary report provided to the BOT and the CBOC did not reflect the financial standing of Proposition O on a standalone basis. Reporting provided through this period combined multiple funding sources (Proposition BB, state funding, etc.) without segregating Proposition O revenues and expenditures. This method of reporting distorts the financial standing of Proposition O and could potentially lead to materially incorrect conclusions regarding the program’s progress. However, Account-Ability has the capability to report Proposition O on a standalone basis in order for end users to understand Bond Program expenditures, funding status, and cash flow requirements (see Observation No. 3 for further details). A standalone Proposition O report is needed so that the CBOC can understand Bond Program expenditures and funding status.

Improvement Recommendation: As a best practice, the District should provide stakeholders standalone financial reporting in addition to the total program reporting so that there is a common understanding of expenditures and funding availability for Proposition O on a standalone basis.

Objective No. 7 – Claim Avoidance Procedures

Observation: We evaluated and reviewed the procedures used to limit the number of claims filed against the District related to construction projects for the period. **The District has taken steps to address the claim avoidance procedure recommendations provided in the prior year’s report (Moss Adams 2015 Objective No. 12).** Through December 31, 2016, the District had no Claims Management procedure documentation or reporting available. A Claims Avoidance Procedures Exhibit was presented during the June 22, 2016 Board meeting that included the following information:

- Purpose: The purpose of the claim Avoidance Procedures Policy is to limit the number of claims filed against the District in matters related to construction projects.
- Procedures: Provide training to staff members to better understand our Program Management Plan and other delivery methods. Employ a reputable third-party firm to perform a constructability review on projects over one million.
- Meetings: At the planning project meetings we will discuss lessons learned from projects that had to go to litigation. Understanding the risk involved in a project is a way to avoid future claims.

However, there was no documentation or reporting available to identify actions taken to prevent or limit claim exposures. Construction-related claims have many causes and often arise as a result of unresolved change orders, differing site conditions, or as a

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result of disruptions, delays, acceleration, and other time-related issues that require timely monitoring, planning, and effective actions needed to avoid claims.

Improvement Recommendation: As a best practice, written procedures for claims avoidance should be prepared and utilized. Procedures taken to avoid claims should be documented and available for review to validate compliancy with the implemented claims avoidance policy. The Construction and Planning Department should utilize monthly accounting report narrative sections to address potential differences with the Contractor such as responsibility for performing particular specific work will be addressed in detail. Particular care should be taken to record and preserve all possible data and/or evidence with respect to any matter which may become a basis for a Contractor claim. As there may be many root causes for claims, the claims avoidance policy should include a detailed process that the District follows to identify the areas of exposure that may lead to a claim and steps to be taken to prevent claims such as document control requirements, identification of appropriate communication channels, and proactive cost, schedule, and quality control procedures to avoid claims where possible.

Objective No. 8 – Materials Specifications

Observation: The District's Standardized Items List and Educational Specifications were reviewed and compared to specifications provided within procurement documentation. **The District has taken steps to address the delivered quality analysis recommendation provided in the prior year's report (Moss Adams 2015 Objective No. 15).** Through December 31, 2016 the Standardized Items List and Educational Specifications included general product and system requirements (e.g., flooring, mechanical system, plumbing, etc.); however, the District did not utilize a detailed list of standardized materials and equipment to be incorporated districtwide. However, on September 16, 2016 the District Architect, a newly created position, provided the Board the draft district design standards and technical specifications in response to the Proposition O audit. The Design Standards, Volume 1, incorporated a number of standards including codes and guides from the California Department of Education, past practices, and maintenance standards. The Technical Specifications, Volume 2, included the current specifications used by the Maintenance Department and utilized a six digit code consistent with Master format 2016 numbers and titles published by the Construction Specifications Institute. On November 14, 2016 the first reading of the District's standards for Planning and Construction was conducted per the Superintendent's recommendation. The standards and technical specifications have been provided to instructional staff of the District, the Maintenance Department, the Planning and Construction Department, and the Citizens' Bond Oversight Committee for review. The documents will be a living document that will be updated as educational facility needs and construction technology changes and will be available to all bidders during the procurement process. Additionally, on January 23rd, the Board of Trustees approved a contract with the Facilities JPA at the County Office of Education (FACJPA) to provide roofing project services and the District intends to use the specifications from that project as part of their new standards. The final adoption of the standards is expected in April 2017. The approval process and documentation surrounding changes, specifically surrounding cost benefit analysis performed, to the Sweetwater Modernization Standards Specification remain undocumented.

