

## **Pasadena Unified School District's Citizens' Oversight Committee Report to the School Board and Community**

August, 2013

*This is the fourth annual report provided by the Citizens' Oversight Committee (the "Committee") to the School Board and Community, and the third Committee report based upon independent audits of the District. It covers the July 1, 2011 - June 30, 2012 fiscal year.*

### **The Committee's Observations and Recommendations**

#### ***Expenditure of Proposition TT bond funds—Financial Audit***

The principal function of the Citizens' Oversight Committee is to insure that Proposition TT school construction bond proceeds are spent in accordance with governing law: Article XIII A, section 1(b)(3) of the California Constitution and Education Code section 15278(b). In carrying out that function, the Committee receives and reviews the annual financial and performance audits of the Pasadena Unified School District and then reports to the public whether the bond proceeds have been properly spent.

The Committee has reviewed the April 29, 2013 Independent Auditors' Reports on the Financial Audit of the Measure TT 2009 General Obligation Bonds and the Associated Report on Internal Control over Financial Reporting for the fiscal year ended June 30, 2012, submitted by Vavrinek, Trine, Day & Co., which were prepared in accordance with applicable Government Accounting Standards. Those reports and the financials to which they pertain appear on the Proposition TT website, [www.measurett.org](http://www.measurett.org), and the Committee encourages all members of the public to read them. The Committee did not undertake an independent audit of these financial data, which were prepared by the District. Rather, the Committee has relied on the Independent Auditors' ultimate opinion that "the financial statements present fairly, in all material respects, the financial position of the Building Fund (Measure TT) of the Pasadena Unified School District as of June 30, 2012."

Thus, once again, the financial audit was, in technical terms, "clean" -- that is, the auditors found no problems or issues, and they could assure our Committee, and the public, that all proceeds from bond sales were fully accounted for and that all funds had been expended for properly authorized and eligible purposes. The auditors reviewed transactions totaling over \$5.7 million, representing 39% of total expenditures, and found no deficiencies in policies, practices or internal controls.

Based upon the unqualified opinion of the Independent Auditors, the Committee can report to the public that, to the best of its knowledge, the District is in compliance with the requirements of Article XIII A, section 1(b)(3) of the California Constitution and Education Code section 15278(b) for the fiscal year ended June 30, 2012.

The Committee regrets that it has taken so long to publish these audited financials, because the Committee realizes that financial statements lose their value with the passage of time. Completion of the financial statements for the last fiscal year was delayed by an internal investigation begun in December, 2012 and described in Note 6 to the financial statements. The investigation was not completed until April, 2013, and only then could the Independent Auditor issue its opinion, which it did on April 29, 2013.

To reduce the chances of such a delay in the future, the Committee has been working with the District to arrange for substantially earlier completion of the audited annual financials. In that regard, Committee members participated in the selection of a new audit firm, and the Committee's Audit Sub-Committee has already met with the auditors to review their plans for a more timely completion of the 2012 - 2013 fiscal year audit.

#### ***Second series of Measure TT bonds sold***

On May 10, 2012, the District sold the second series (Series "B") of Measure TT bonds, providing an additional \$125 million in funding. Series "A" was sold in 2009 for \$125 million. The final series, amounting to \$100 million, is expected to be sold in 2014 and will complete the funding authorized by Measure TT.

#### ***Planning and policies***

In the 2011 - 2012 fiscal year, while the uncertainty surrounding school closures was resolved, the District began grappling with further reductions in state funding which reduced the overall funding available for capital projects. Further, while the depressed state of the economy in earlier years contributed to bids coming in under expectations, the District in this fiscal year began to see bids being submitted at more traditional cost levels. These factors led the District to begin revising its Facilities Master Plan. In retrospect, it is clear that the District sometimes failed to communicate effectively with all stakeholders at schools where significant changes had to be made to the Master Plan.

#### ***Infrastructure***

During the 2011 - 2012 fiscal year, the Facilities group was fully staffed, to add several Owners Representatives and substantially complete their staffing plan. This progress significantly allayed the Committee's concerns that the District had adequate capacity effectively to manage the bond program.

#### ***Committee membership***

During the 2011 - 2012 fiscal year, the PUSD Board appointed several new members to the Committee, as well as appointing alternate members who could fill in for unexpected vacancies. Thus, for this fiscal year, the Committee had a full contingent of members which was helpful in fulfilling our responsibilities.

#### ***Project execution***

During the July 1, 2011 - June 30, 2012 period covered by the independent audits, major construction activity occurred at Cleveland, Franklin, Jackson, Madison, Sierra Madre and Webster Elementary Schools, as well as at Elliot Middle School and at John Muir and Marshall High Schools. At the end of the fiscal year, construction was still in

progress at 7 of those sites (Cleveland, Franklin, Jackson, Madison, Muir, Marshall, and Sierra Madre Elementary); all have since been completed as anticipated.

The District appears to be meeting its soft cost target ratio of 25%. The District spent \$3.47 million in architectural fees in this fiscal year, representing 23.6% of all expenditures. While there are other incidental costs that are included in the soft cost category, these architectural fees include expenses for future projects whose hard costs have not yet been incurred. Thus the district seems to be on course for holding soft costs under 25%, which is one indication of effective program management. Additionally, the District now provides monthly reports showing the overall hard cost - soft cost ratios, and those current figures also show an overall ratio well under 25%.

### ***Transparency and accountability***

One of the primary duties of the Committee is to review and report on the proper expenditure of bond funds. Although many of the projects this past year have come in over budget, there are sufficient contingency funds to cover the deficit and the committee believes that all of the projects initiated to date are appropriate because the projects were all included in the bond ballot measure. The committee also believes, based on the bond performance audit that no bond funds have been allocated for improper types of expenditures.

The committee supports the steps taken to create transparency around the use of bond funds. Specifically, the Committee recognizes the Board's efforts to publicize and encourage public attendance at both the Facilities Sub-Committee and Oversight Committee meetings, and the Committee intends to promote public awareness and facilitate public input for its meetings.

### ***Oversight Committee***

The current Committee members are listed in Appendix A.

In addition to having the minutes and all materials reviewed by the Committee posted on the Measure TT website ([www.measurett.org](http://www.measurett.org)), the Committee has established an Outreach Sub-Committee, tasked with ensuring that information about the Committee and its meetings is disseminated broadly and with ensuring that community members can easily and effectively provide input to the Committee. Committee members have also volunteered to serve as liaisons to each school in the District and have committed to attend school site council meetings to solicit feedback from the school community on the progress of the Measure TT projects at each of the school sites. To date, Field, Norma Coombs, McKinley, Willard, Madison, Sierra Madre Elementary and Middle schools and Blair High School have each been visited by a Committee member. Notwithstanding these efforts, the Committee feels that it and the District need to do more to provide information pertaining to the activities of the Committee and the bond program to a broader segment of the community (e.g., through a monthly email notice or inclusion of certain bond program items in one of the District's existing electronic newsletters).

## **Appendix A**

Oversight Committee members

Gregory Barna

Ed Barnum

Joanna Bauer

Pamela Boxley

Clifton Cates, III

David Crocker

Carolyn Ellner, Vice-Chair

Jon Fuhrman, Chair

Paul Hunt

James Kossler

Emerson Stevenson

Rita Turner

Gretchen Vance

Antranik Zartarian

Augustin Zuniga