

Sweetwater Union High School District
Proposition O Bond Fund Performance Audit Report
For the Fiscal Year Ended June 30, 2014

Prepared by:

MOSS ADAMS LLP
9665 Granite Ridge Drive, Suite 600
Santa Diego, CA 92123

March 31, 2015

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, 2014

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), the 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. An annual financial audit is also required by these rules. 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 and financial audits are conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States for financial and performance audits.

Executive Summary

We conducted this Construction Bond Program performance audit in accordance with the GAGAS issued by the Comptroller General of the United States. 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 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 is included in the report body.

The performance audit procedures applied provided reasonable assurance, in accordance with GAGAS, that for the Fiscal Year ended June 30, 2014, Bond proceeds were evaluated for

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expenditures solely on the Listed Projects with 2006 Proposition O which authorized the sale of the bonds. For District labor charges, we take exception to the ability of the District to demonstrate these charges were accurately and completely identified as Proposition O projects as indicated below (Expenditure Management and Controls).

Additionally, as requested by the District, 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 significant internal control deficiencies related to compliance with Bond Program requirements, effectiveness and efficiency of operations:

Expenditure Management and Controls

- Certain District labor charges were allocated between the Bond Program and other District activities without direct cost identification to the Bond Program. Per the District Staffing Plan, approximately \$1,472,539 (60 percent) of the \$2,443,526 charges related to personnel who were to work on the Bond Program is allocated to Proposition O. The basis for allocation was not identified. Time sheets or other means of directly identifying labor costs to the Bond Program were not evident (see Objective No. 4 in the report body).

Program Management

- The District and Professional Services Staffing Plan (the 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 and planning, design as well as construction project needs. This Staffing Plan considers both internal staffing and contract staffing, and allocates the total personnel according to funding source, but does not specifically consider the project needs of the Bond Program (see Objective Nos. 7 and 8 in the report body).

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Budgetary Management and Reporting

- The District's revenues and expenditures cash flow analysis and reporting was compared against the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting on cash flow reporting practices. The District does not have a revenue and expenditures cash flow analysis and forecast for Proposition O (see Objective No. 9 in the report body).
- The design and construction budget management practices were compared to GFOA standards to measure the effectiveness of controls surrounding Bond funded projects. The District only reports the revised budget on the reporting schedule; this is not consistent with recommended practices and prevents end users from analyzing key construction reporting metrics such as financial performance relative to adopted budget, budget-to-actual, budget-to-projected expenditures and revenues, and schedule of value line item variances (see Objective No. 10 in the report body).

Procurement Controls and Contract Administration

- District procurement practices were evaluated against District policies and procedures, California State School Requirements and Public Contracting Code. The following observations resulted from our assessment (see Objective No. 11 and 15 in the report body):
 - The Bonita Vista High School HVAC upgrade project was awarded to the contractor with the lowest base bid, however we found that the bid documentation included a bid amount which was lower than the purchase order value. This resulted in an award to a contractor who was not the lowest bidder.
 - Management Plan Policy and District practices did not apply detailed criteria for surveying, evaluation, ranking, and screening of request for proposal and request for qualification respondents. These District practices should have included documented contractor surveying practices and ranking of respondents based on specific criteria (e.g., a technical proposal, a management proposal, past performance and pricing information, etc.) in order to select the most qualified contractor.
- The District's Standardized Items List was reviewed and compared to specifications provided
- within procurement documentation and inspection reports. The Standardized Items List included general product and system requirements (e.g., library equipment, residential appliances, plumbing, etc.). Procurement documentation included specifications according to building codes not identified within the Standardized Items List or within inspection reports. The District was unable to produce standard

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specifications identifying specific materials, equipment and other item requirements for facilities installation (material types, standard equipment, manufacturer specification numbers, etc.) (see Objective No. 16 in the report body).