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Improvement Recommendation: The District should finalize the comprehensive manuals which detail material types, standard equipment, and systems, manufacturer specification numbers, and minimum standards for new construction and modernization mandated by the District for projects undertaken. These minimum standards mandated by the District should consider facility safety, longevity, and educational requirements. Additionally, as a best practice, a defined policy should be implemented for updates to the Sweetwater Modernization Standards and Technical Specifications documents. 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 the District’s Management. Additionally, the Standard Specifications document should avoid including narrowly 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 standards and specifications documents are unclear.

Objective No. 9 – Cost Benefit and Value Engineering Analyses

Observation: The District has taken steps to address the cost-benefit analysis procedure recommendations, but has taken no steps to address the value engineering procedure recommendation provided in the prior year’s report (Moss Adams 2015 Objective No. 20b). A Cost Benefit Analysis Exhibit was presented during the June 22, 2016 Board meeting. The objective of this cost benefit analysis exhibit was to decide whether to evaluate any proposed changes to the District Standards by comparing construction projects or products. This involved comparing the total expected cost of each option against the total expected benefits to see if the benefits outweigh the costs.

However, there was no formal written procedure or documentation available to support implementation of this policy or procedures; therefore, the District does not have a process in place for conducting cost benefit analyses on its projects. While the District does accept the lowest qualified bidder for each of its projects, a cost benefit analysis and/or value engineering study is not conducted to determine if the essential requirements (i.e., materials, assets, systems) 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. Value should be determined by objective criteria and may include, but need not be limited to, price, features, functions, lifecycle costs, and other criteria deemed appropriate by the District. Currently, the District will only conduct cost saving measures when projects require re-bidding due to budgetary constraints.

Improvement Recommendations: As a best practice, the District should have defined processes for cost benefit analysis and value engineering for its projects, including when to utilize these tools, who is responsible for each activity, and procedures for final approval. The District’s current methodology is to utilize these tools on projects that are over the estimated budget; however, value engineering and cost benefit analyses can be utilized as a tool on any project. SAVE International specifies that the following six phases be conducted to analyze cost and value:

1. Information Phase: Review and define the current conditions of the project and identify the goal of the value engineering study and cost benefit analysis.

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2. Function Analysis Phase: Review and analyze the project to determine what needs improvement, elimination, or creation to meet the project's goals.
3. Creative Phase: Generate ideas on all the possible ways to accomplish the requirements, with an emphasis on cost and functional needs.
4. Evaluation Phase: Develop and execute an evaluation to select those ideas that offer the potential for value improvement while delivering the project's function(s) and considering performance requirements and resource limits.
5. Development Phase: Develop the selected ideas into alternatives with sufficient documentation to allow decision makers to determine if the alternative should be implemented.
6. Presentation Phase: Present a presentation and/or report to key stakeholders that convey the adequacy of the alternative(s) and the associated value improvement.

Specific areas of focus and attention that should be considered when conducting these types of analyses have been incorporated in Appendix B of this report.

Objective 10 – Maintenance of District Assets Funded with Proposition O and Warranty Conditions Compliance

Observation: The District had not taken steps to address the warranty maintenance requirements recommendations provided in the prior year's report (Moss Adams 2015 Objective No. 20d). Through December 31, 2016 the District did not maintain a warranty and preventive maintenance log for all assets incorporated into school site construction and was unable to provide complete and accurate reporting regarding warrantied items. The District had limited controls, or documentation, surrounding the required maintenance of its assets and no formal system of logging this information for inventory purposes. Criteria had 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. However, on January 19, 2017 Karl Bradley, Director of Planning and Construction, submitted a Warranty and Preventive Maintenance Log Template to Internal Audit for review. Additionally, unapproved procedures surrounding project closeout and warranty log information were developed with a goal of a "universal communication and a common understanding" of project close out procedures including warranty plan details. Next steps addressed by the District included the following:

1. Locate and convey consistent Project Closeout Language
2. Identify which sites were given warranty documents
3. Identify which sites are currently keeping warranty logs
4. Improve Warranty Library and online repository content
5. Locate all warranty documents

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6. Determine which components require logging
7. Build site-specific Warranty Log Binders
8. Deliver Warranty Log Binders for implementation

Additionally, a standardized project close-out document checklist was developed and included an Operation and Maintenance Manual requirement. Specific close-out documentation by project was available upon request; however, a consolidated summary report and central file location for all closed projects was not available for easy reference. Evidence of implementation of the warranty log's next steps referenced above was not evident through February 10, 2017. Without detailed warranty documents and records, the District's ability to satisfy necessary warranty conditions may be potentially impacted.

