

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

October, 2013

*This is the fifth annual report provided by the Citizens' Oversight Committee (the "Committee") to the School Board and Community, covering the July 1, 2012 - June 30, 2013 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 October 3, 2013 Independent Auditor's Report 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, 2013, submitted by Nigro & Nigro, PC, 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, [measurett.org](http://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 Measure "TT" General Obligation Bond Building Fund of Pasadena Unified School District, as of June 30, 2013, and the changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America."

Thus, for the fourth consecutive year, 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 approximately \$9.0 million, representing over 40% of all expenditures, and found no deficiencies in policies, practices or internal controls.

In addition to the financial audit, the auditors conducted a "Performance Audit" to ensure that bond funds were spent only on appropriate capital projects, and only on projects that fell within the scope of the original bond measure approved by the voters. Here, too, the District received a clean audit, certifying that all expenditures were appropriate and within the letter of the law.

Thus, 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 fully 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, 2013.

The Committee is pleased to report that the Independent Auditor's Report for the fiscal year just ended was completed only four months after the close of the fiscal year to which it pertains, much more rapidly than the report for the preceding fiscal year (and much more quickly than in most other jurisdictions within California). This significant improvement is attributable in large part to the diligence, commitment, and professionalism of the Committee's and the District's new auditor, Nigro & Nigro, PC. It is also worth noting that the Oversight Committee established a new Audit Subcommittee last year; that Subcommittee worked closely and effectively with the administration and the audit firm, and deserves a significant amount of credit for the quick turnaround in this year's audit.

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

On July 3, 2012, the District sold the second series (Series "B") of Measure TT bonds, providing an additional \$125 million in funding. The bonds have maturities that range from one to twenty years, with interest rates up to 5%, depending upon the maturity. 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.

The revenue from that bond sale, along with interest earned, is held in trust for the District and accounts for the \$163 million account balance (after subtracting accounts payable) at the end of the last fiscal year.

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

In the 2012 - 2013 fiscal year, the District continued efforts to grapple with the loss of capital funding that was anticipated from other sources, which as a result of the current financial situation have evaporated, and with increasing construction costs that are returning to historical norms. Consequently, the District has placed a hold on all projects for which it has not yet received bids. The District is reviewing various kinds of information, such as long-term demographic and enrollment trends, overall capacity, educational standards and programmatic requirements, which will be used to develop criteria to evaluate the soundness of the remaining Measure TT projects. While this review may be disruptive and disappointing to District families and employees, it is necessary and appropriate for the District to take a hard look at the Master Plans for each school and the District as a whole.

The District anticipates completing the reassessment during this school year. Once completed, District staff will revise the site plans for each site and make proposed recommendations on how to utilize the available Measure TT funds. If additional funding becomes available for facilities projects, the District will analyze how best to use those funds.

This is the third time the District has had to reassess the financial capacity of the Measure TT program. Each review was necessitated by the financial crisis that began in 2008. It is hoped that Measure TT can support the District's efforts to provide the highest quality educational program to every student within the boundaries of the PUSD.

### ***Infrastructure***

During the 2012 - 2013 fiscal year, the Facilities group underwent considerable staff changes. Most particularly, Dr. John Pappalardo has taken on the additional responsibility of effectively managing the Facilities group. Despite the reduction in force, there have been no lapses in project management. Nonetheless, additional personnel will likely be required once new projects are approved.

### ***Project execution***

During the July 1, 2012 - June 30, 2013 period covered by the independent audits, major construction activity occurred or is occurring at Altadena, Eliot, Hamilton, McKinley, Sierra Madre, Willard and Wilson schools. The two largest projects -- Sierra Madre Middle school and McKinley K-8 -- are under construction and progressing as anticipated.

The District appears to be on target to continue managing "soft costs" (architectural fees and other non-construction expenses) at a level less than 25% of overall costs. The District now provides monthly reports showing the aggregate soft costs and hard costs for all projects financed through Measure TT.

### ***Oversight Committee***

The current Committee members are listed in Appendix A.

During the 2012 - 2013 fiscal year, several Committee members completed their terms, and several other members resigned for personal reasons. The PUSD Board has since reappointed two members to the Committee, but a number of vacancies remain. PUSD residents are encouraged to consider applying for those vacancies. Information on which representative positions are available and application forms are posted on the Measure TT website ([www.measurett.org](http://www.measurett.org)).

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. This Committee is tasked with ensuring that information about the Committee and its meetings is disseminated broadly and 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. 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

Greg Barna

Ed Barnum\*

Joanna Bauer\*

Pamela Boxley\*

Clifton Cates, III\*

David Crocker\*

Caroline Ellner

Jon Fuhrman, Chair\*

Paul Hunt

James Kossler\*

Emerson Stevenson

Rita Turner

Gretchen Vance\*

Antranik Zartarian\*

Augustin Zuniga\*

\* current members