Change Management and Controls

- The change order procedures were evaluated against District Policies and Procedures, California State School Requirements, Public Contracting Code and State Allocation Board's Best Practices regarding compliance with change order procedures. Construction change order information is not adequately reported to required end users. Per District Policy, the Board of Trustees (BOT) and the Citizens' Bond Oversight Committee (CBOC) should be provided with the information necessary to oversee the use of Proposition O funds; however, the reported change order information does not identify change order causes (see Objective No. 12 in the report body).
- The District policies, procedures and practices were evaluated to anticipate, identify, document and address potential claims. The District has a Claims Management and Dispute Resolution procedure that addresses how to identify, document and report claims. However, there is not a formal written policy and procedure addressing how to avoid future claims (see Objective No. 13 in the report body).

Bond Program Communication

- The GFOA's best practices regarding communication of capital improvement strategies were compared to District practices. Per the District's communication policy, the BOT should receive sufficient reporting on a monthly basis to provide oversight covering the use of Proposition O funds. Communication weaknesses were identified when comparing District policies with actual practices (see Objective No. 18 in the report body).

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Special Focused Analysis

Change orders for National City Middle School were evaluated against District policies and Public Contracting Code (PCC) requirements, specifically for competitive bidding of contract awards and cost analysis. A comparison of the procurement, contracting, project management and change order approach for National City Middle School (NCMS) and Montgomery High School (MHS) was performed. Change order practices were compared to California State School Requirements and Public Contracting Code. The Power Purchase agreement procurement, contract and related change orders were evaluated in the areas of cost analysis supporting this method of procurement, cost and pricing support for contract amounts and change order cost controls applied. Bond Program improvement opportunities were observed and are identified below (See Objective 21 in the Report Body).

- National Middle School observations indicated that project change order controls should be improved as follows:
 - The Director of Planning and Construction should not sign change orders over \$150,000. The BOT should approve the change order to comply with District policies.
 - Change orders exceeding \$200,000 should not be executed by the District prior to BOT approval to comply with District Policies.
 - While District initiated changes are not uncommon for publicly funded capital projects and the change order work is in compliance with District policies and state regulations, the purpose and cost justification for District initiated change orders and scope additions should be clearly documented. This documentation should include the cost analysis between a change order and a new contract or competitive bidding documentation provided by the General Contractor. Management's rationale for change order approval should be well documented. Absent this information and documentation, the District may pay excessive cost for District initiated change order work.
 - A defined policy should be implemented for updates to the Sweetwater Modernization Standards Specifications document. 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 District's Management. Additionally, the Standard Specifications document should avoid including narrow 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 specifications document is unclear.

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- Comparison of the National City Middle School approach to the Montgomery High School Project indicated the following improvement opportunities:
 - The District initiated the National City Middle School project without staffing that it determined was required for effective project management. Internal District management resources did not appear to be in place to achieve effective budget, scope, change order management and close-out controls
 - The decision to use the San Diego County Superintendent of Schools (Authority) to manage the project reduced the District's control over the final project outcome and lead to an increase in the project's total budget.
 - The treatment for the difference between the amount that the District will pay the Authority and what the Authority will actually incurred should be better specified.
- The District was unable to provide documented cost analysis showing why the Power Purchase Agreement had cost benefits that exceed the use of traditional utility payment arrangements. Documentation was not provided to show a full competitive contractor survey and bidding process. Also, documented change order cost and pricing support was not provided to verify District responsibility for change orders as well as to assess change order amounts and to assess the evaluation of change order pricing. Change order approval documentation was not evident.

We also identified several good practices as follows:

Facilities Programming and Master Plan Approach

- The District has utilized other revenue sources to maximize Proposition O projects coverage.
- The District had an internal policy and procedure manual for its construction activities.

Communication and Fulfilment of Site Expectations

- The Director of Planning and Construction (DPC) and the Finance and Accounting team met on a monthly basis to address Bond Program cost.
- 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 include key project information including budget information, variance analyses, project photos as well as CBOC agendas and meeting minutes.

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- DPC's project management team interfaced and communicated with personnel from Proposition O job sites.

Change Management and Control

- The District had defined control processes to identify change order causes and to evaluate change order costs.
- Change orders were documented in contract files. Project cost accounting included the original contract amount, change order amount and approval documentation.
- A change order approval process had been developed. The Program Management Plan (PMP) required that changes be reviewed against criteria prior to approval.