Improvement Recommendations: As a best practice, the District should ensure compliance with all warranty conditions to sustain a level of protection against breach of warranty and proper maintenance of District facilities in accordance with warranty conditions. A consolidated summary project close-out report with warranty and preventive maintenance log details, which includes major assets, applicable warrantied items, dates of installation, required periodic maintenance, and actual maintenance conducted should be maintained for all school sites and reported to stakeholders on a regular basis. Warranty information is required as part of the construction close-out process; therefore, it is recommended that the Owner warranty log is created by the Planning and Construction Department and be provided to the maintenance team for proper follow-up.

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REPORTING VIEWS OF RESPONSIBLE OFFICIALS

Following is a schedule of the audit observations and management’s responses for the performance audit completed for the fiscal year ended June 30, 2016.

| No. | Category | Issue | Auditor’s Recommendation | Management Response | Planned Resolution Date |
|-------------|---------------------------------|---|--|--|--|
| Objective 1 | Compliance with Ballot Language | 1A. Non-compliant expenditures funded by Fund 35, were recorded in the Proposition O’s accounting fund. | The District should only record allowable expenditures within Proposition O’s expenditure fund. Non-compliant expenditures should be removed from Proposition O’s accounting fund and expenditure population. | This practice is no longer used for new projects (Bond Sale 2). The District’s Accounting System does not allow a purchase order to be funded by more than one accounting fund. As a result, the District’s historic accounting practice has been to transfer all funding sources for Bond Projects into the Bond accounting fund (i.e. as offsetting revenues) and track all project expenditures within that fund. | In practice since March 2016. |
| | | 1B. District Labor Charges. | The District should continue the processes and controls needed to provide supporting documentation to validate that the applicability and accuracy of labor charged to Proposition O for a whole fiscal year. Specifically, the time tracking system should ensure that all costs incurred are identifiable and have a beneficial relationship to the Bond Program and cost objectives. | During FY 2015-16, the District implemented a new time certification process for all staff funded by Proposition O. “Time Certification Reports” were used to validate the applicability and accuracy of labor charged to Proposition O. Fiscal Year 2016-2017, will be the first full year with the implementation of this process. | In practice for Management staff since October 2015. In practice for represented staff since entering into a side letter in February 2016. |

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| No. | Category | Issue | Auditor's Recommendation | Management Response | Planned Resolution Date |
|-------------|---|--|---|--|-------------------------|
| | | 2A. No documented procedures for vendor invoice authorization in case of absent personnel. | The District should update vendor invoice authorization procedures to incorporate sign off procedures in case of absent personnel and/or authorized threshold amounts by employee type. | The Program Management Plan (PMP) will be updated to include procedures for signatures when the Director is absent. | June 2017. |
| Objective 2 | District and Professional Services Staffing Plan for the Bond Program | There is no staffing plan that assesses staffing requirements against Bond Program project needs. | The Staffing Plan should be updated to correlate Bond Program projects to Bond Program staffing needs. | The staffing plan will be completed by the end of the current fiscal year. | June 2017. |
| Objective 3 | Design and Construction Schedules Cash Flow Analysis | The Cash Flow report prepared by the District had not been provided to the Board or to the CBOC through December 31, 2016. | As a best practice, District cash flow reporting should include revenues, cash, and expenditures by timeframe to document that sufficient funding is available to meet financial requirements for Proposition O, Bond Sale No. 2. This information should reconcile to the newly developed Capital Projects Monthly Status Report (see Objective No. 4 for further details) and be provided to the CBOC on a monthly basis. | At this time, this report is not necessary to add value to the bond program given that there is no significant recurring revenue. Staff will explore the available reports under the Account-Ability system to develop cash flow report. | Ongoing. |

