

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

December, 2015

This is the seventh annual report provided by the Citizens' Oversight Committee (the "Committee") to the School Board and Community, and this report covers the July 1, 2014 - June 30, 2015 fiscal year.

The Committee's Responsibilities

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 12, 2015 Independent Auditor's Report on the Financial Audit of the Measure TT General Obligation Bond Building Fund and the Associated Reports on Internal Control over Financial Reporting and on Performance for the fiscal year ended June 30, 2015, 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, www.measurett.org, and the Committee encourages all members of the public to read them.

The Independent Auditor reports that, "In our opinion, 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, 2015, 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 sixth 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 \$53.6 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 legal,

that proper bidding procedures were followed, and that change orders fell within legal and expected limitations.

Furthermore, as part of this review, the auditors visited construction sites at McKinley Elementary, Marshall, Washington Middle, and Sierra Madre Middle schools to verify that expenditures made corresponded with actual work conducted at those sites.

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, 2015.

The Committee is pleased to report that the Independent Auditor's Report for the fiscal year just ended was again completed only three and one-half months after the close of the fiscal year to which it pertains, well within the statutory deadline and much more rapidly than in most other jurisdictions within California. This accomplishment is attributable in large part to the diligence, commitment, and professionalism of the Committee's and the District's auditor, Nigro & Nigro, PC. It is also worth noting that the Oversight Committee's Audit Subcommittee continues to work closely and effectively with the School District and the audit firm, and deserves a significant amount of credit for the quick turnaround in this year's audit.

In addition to the site visits by the audit team, the Oversight Committee itself, independent of the audit process, visited several sites during the 2014-2015 fiscal year, including Altadena, Sierra Madre Middle, Washington, and McKinley, observing construction in process as well as sites nearing completion, and those site visits are continuing this year. Further, the committee continues to be advised by an audit subcommittee and a member (Pamela Boxley) who is the COC project finance monitor so that both the Committee, and the PUSD Board, can have a better understanding of, and provide better oversight to, the District's construction program.

Final series of Measure TT bonds

The District so far has sold two series of Measure TT bonds – the first for \$125 million in 2009, and the second for an additional \$125 million in 2012. The bonds have maturities that range from one to twenty years, with interest rates up to 5%, depending upon the maturity. The final series, amounting to \$100 million, is expected to be sold in 2016 and will complete the funding authorized by Measure TT.

The revenue from those bond sales, along with interest earned, is held in trust for the District and accounts for the \$77.3 million account balance (after subtracting accounts payable) at the end of the last fiscal year.

Planning and policies

In the 2014 - 2015 fiscal year, the District continued efforts to adjust the Master Plan to account both for lower capital funding levels and anticipated demographic changes that in

future years presage lower overall student enrollment and significantly lower enrollment at some sites. This raises a critical question: given the projected decline in student enrollment, what is the appropriate level of future spending by the District? This is a matter of policy for the Board of Education and the District, not this Committee, to decide. However, the Committee will continue to monitor the situation and make its views known to the Board, the District, and the public. For example, the Committee will carefully monitor significant capital improvements to school sites that might in the near future be closed. No such closures are anticipated for the 2016-2017 school year.

Facilities Department

During the 2014- 2015 fiscal year, there were significant personnel changes in the Facilities Department. The new superintendent replaced Dr. John Pappalardo with Nelson Cayabyab as Chief of Facilities. Mr. Cayabyab let the contracts of the existing consultants expire and chose new staff. The Committee thanks Dr. Pappalardo and his consultants for moving the Measure TT projects forward and looks forward to working with Mr. Cayabyab and his staff.

Significant School Projects

During the July 1, 2014 - June 30, 2015 period covered by the independent audits, by far the two largest projects continue to be Sierra Madre Middle School and McKinley K-8, with smaller projects underway, Marshall, Washington (Elementary and Middle School), Altadena and numerous other sites. The Sierra Madre Middle School has a construction budget of approximately \$33 million, and that project is on budget and on schedule. Of significant importance is the decision by the board in May of 2015 to begin an earthquake fault study at San Rafael.

The District appears to be continuing its success in holding "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

In July, 2015, shortly after the close of the fiscal year to which this report pertains, the Board of Education ratified the reappointment of 5 existing members of the Citizens Oversight Committee and appointment 8 new members. Since then, one member has resigned, thereby leaving a total of 12 current members out of the maximum 15 permitted by the Committee Bylaws.

The current Committee members (as of the date of this report) are as follows: Gretchen Vance (Chair), Pamela Boxley (Vice Chair), Clifton Cates (Chair, Audit Subcommittee), Ed Barnum (Liaison to the Facilities Committee of the Board of Education), Steven Cole, Geoffrey Commons, Quincy Hocutt, Joelle Morisseau-Phillips, Willie Ordonez, Mikala Rahn, Julie Root, and Diana Verdugo.

In addition to the activities described above, the Citizens Oversight Committee continues to work with the Board of Education to update the Committee's governing bylaws and to modernize the Committee's website so that all material information—annual reports, annual audits, Committee membership, bylaws, meeting agendas, meeting minutes, and other reports to the community will be easily accessible to the public.

Although the Committee is a volunteer citizen panel with narrowly-defined authority and responsibilities (as explained in the first section of this report), it takes seriously its basic mission: to monitor the expenditure of bond funds for the construction and refurbishment of schools in the Pasadena Unified School District on behalf of all residents of the District. Members of the public are encouraged to attend Committee meetings and to contact the Committee on any subject within its purview.

Appendix A

Oversight Committee Members – See below for member requirement reference

Gretchen Vance (Chair) - (4)

Pamela Boxley (Vice Chair) – (6)

Clifton Cates (Chair, Audit Subcommittee) – (6)

Ed Barnum (Liaison to the Facilities Committee of the Board of Education) – (5)

Steven Cole – (4)

Geoffrey Commons – (2)

Quincy Hocutt – (6)

Joelle Morisseau-Phillips – (3)

Willie Ordonez – (3)

Mikala Rahn – (1)

Julie Root – (3)

Diana Verdugo – (6)

- (1) Member who is active in a business organization representing the business community located within the District (requires one)
- (2) Member active in a Sr. Citizen's Organization (requires one)
- (3) Member who is the parent or guardian of a child enrolled in the District (requires one)
- (4) Member who is both a parent or guardian of a child enrolled in the District and active in parent-teacher organization (requires one)
- (5) Member who is active in a bona fide taxpayers' organization (requires one)
- (6) General Member (requires four)