Procurement Controls and Contract Administration

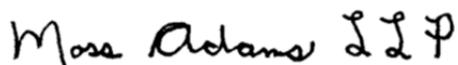
- The District recently acquired a Contracts Manager who is responsible for assisting the DPC and Purchasing with overall compliance to District policies and Public Contracting Code requirements.

Management remains responsible for the proper implementation and operation of an adequate internal control system. Due to inherent limitations in 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 policies or procedures may deteriorate.

This report is intended solely for the use of District Administration, the Citizens' Bond Oversight Committee and the District's Board of Trustees. Moss Adams LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.

We would like to express our appreciation to you and all members of your staff for your cooperation throughout this performance audit. Please contact Curtis Matthews at (503) 704-6943 if you have any questions regarding this report.

Sincerely,



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 the Sweetwater Union High School District's (SUHSD or the District) 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 Proposition Construction Bond Program (Bond Program) is in its 8th year of implementation.

Fiscal year ended June 30, 2014, Bond Program accounting records showed Proposition O Bond Program expenditures of \$45,808,593 in the current year.

California State Requirements

A Construction Bond Program performance audit is required for SUHSD 2006 Proposition O Construction Bonds as required by California Proposition 39, the "Smaller Classes, Safer Schools and Financial Accountability Act" (Proposition 39), the 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. An annual financial audit is also required by these rules. 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 and financial audits are conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States for financial and performance audits.

Proposition 39, "Smaller Classes, Safer Schools and Financial Accountability Act" (Proposition 39) was passed by the 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;

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- 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;
- 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 this 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, have been required to expend these fund proceeds only on specific projects that were authorized with the sale of these bonds (Listed Projects), and not for school operating expenses for the District Fiscal Year ended June 30, 2014 (Fiscal Year 2014). The Proposition O Bond Program expended \$45,808,593 in Fiscal Year 2014.

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 objective. The evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objective. 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 and not be detected by us. Field work on this project ended on March 30, 2015.

Management remains responsible for the proper implementation and operation of an adequate internal control system. Due to inherent limitations in 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 policies or 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 over financial reporting or over financial management systems.

We also assessed Bond Program risks, controls design, controls operation and tested expenditures for compliance. The performance audit methodology applied included the following:

1. Post-Financing Review
We evaluated whether the District complied with the Bond pricing requirements and approved District goals established prior to sale.

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2. Refunding of Outstanding Bonds

We compared Bond refunding plans and actions with State, District approved, and Bond specified requirements for compliance.

3. Composite Bond Measures Final Report

We analyzed the District's compliance with Proposition O Bond language and legal limitations regarding the issuance of bonds and monitoring the bond proceeds after issuance regarding investments and arbitrage regulations for the period. This analysis included review for risky or problematic investments such as Capital Appreciation Bonds.

4. 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, listed projects and Proposition 39 requirements. We began the review of the Bond Program's financial records and expenditures by obtaining the Comprehensive Annual Financial Report and tying out the balances to the District's detail accounting records. To ensure conformity with general and accepted practices and standards as well as compliance with laws and regulations, we walked through and tested the program expenditure cycle and a sample of the supporting documentation to validate internal controls. Testing procedures included the use of Audit Command Language (ACL) to select a statistical, monetary unit sample to ensure a 90 percent level of confidence that expenditure transactions from the Bond Program were compliant with Program and legal requirements. These sampled and tested transactions included payments to contractors and vendors, as well as journal entries of inter-fund transfers. More than 60 items were selected for each attribute tested.

In addition to statistically sampling the population of Program expenditures, we judgmentally selected a minimum of three projects on which to perform a more in-depth review of the project expenditures. The population of these higher risk projects was developed based on quantitative and qualitative factors stemming from interviews with stakeholders and Program and District personnel.