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| No. | Category | Issue | Auditor's Recommendation | Management Response | Planned Resolution Date |
|-------------|---|--|---|---|-------------------------|
| Objective 4 | Design and Construction Costs and Budgets | Inconsistent construction project change order reporting and no details were available for contingency usage amount. | Deviations from the original budget by key construction component should be clearly documented and explained for easy end user reference. Consistent change order impact and assigned responsibility details are needed within monthly Project Financial Reports to ensure that change order information is sufficiently reported to District Management, the BOT, and the CBOC. Change order and contingency change documentation should be reported in a consistent manner as defined by the District and include information such as change amount, percentages, descriptions, change responsibility, date of BOT approval, subtotals, and totals for easy end user reference. Change order and contingency documentation should be available at both the project level and at the program level with both detailed and summary level information. | Staff has documented the procedures followed when completing the Active Project Monthly Status Report. The written procedures will be incorporated into the Program Management Plan (PMP). Additionally, staff will explore template reporting of contingency and change order(s) in the Account-Ability system. | June 2017. |

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| No. | Category | Issue | Auditor's Recommendation | Management Response | Planned Resolution Date |
|-------------|------------------------------------|--|---|--|-------------------------|
| Objective 5 | Bidding and Procurement Procedures | A. Quote or Proposal requirements for a contract were not met. | We recommend that the Planning and Construction Department ensure that complete bid and procurement files are maintained to support all bids, awards, and awarded contract values. Controls should be implemented to prevent contract award selection differing from requirements per District procedures. The District should add procurement oversight controls and/or training to staff personnel to ensure compliance with policy. | The Planning and Construction Department will continue to adhere to Quote or Proposal requirements. This was a single instance of noncompliance with district practices. | April 2017. |
| | | B. A non-pre-qualified consultant was selected | The Planning and Construction and Procurement Departments should comply with procedures and clarify whether consulting contracts should only be executed if they are on the pre-qualified consulting list. The District should review and update the controls surrounding contract execution, purchase order issuances, disbursements, and procurement reporting to prevent noncompliance with procedures. A checklist or equivalent mechanism, with appropriate sign-offs on procurement requirements, can serve as a good tool to for all relevant parties (Accounting as well as Planning and Construction and | The pre-qualified consultant list was created for the purposes of ratifying consultant contracts. The current practice is to approve contracts rather than ratify. The Program Management Plan will be updated to change "should" to "may" to reflect the option to use the pre-qualified consultant list. | June 2017. |

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|-----|----------|--|--|---|-------------------------|
| | | | <p>Procurement) to validate compliance with policy and procedure requirements. Additionally, given the last Board approval date was August, 19 2013 for the pre-qualified consultant list, the District should consider including specialized consultants' scopes of work, as specified by the District's procedures, in specific trade journals (see Observation 5d for further information) to generate an updated list of interested consultants.</p> | | |
| | | <p>C. The School's Construction procedures surrounding specialized consultant selection lack clear guidance and documentation requirements</p> | <p>The District should implement controls to confirm that Planning and Construction is obtaining at least three proposals for each consultant needed in order to ensure best value for services considering both total cost and hourly rates, or provide and document justification for not requiring this procedure. The District should review and update the controls surrounding consultant contract execution, purchase order issuances, disbursements, and procurement reporting to prevent noncompliance with policy and procedures. A checklist or equivalent mechanism, with appropriate sign-offs on procurement requirements, can</p> | <p>Management will revise the Program Management Plan (PMP) to implement controls as appropriate.</p> | <p>June 2017.</p> |

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| No. | Category | Issue | Auditor's Recommendation | Management Response | Planned Resolution Date |
|-------------|--|--|---|---|-------------------------|
| | | D. The prequalification list for required contractors and subcontractors is not updated on a yearly basis. | As a best practice, the District should evaluate the current pre-qualification process and threshold amount to ensure that the list of pre-qualified bidders is complete and accurate and promotes competitive pricing for vendor selections on the Bond Program. The District should additionally consider implementing a solicitation requirement to ensure that the list is complete with interested and qualified contractors and subcontractors. | There is no statutory requirement to update the prequalification list annually. However, the district continually accepts prequalification applications from new general contractors and mechanical, electrical, and plumbing subcontractors. Furthermore, the district annually renews existing prequalified entities. | Completed. |
| Objective 6 | Bond Program Master Planning and Reporting | 6a. The District has taken steps to address the master plan of the Bond Program recommendation provided in the prior year's report (Moss Adams 2015 Objective No. 17); however, the Long Range | As a best practice, a BOT-approved Long Range Facilities Master Plan should include detailed documentation surrounding the prioritization of projects, project budget amounts, project scope objectives and timelines, and project change orders. The District needs to develop an LRFMP and an annual maintenance plan with clear goals, procedures, and expectations to validate need-based decision making and a | The selection process for projects will incorporate community input, staff recommendations, and board approval. The district utilized the Jacobs Report to a limited degree and supplemented that information with staff knowledge and expertise. Moving forward, there will continue to be efforts to complete master plans for every district campus. | Ongoing. |

