

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

November, 2016

*This is the eighth annual report provided by the Citizens' Oversight Committee (the "Committee") to the School Board and Community, and this report covers the July 1, 2015 - June 30, 2016 fiscal year.*

### ***The Committee's Responsibilities***

The most important responsibility of the Citizens' Oversight Committee is to monitor the expenditures of Proposition TT bond proceeds to insure that they comply with the governing law: the California Constitution, the Education Code, and the language of Proposition TT. During the past year, the Committee has given increasing scrutiny to actual and proposed expenditures of Proposition TT funds. The Committee formally disapproved two such expenditures. The Board of Education rescinded its prior approval of one, and the appropriated funds were restored to the Proposition TT account. The District withdrew the other, a proposed expenditure, before it was presented to the Board.

In order to facilitate the Committee's review of Proposition TT expenditures, the District has begun to provide notice of proposed expenditures to the Committee for its review before the proposals are submitted to the Board. Since the close of the fiscal year, the District and the Committee have been working together to establish guidelines for which kinds of expenditures are permitted under Proposition TT and which are not. Working with the District wherever and whenever possible, the Committee will continue to take all steps that are necessary or appropriate to make its oversight function truly effective.

### ***The Two Audits***

Another principle function of the Citizens' Oversight Committee is to review the annual financial and performance audits of the Pasadena Unified School District. The financial audit addresses accuracy of the District's Proposition TT income statement and balance sheet. The performance audit seeks to verify that Proposition TT funds were spent only on the types of projects—fundamentally, capital projects—and the schools specified in the original ballot proposition approved by the voters. capital projects and only on projects that were specified

#### ***Financial Audit***

The Committee has reviewed the October 14, 2016 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, 2016, submitted by Nigro & Nigro, PC, which were prepared in accordance with generally accepted accounting principles.. 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 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, 2016, 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 seventh 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 \$16.8 million, representing over 45 % of all expenditures, and found no deficiencies in policies, practices or internal controls.

### *Performance Audit*

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.

Within this audit, the auditors make a formal finding that three change orders for Field Elementary totaling \$435,782 exceeded ten percent of the original contract price (1,467,000) and, therefore, were not in non-compliance with PCC 20118.4, which states the following:

The board may authorize the contractor to proceed with performance of the change or alteration, without the formality of securing bids, if the cost so agreed upon does not exceed the greater of the following:

- (1) The amount specified in Section 20111 or 20114, whichever is applicable to the original contract.
- (2) Ten percent of the original contract price.

The District responded to the audit finding by stating that work has already been completed and that it was "critical path" work that had to be completed before the remainder of the work could be done. The District assured the Committee that henceforth proper procedures will be followed.

Furthermore, as part of this audit, the auditors visited construction sites at Washington Middle, Sierra Madre Middle, and Marshall 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 was 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, 2016.

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.

### *Issuance of the Final series of Measure TT bonds*

The District so far has sold three series of Measure TT bonds – the first for \$125 million in 2009, and the second for an additional \$125 million in 2012. On May 25, 2016 the District issued the last \$100 million of Series 2016 General Obligation Bonds. The bonds were issued as current interest serial bonds with stated interest rates ranging between 2.0% and 5.0% and fully maturing on August 1, 2036.

The revenue from those bond sales, along with interest earned, is held in trust for the District and accounts for the \$142.5 million account balance (after subtracting accounts payable) at the end of the last fiscal year.

### *Planning and policies*

In the 2015-2016 fiscal year, the District worked on adopting a new Educational Master Plan that will direct future Measure TT Bond spending on schools and facilities that will support this plan. However, it is important to note that the District promised voters transparency and accountability in 2008 when voting for this bond by promising a long- term Facilities Master Plan, updated quarterly and annually. Although the District continued efforts to adjust the Master Plan to account both for lower capital funding levels and anticipated demographic changes, the Committee continues to be concerned that the original Facilities Master Plan (adopted in 2008) has not been formally updated, vetted by school sites, and approved by the Board of Education.

### *Facilities Department*

Nelson Cayabyab continues to serve as Chief of Facilities. Over the course of the past fiscal year, he has hired two Construction Specialists, two Accounts Specialists and three Project Manager Consultants (AE Expert, DSA Project Inspector, and Engineer Project Manager). Mr. Cayabyab has worked hard to make the best use of the District's resources, in regard to personnel. His desire is to build a solid team that can oversee each project with the expertise needed to complete the projects on time and on budget.

### *Significant School Projects*

During the July 1, 2015 - June 30, 2016 period covered by the independent audits, by far the two largest projects continued to be Sierra Madre Middle School and McKinley K-8, with smaller projects underway at Washington MS, Marshall, Altadena, and Eliot. Currently, Nelson and his team are working on feasibility studies for the majority of the schools throughout the District, in order to eliminate wasteful re-bidding and change orders for upcoming projects.

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 April, 2016, the Board of Education ratified the reappointment of 3 existing members of the Citizens Oversight Committee and appointment of 4 new members. Since then, two members have resigned, thereby leaving a total of 13 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), Clifton Cates (Vice Chair and Chair, Audit Subcommittee), Steven Cole (Liaison to the Facilities Committee of the Board of Education), Geoffrey Commons, Quincy Hocutt, Joelle Morisseau-Phillips, Willie Ordonez, Mikala Rahn, Diana Verdugo, Glen De Veer, Chris Romero, Derek Walker, and Jen Wang.

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. The Committee also participates in site visits throughout the year, touring both updated and aging facilities throughout the district and participates in School Site Council Meetings whenever possible.

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, to visit the Committee's website, and to contact the Committee on any subject within its purview.

Respectfully submitted,

Gretchen Vance  
Chair

## Appendix A

Oversight Committee Members – See below for member requirement reference

Gretchen Vance (Chair) - (4)

Clifton Cates, III (Vice Chair and Chair, Audit Subcommittee) – (6)

Steven Cole (Liaison to the Facilities Committee of the Board of Education) – (4)

Geoffrey Commons – (2)

Quincy Hocutt – (6)

Joelle Morisseau-Phillips – (3)

Willie Ordonez – (3)

Mikala Rahn – (1)

Glen De Veer – (4)

Chris Romero – (1)

Derek Walker – (5)

Diana Verdugo – (6)

Jen Wang – (3)

- (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)