5. Compliance with State Law and Regulations

We analyzed District compliance with State laws and regulations regarding school district facilities programs. We performed a risk assessment to identify laws and regulations that the District may be subject to. We then selected some of these laws and regulations which are considered highest risk for further review to assess District compliance. This analysis did not constitute a legal opinion or a complete analysis for compliance with all applicable state laws and regulations.

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6. Compliance with District Policies and Regulations

We assessed compliance with the pertinent District policies and regulations governing the District's facilities program. We validated District policies and regulations regarding the facilities program's processes and controls. We designed the audit to provide reasonable assurance that Bond expenditure controls and practices were consistent with District policies and Proposition 39 objectives to ensure that funds were spent on projects for which the ballot initiative indicated that funds would be used. Based on our experience in performing Proposition 39 audits, we affirm that we have the capacity and knowledge to address the key areas of the District's facility Bond Program including design, engineering, contracting, inspecting, and overall financial review.

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

We reviewed the District's policies and approach to in-house staffing and consultant staffing for managing the measures and the effectiveness of the staffing related to the number of Bond Program projects. We analyzed the organizational structure alignment between the program management team and the contractors, validating and evaluating processes for project reporting, communication, problem resolution, decision-support, change order authorizations, scope of control, and segregation of duties. As a part of this analysis, we leveraged our experience with other school construction programs to compare District staffing levels to workload requirements.

8. Program Management Effectiveness

We assessed the design and performance effectiveness of program management processes and controls covering planning, design and construction projects. Specific emphasis was placed on the implementation of policies, procedures and practices needed to ensure key deliverables and approvals occur as projects progress. Additionally, we performed an evaluation of the current Management Program and Plan for the current Bond Program. This included an assessment of the current facilities master plan, organizational structure and controls to ensure there is an integrated plan among stakeholders, to include, but not be limited to, District Management, the Oversight Committee and the Board of Trustees.

9. Design and Construction Schedules Cash Flow Analysis

We reviewed the methods utilized by the District and their consultants 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. To accomplish this, we walked through existing tracking methods as well as Bond fund expenditure schedules and sample supporting documentation for expenditures and cost controls performance.

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10. Design and Construction Costs and Budgets

We reviewed the established District process for the development and adherence to design and construction budgets on Bond funded projects in the facilities construction program; to gather and test data in order to determine compliance and measure the effectiveness of controls. Selected contracts were reviewed to gain an understanding of payment processes, cycle time, allowable charges and reimbursable costs. Guaranteed Maximum Price, time and materials, and other cost plus contracts were given specific focus and attention. Processes to review and approve contractor charges were analyzed to prevent excessive charges and overpayments, and payment applications were reviewed to assess the adequacy of supporting documentation. We also reviewed the field methods used to validate progress and percent complete. Selected cost contracts were sampled and tested for contract billings compliance with contract terms.

We also reviewed the reconciliation of actual projects for which Bond funds were expended to projects approved by the Board of Trustees, analyzed the reconciliation of projects approved by the Board of Trustees to projects on the approved facilities master plan, reviewed the reconciliation of the facilities master plan on the approved project lists for Proposition 39, Proposition O, and followed up on any unreconciled items and report any expenditures or items in the facilities master plan that did not reconcile to approved Bond Funds and Proposition O project lists.

11. Bidding and Procurement Procedures

We verified that District bidding and awarding of bond funded construction projects complies with the requirements of the California school construction state requirements, Public Contracting Code, and state and other relevant laws and regulations. Procurement controls were evaluated for application of competitive, compliant and fair contracting practices that prevent excessive expenditures in procuring contractors and professional services. We conducted interviews and reviewed relevant policies, example bids and contractor selection files. We selected a sample of contracts and determined and assessed the implementation of controls needed to achieve competitive contracting practices that are consistent with school construction program requirements and best practices.

12. Change Order Procedures

Change order documentation was reviewed for compliance with Public Contracting Code, California school construction state requirements and other regulations. Controls and activities to manage change orders were evaluated. Contracts were reviewed to gain an understanding of allowable charges and reimbursable costs related to change orders. Policies and procedures covering the review and approval of contractor change orders were analyzed to identify potential exposures. Specific consideration was given to change order cause, responsibility and pricing. We reviewed policies and procedures to verify whether documentation exists prior to approval of change orders and to verify that required approvals were applied. Selected change orders were tested for duplicated work scope and compliance with Proposition 39 requirements.