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|-----|----------|--|--|---------------------|-------------------------|
| | | <p>Facilities Master Plan presented to the Board on March 14, 2016 did not clearly identify the priorities and associated budget allocations for the remaining issuances of Proposition O funds.</p> | <p>data-driven priority project list to ensure fair and equitable distribution of resources. The District needs to complete a comprehensive facilities condition assessment, as well as educational suitability and technology readiness assessment at every campus within its jurisdiction that incorporates infrastructure and Title IX needs. As provided in the Jacobs engineering report, current detailed and accurate information on facilities needs to be maintained and compared to District standards to determine facilities deficiencies and education adequacy costs on a regular basis. Program goals and criteria applied to determine project prioritization need to be clearly defined and communicated to staff and stakeholders to ensure transparent decisions and convey realistic project timelines and expectations. The Long Range Facilities Master Plan should be reconciled to the available Bond funds and updated on an ongoing basis. This information is necessary in order to provide adequate information to sufficiently oversee and conclude on Bond Program progress on</p> | | |

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|--------------------|-----------------------------------|--|---|---|-------------------------|
| | | | <p>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.</p> | | |
| | | <p>6b. The District has did not provided a standalone financial reporting of the Bond Program to the CBOC.</p> | <p>As a best practice, the District should provide stakeholders standalone financial reporting in addition to the total program reporting so that there is a common understanding of expenditures and funding availability for Proposition O on a standalone basis.</p> | <p>A standalone expenditure report is available and can be provided upon request.</p> | <p>Completed.</p> |
| <p>Objective 7</p> | <p>Claim Avoidance Procedures</p> | | <p>As a best practice, written procedures for claims avoidance should be prepared and utilized. Procedures taken to avoid claims should be documented and available for review to validate compliancy with the implemented claims avoidance policy. The Construction and Planning Department should utilize monthly accounting report narrative sections to address potential differences with the Contractor such as responsibility for performing particular specific work will be addressed in detail.</p> | <p>The Planning and Construction Department will develop written procedures for claims avoidance by the end of the current fiscal year.</p> | <p>June 2017.</p> |

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|-------------|----------|-------|--|---|-------------------------|
| | | | Particular care should be taken to record and preserve all possible data and/or evidence with respect to any matter which may become a basis for a contractor claim. As there may be many root causes for claims, the claims avoidance policy should include a detailed process that the District follows to identify the areas of exposure that may lead to a claim and steps to be taken to prevent claims such as document control requirements, identification of appropriate communication channels, and proactive cost, schedule, and quality control procedures to avoid claims where possible. | | |
| Objective 8 | | | The District should finalize the comprehensive manuals which detail material types, standard equipment, and systems, manufacturer specification numbers, and minimum standards for new construction and modernization mandated by the District for projects undertaken. These minimum standards mandated by the District should consider facility safety, longevity, and educational requirements. Additionally, as a best practice, a defined policy should be implemented for updates to the Sweetwater | The District Standards are nearing completion. The Standards will be a living document and after approval by the Board of Trustees, there will be periodic updates. Staff is collaborating with the San Diego County Office of Education for development of roofing specifications. This is anticipated to be completed by the end of April 2017. | April 2017. |

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| | | | <p>Modernization Standards and Technical Specifications documents. 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 the District's Management. Additionally, the Standard Specifications document should avoid including narrowly 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 standards and specifications documents are unclear.</p> | | |
| Objective 9 | Cost Benefit and Value Engineering Analyses | There was no formal written procedure or documentation available to support that the District has implemented a process for conducting cost | As a best practice, the District should have defined processes for cost benefit analysis and value engineering for its projects, including when to utilize these tools, who is responsible for each activity, and procedures for final approval. The District's current methodology is to utilize these tools on projects that are over the | The Planning and Construction Department will develop processes for cost benefit analysis and value engineering for its projects by the end of the current fiscal year. | June 2017. |

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|-----|----------|-----------------------------------|--|---------------------|-------------------------|
| | | benefit analyses on its projects. | <p>estimated budget; however, value engineering and cost benefit analyses can be utilized as a tool on any project. SAVE International specifies that the following six phases be conducted to analyze cost and value:</p> <ol style="list-style-type: none"> 1. Information Phase: Review and define the current conditions of the project and identify the goal of the value engineering study and cost benefit analysis. 2. Function Analysis Phase: Review and analyze the project to determine what needs improvement, elimination, or creation to meet the project's goals. 3. Creative Phase: Generate ideas on all the possible ways to accomplish the requirements, with an emphasis on cost and functional needs. 4. Evaluation Phase: Develop and execute an evaluation to select those ideas that offer the potential for value improvement while delivering the project's function(s) and considering performance requirements and resource limits. | | |

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|--------------|---|---|---|--|-------------------------|
| | | | <p>5. Development Phase: Develop the selected ideas into alternatives with sufficient documentation to allow decision makers to determine if the alternative should be implemented.</p> <p>6. Presentation Phase: Present a presentation and/or report to key stakeholders that convey the adequacy of the alternative(s) and the associated value improvement.</p> | | |
| Objective 10 | Maintenance of District Assets Funded with Proposition O and Warranty Conditions Compliance | 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. | As a best practice, the District should ensure compliance with all warranty conditions to sustain a level of protection against breach of warranty and proper maintenance of District facilities in accordance with warranty conditions. A consolidated summary project close-out report with warranty and preventive maintenance log details, which includes major assets, applicable warrantied items, dates of installation, required periodic maintenance, and actual maintenance conducted should be maintained for all school sites and reported to stakeholders on a regular basis. Warranty information is required as part of the construction close-out | The Planning and Construction Department will work with the Maintenance Department to define processes whereby periodic maintenance as required to keep warranties in effect is performed on a timely basis. These processes will be revised during the 2017-18 Fiscal Year. | June 2018. |

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|------------|-----------------|--------------|---|----------------------------|--------------------------------|
| | | | process; therefore, it is recommended that the Owner warranty log is created by the Planning and Construction Department and be provided to the maintenance team for proper follow-up | | |

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APPENDIX A – AUDIT RESOLUTION LOG

We interviewed District and Bond Program personnel and reviewed relevant documentation to determine the status of improvement opportunities identified in previous audits. All issues identified are considered high priority. Through inquiry and review of documents, we identified 10 issues: eight have solutions being implemented and two remain outstanding.

| No. | Source | Category | Issue | Recommendation | Management Response | Owner | Status of Resolution | Planned Resolution Date |
|-------------|-----------------|--|---|---|--|-------|--|-------------------------|
| Objective 1 | Moss Adams 2015 | Compliance with Ballot Language (Objective 3 in prior year report) | District Labor Charges | The District should implement the processes and controls needed to provide supporting documentation to validate that the applicability and accuracy of labor charged to Proposition O. Specifically, a time tracking system should be implemented so that all costs incurred are identifiable and have a beneficial relationship to the Bond Program and cost objectives. | 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 Proposition O and CFD projects for 2015-2016. | P&CD | Steps have been taken – Full year implementation of recording and controls will take place by June 2017. | June 2017 |
| Objective 2 | Moss Adams 2015 | Staffing Plan (Objective 6 in prior year report) | There is no staffing plan that assesses staffing requirements against Bond Program project needs. | The Staffing Plan should be updated to correlate Bond Program projects to Bond Program staffing needs. | 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 Proposition O and CFD projects for 2015-2016. | P&CD | Open | June 2017 |

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| No. | Source | Category | Issue | Recommendation | Management Response | Owner | Status of Resolution | Planned Resolution Date |
|-------------|-----------------|---|--|---|---|-------|---|-------------------------|
| Objective 3 | Moss Adams 2015 | Design and Construction Schedules Cash Flow Analysis (Objective 8 in prior year report) | The District does not have a revenue and expenditures cash flow analysis and forecast for Proposition O. | 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. This information should reconcile to the newly developed Capital Projects Monthly Status Report and be provided to the Board and CBOC on a monthly basis. | Management agrees that we will develop an action plan to address the recommendations identified in this report. | P&CD | Steps have been taken by the District. Monthly reporting is available and needs to be provided to the CBOC. | Ongoing |