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13. Claim Avoidance Procedures
We evaluated and reviewed the procedures used to limit the number of claims filed against the District related to construction projects for the period. Specific consideration was given to contractor inquiries and capture of documentation surrounding scope change causes, schedule changes and cost impact analysis. Steps were taken to effectively communicate potential claims and mitigate claims risk will be given specific consideration.

14. Expenditure and Payment Procedures
We verified that the District was compliant with its policies and procedures related to Proposition 39 expenditures and payments for the period. We documented the use of Bond Program funds and segregation of these funds for Bond Program purposes, traced Bond funds received by the District and reconciled amounts received with amounts expended, and verified that these funds have been expended for Bond Program purposes.

15. Best Practices in Procurement
We reviewed data and verified that District bidding and awarding of bond funded construction projects complied with the requirements of the Public Contracting Code, and other relevant laws and regulations and to ensure that best practices in procurement were followed. Subcontract scope requirements, choice of contracting methods, supplier survey and selection criteria as well as documented selection methods applied were reviewed.

16. Delivered Quality Analysis
We evaluated the District's processes related to setting standards for products and systems to be included in the facilities projects, assurance that the standards are incorporated into the design and documentation, and to ensure that the designed systems were included in the final construction of the project. Additionally, we gathered and tested data in order to determine compliance and measure the effectiveness of quality controls applied. Methods to verify contractor and subcontractor history and quality verification were performed.

17. Monitoring Local Participation Requirements and other Related Board Policies
We determined compliance with specific Board Policies such as local business or Minority Women Owned Business Participation. Reported results were validated for inclusion of current, accurate and complete information.

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18. Effectiveness of Bond Communication Program

We assessed the effectiveness of the Public Outreach and Communication Plan that addresses external and internal communications. We reviewed District activities and methods of communication related to the identification of stakeholders as well as their concerns, influence on the project and information expectations. Use of District means to reach Bond Program stakeholders were compared to good practices at other school districts. We evaluated the overall transparency of the Bond Program, including but not limited to the evaluation of the Bond website information, Bond Program progress reports, availability and access to information regarding Program status and expenditures. Current, accurate and complete reporting Bond program reporting was assessed. Project progress, impact to Bond Program Stakeholders and delivery in accordance with Bond Program requirements were given specific consideration.

19. Review of Bond Oversight Committee Meeting Minutes

We validated that the Citizens' Bond Oversight Committee (CBOC) met as scheduled, that meeting minutes were appropriately taken and that a quorum of members was present to approve the meeting minutes. Analysis was performed to assess evidence of documented CBOC compliance.

20. Citizens Bond Oversight Committee Compliance

We assessed the overall compliance of the CBOC with law, the District's Board Policies and the Committee's bylaws. Specific focus and attention was given to Oversight Committee performance, compliance with their Charter and overall effectiveness of their activities. Evidence of CBOC compliance with its Proposition 39 requirements was assessed. Procedures to ensure independence of Committee Members were given specific consideration.

21. Special Focused Analyses

We provided the following:

- A specific detailed review of the Change Orders for National City Middle School
 - The change order log for the National City Middle School was obtained. Change orders were selected for testing based on nature, size and risk. District responsibility for change orders and applicability of the change orders to the Bond Program were assessed. Methods for pricing change orders were assessed.
- A comparative analysis of the lease leaseback approach for National City Middle School versus the design build at Montgomery High School in terms of cost effectiveness
 - Contracting and costing methods were compared and contrasted. Methods used for each to validate cost compliance were analyzed. Project component cost amounts were compared.

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- An overall assessment of the Change Order process and procedures practiced by the District
 - Change order processes and procedures applicable to prevention of changes, validation of responsibility, analysis of cost charges and ensuring Bond Program applicability were specifically considered.
- A review of the Power Purchase Agreement and related change orders
 - Analysis of the Power Purchase Agreement controls was performed to assess risk and application of good practices. Related change orders were assessed for Bond Program responsibility, costing verification methods applied and reasonableness of cost support.