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| No. | Source | Category | Issue | Recommendation | Management Response | Owner | Status of Resolution | Planned Resolution Date |
|-------------|-----------------|---|---|--|---|-------|---|-------------------------|
| Objective 4 | Moss Adams 2015 | Design and Construction Costs and Budgets (Objective 9 and 11 in prior year report) | Design and construction budget reporting is not consistent with best practices. | The District should evaluate its 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 components 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. Change order and contingency change documentation should be reported in a consistent manner as defined by the District and include information such as change amount, percentages, descriptions, change responsibility, date of BOT approval, subtotals, and totals for easy end user reference. Change order and contingency documentation should be available at both the project level and at the program level with both detailed and summary level information. | 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. 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. | P&CD | Steps have been taken by the District. Accountability software reports are in line with best practices. The District needs to ensure consistent change order and contingency reporting is available at the project and program level. | June 2017 |

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| No. | Source | Category | Issue | Recommendation | Management Response | Owner | Status of Resolution | Planned Resolution Date |
|--------------|-----------------|---|---|---|--|-------|--|-------------------------|
| Objective 6a | Moss Adams 2015 | Effectiveness of Bond Communication Program (Objective 17.1 in prior year report) | The Master Plan does not clearly identify the scope priorities for Proposition O funds. Prioritization of Form 3500 requests, and documentation of why certain requests are approved and others are pending is not clear. | 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 for the total Proposition Bond fund. Form 3500 requests resulting in Proposition O-related change orders should be clearly documented and reported to the BOT. | Staff concurs with the recommendation and the Long Range Facilities Master Plan is in the process of being updated. | P&CD | Steps have been taken by the District; however, a best practice LRFMP has not been implemented. | Ongoing |
| Objective 6b | Moss Adams 2015 | Effectiveness of Bond Communication Program (Objective 17.2 in prior year report) | A standalone Proposition O report is needed so that the BOT and the CBOC can understand Bond Program expenditures and funding status. | 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. | Staff is willing to implement the recommendation to segregate Prop O funding from the Prop O Program in the Capital Facilities Financing Plan. | P&CD | Steps have been taken by the District. Accountability has the capability to report Proposition O on a standalone basis however this has not been provided to the CBOC. | June 2017 |
| Objective 7 | Moss Adams 2015 | Claim Avoidance Procedures (Objective 12 in prior year report) | There is no formal written policy or documentation available to identify actions taken to prevent or limit claim exposures. | Written 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. | Staff will implement the recommendation. | P&CD | Steps have been taken by the District. A Claims Avoidance Procedures Exhibit was presented during the June 22, 2016 Board meeting; however, there was no formal written policy or documentation available to identify actions taken to prevent or limit claim exposures. | June 2017 |

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| No. | Source | Category | Issue | Recommendation | Management Response | Owner | Status of Resolution | Planned Resolution Date |
|-------------|-----------------|--|---|---|--|-------|---|-------------------------|
| Objective 8 | Moss Adams 2015 | Delivered Quality Analysis (Objective 15 in prior year report) | The District was unable to produce standard specifications for showing specific materials, equipment, and other item requirements for facilities installation (material types, standard equipment, manufacturer specification numbers, etc.). Additionally, there is no policy for updates to the Standards Specification document. | The District should create and implement 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 made available online. Additionally, a defined policy should be implemented for updates to Sweetwater's Standards Specifications document. | 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. | P&CD | Steps have been taken by the District, but the manual has not been approved by the Board. | April 2017 |

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| No. | Source | Category | Issue | Recommendation | Management Response | Owner | Status of Resolution | Planned Resolution Date |
|-------------|-----------------|--|--|--|---|-------|--|-------------------------|
| Objective 9 | Moss Adams 2015 | Cost-benefit analysis and Value Engineering (Objective No. 20b in prior year report) | The District does not have a process in place for conducting cost benefit analyses and value engineering on its projects. While the District does accept the lowest qualified bidder for each of its projects, a cost benefit analysis and/or value engineering study is not conducted to determine if the essential requirements (i.e., materials, assets, systems) 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. | The District should have defined processes for cost benefit analysis and value engineering for its projects, including when to utilize these tools, who is responsible for each activity, and procedures for final approval. | Management agrees that we will develop an action plan to address the recommendations identified in this report. | P&CD | Steps have been taken by the District, but there is no formal written policy or documentation available to support implementation of this policy or procedures; therefore, the District does not have a process in place for conducting cost benefit analyses on its projects. | June 2017 |