Interviews and Job Site Tours

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. Additionally, we visited job sites to conduct site tours. The individuals interviewed and job sites visited are listed in Appendix A of this report.

AUDIT RESULTS

Objective No. 1 – Post-Financing Review

Observation: Bond pricing goals established prior to the sale were compared to current practices. We found no exceptions.

Objective No. 2 – Refunding of Outstanding Bonds

Observation: District, State, and Bond specific refunding requirements were compared to refunding plans and actions. The District has no refunding plans or actions.

Objective No. 3 – Composite Bond Measures Final Report

Observation: Proposition O ballot language and legal limitations regarding the issuance of the Bond were analyzed including the terms of voter approved measures regarding investments and arbitrage regulations. Funds within the County pool were invested at the discretion of the San Diego County Treasurer-Tax Collector Investment Officers, and the District is not part of that decision making process. Per California Education Code Section 41001, the District is required to deposit all receipts and collections of monies (including Bond proceeds) with the County Treasurer. The County of San Diego Treasurer Investment Report through June 30, 2014, provided a report detailing the investment allocations. The investment categories include the following: Negotiable Certificate of Deposits (CDs) (27.05%), Commercial Paper (18.90%), Federal Home Loan Bank Notes (14.86%), Fannie Mae (13.98%), Federal Home Loan Mortgage Corp (8.93%), Money Market Funds (7.60%), U.S. Treasury Notes (5.92%) and other (2.76%).

Objective No. 4 – Compliance with Ballot Language

Observation: Proposition O ballot language regarding listed projects, Proposition 39 language and District Policies and Procedures were used to validate the allocability and allowability of expenditures. Allowance and contingency usage were evaluated against specific job contract language to assess expenditure allocability and allowability.

We observed evidence and conducted interviews to assess the effectiveness of the design of internal controls over the Bond Program expenditure process. 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 Fiscal Year 2014. The documents analyzed to assess Bond Program risk and controls design included:

- Proposition O Bond language and Project Lists

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- The District's Master Plan
- Board of Trustees (BOT) Meeting Agendas and Minutes
- Applicable Construction Program contract documentation
- Accounting for Bond Program proceeds and expenditures taken from the District's books and records
- Policies, procedures, reports and correspondence

We verified that Fiscal Year 2014 Bond Program compliance controls operation and expenditures compliance included the following procedures:

- Comparison of the Bond Program Master Plan to projects listed with the District's Proposition O Construction Bond
- Analysis of Board budgetary approvals for Master Plan expenditures
- Verification of Bond Program Master Plan and Board approvals
- Analysis and validation of accounting for Bond proceeds issuance, receipts and use on approved Bond Program Listed Projects (Listed Projects)
- Walkthrough and testing of the Bond expenditure cycle and a sample of the supporting documentation to validate internal controls. We tested 112 expenditures totaling \$39,049,150. These transactions included payments to contractors and vendors, and journal entries. We conducted tests on sampled transactions to verify the following:
 - Expenditures were for Listed Projects
 - Approval of payment applications and invoices
 - Expenditure compliance with properly approved contract, purchase order or other procurement documentation
 - Expenditures were recorded in a current, accurate and complete manner on the District's books and records

Certain District labor charges were allocated between the Bond Program and other District activities without direct cost identification to the Bond Program. Per the District Staffing Plan, approximately \$1,472,539 (60 percent) of the \$2,443,526 charges related to personnel who were to work on the Bond Program is allocated to Proposition O. The basis for allocation was not identified. Time sheets or other means of directly identifying labor costs to the Bond Program were not evident. Below is a summary that identifies that various positions, as included in the Staffing Plan, are allocated but do not maintain timecards or other means to specifically identify their cost to Proposition O.