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| No. | Source | Category | Issue | Recommendation | Management Response | Owner | Status of Resolution | Planned Resolution Date |
|--------------|-----------------|--|---|--|---|-------|----------------------|-------------------------|
| Objective 10 | Moss Adams 2015 | Maintenance of District Assets Funded with Proposition O and Warranty Conditions Compliance (Objective No. 20d in prior year report) | 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 should ensure compliance with all warranty conditions to sustain a level of protection against breach of warranty and proper maintenance of District facilities in accordance with warranty conditions. | Management agrees that we will develop an action plan to address the recommendations identified in this report. | P&CD | Open | June 2018 |

APPENDIX B – VALUE ENGINEERING

The following guidelines and recommendations can be utilized by the District to maximize value engineering (VE) studies and cost benefit analyses:

VE Scoping

- Identify whether or not a VE study should be conducted for each project (or a component) prior to finalization of the contract.
- Prepare a revised scope of work template that is consistent with SAVE International[®] guidelines.
- Set a delivery date within a short period of time following the last day of the VE workshop (three days is suggested by SAVE International[®]).
- Include scope for VE team leader to attend the District's decision meeting regarding acceptance or rejection of the VE team recommendations to ensure that decision makers have a full and complete understanding of the recommendations.
- Provide the details of the VE process to all construction contractors as part of the bidding process information.

VE Study Performance

The District should conduct VE studies to determine the goals and needs of the District. This can be conducted in three phases: Pre-Workshop, Workshop, and Post-Workshop.

Pre-Workshop

- Define the District's expectations for conducting a VE study workshop and provide it to all VE team leaders in advance of conducting each workshop.
- Ensure that sufficient time is available to the VE team leader and team members to accomplish all pre-workshop activities.
- Require pre-workshop preparation of matrix or graphical models of capital cost, operations, and maintenance (O&M) cost, lifecycle cost, energy, space, time, or other project characteristics as needed to provide the VE team with appropriate insights into the distribution of these critical elements through the project components.
- Distribute presentation outlines to the District project managers and the design project manager to provide guidance about the information they need to present during the information phase on the first day of the VE workshop.
- Have the VE team cost estimator(s) conduct a validation of the project construction cost estimate in advance of the VE workshop to identify any areas of concern in the estimate.

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- Ensure involvement by at least two VE team members (one planning and construction design/project management staff member who is not part of the design team for the project and one staff member from operations and maintenance) appropriate to the type of project for the duration of at least half of the workshop.

Workshop

- Provide the VE team with a list of clear and well-defined true constraints on the VE team to help them stay focused.
- Ensure that a function analysis of this specific project is conducted with the VE team during the workshop. It must be specific to this project rather than borrowing functions identified in previous VE studies.
- Ensure that the creative process is truly creative and is not limited to proven ideas.
- Attend a mid-workshop review of the “shortlist” of VE ideas along with representatives of operations and maintenance as well as the design team and identify any ideas with “fatal flaws” and any ideas not on the shortlist that should be added.
- Assure attendance at the VE team presentation by representatives of all of the internal stakeholder groups (i.e., Planning and Construction, Finance) within the District that are relevant to the VE study.
- Require that the Value Engineering team leader, assistant, or another team leader review each recommendation for completeness and correctness before the end of the workshop.

Post-Workshop

- Require the design team to respond to each VE recommendation and design suggestion with the same level of detail as is contained in the VE recommendation. Require detailed documentation if the design team disagrees with the VE team estimated cost impacts of the recommendation. Require detailed justification for recommendations to reject any VE recommendation.
- Ensure that all key stakeholders respond to the VE recommendations and are represented at the post-workshop decision meeting, including the VE team leader.
- Ensure that the results of each VE study are entered in the various tracking systems that are part of the Bond program.

VE Budgeting

- Incorporate a line item in the budget for the Value Engineering that includes funds for VE program associated expenses, training for VE program staff and design project manager, and consultant services for VE studies. Make the head of the VE program responsible for meeting that budget. Include a contingency allowance in the budget for VE studies that may be identified at a later date.

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- Set a VE study budget for each project in the District's Master Plan.
- Check the VE budget for each project to confirm that it falls between 0.5 percent and 2 percent of the project construction cost.

APPENDIX C – INTERVIEWS PERFORMED

The following key SUHSD personnel were interviewed:

- Assistant Superintendent, Business Services
- Chief Financial Officer
- Director of Planning and Construction
- District Architect
- Director of Fiscal Services
- Capital Projects Financing & Reporting Manager
- Budget Analyst
- Accountant
- Accounting Manager
- Purchasing Manager
- Contracts Manager