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Title	Proposition O Allocation (%)	Other Allocation (%)	Total Allocation (%)
Chief Facilities Executive and Assistant	30%	70%	100%
Director of Construction and Assistant	60%	40%	100%
Project Manager and Planning Specialist	75%	25%	100%
Budget Analyst and Accountant	50%	50%	100%
Purchasing Manager	15%	85%	100%
Purchasing Senior Buyer	60%	40%	100%
Contracts Manager	75%	25%	100%
Office Assistant	25%	75%	100%

For Bond Program purchases, the performance audit procedures applied provided reasonable assurance in accordance with Generally Accepted Government Auditing Standards (GAGAS) for the fiscal year ended June 30, 2014, that Bond proceeds were expended only on the Listed Projects with Proposition O which authorized the sale of the bonds. For District labor charges, we take exception to the ability of the District to demonstrate these charges were accurately and completely identified as Proposition O projects.

Improvement Recommendation: The District should implement processes and controls needed to provide supporting documentation that validate that the applicability and accuracy of labor charged to Proposition O. Specifically, a time tracking system should be implemented so that all cost incurred are identifiable and have a beneficial relationship to the Bond Program and cost objectives.

Objective No. 5 – Compliance with State Laws and Regulations

Observation: We compared the District’s Program Management Plan to District, State and Bond requirements. Our analysis considered laws, policies and regulations that the District is subject to. Below is a summary of the section of this report that corresponds to exceptions for areas reviewed:

- a) Compliance with Ballot Language – See Objective No. 4
- b) Bidding and Procurement Procedures – See Objective No. 11
- c) Change Order Procedures – See Objective No. 12

- d) Best Practices in Procurement – See Objective No. 15
- e) Effectiveness of Bond Communication Program No. 18

Objective No. 6 – Compliance with District Policies and Regulations

Observation: We compared District Policies and Regulations to Bond Program activities. Below is a summary of the District Policies and Regulations, as well as the section of this report that corresponds to the indicated procedure:

- a) Compliance with Ballot Language – See Objective No. 4
- b) District and Professional Services Staffing Plan – See Objective No. 7
- c) Program Management Effectiveness – See Objective No. 8
- d) Bidding and Procurement Procedures – See Objective No. 11
- e) Change Order Procedures – See Objective No. 12 and 21a
- f) Claims Avoidance Procedures – See Objective No. 13
- g) Expenditure and Payment Procedures – See Objective No. 14
- h) Best Practices in Procurement – See Objective No. 15
- i) Monitoring Local Participation Requirement and other Related Board Policies – See Objective No. 17
- j) Citizens Bond Oversight Committee Compliance – See Objective No. 20

Objective No. 7 – District and Professional Services Staffing Plan for the Bond Program

Observation: The District and Professional Services Staffing Plan (the 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. This Staffing Plan considers both internal staffing and contract staffing, and allocates the total personnel according to funding source, but does 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, but rather 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. 8 – Program Management Effectiveness

Observation: The District and Professional Services Staffing Plan (the 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. The Staffing Plan considers both internal staffing and contract staffing, and allocates the total personnel according to funding source, but does not specifically consider planning, design and construction program project needs. The Staffing Plan does not currently base staffing requirements on the Bond Program planning, design and construction program project needs, but rather 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 planning, design and construction project needs.

Objective No. 9 – Design and Construction Schedules Cash Flow Analysis

Observation: The District’s revenues and expenditures cash flow analysis and reporting was compared against the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting on cash flow reporting practices. The District does not have a revenue and expenditures cash flow analysis and forecast for Proposition O.

The Capital Facilities Financing Plan (CFFP) is used by the District as a reporting tool and includes a cash, or cash equivalents, snap shot; however, this reporting tool is not consistent with recommended practices for state and local government entities as issued by the GFOA. The District needs a report that identifies project expenditures by timeframe, and then determines the timing of Bond proceeds and other funding sources to address project expenditure requirements.

Improvement Recommendation: With the complexities the District faces regarding multiple funding sources, budgets, and expenditures in excess of the Bond issuance, cash flow analysis and forecasts are essential to managing cash. The District cash flow reporting should include revenues and expenditures by timeframe to determine that sufficient funding is available to meet financial requirements. The GFOA recommends that monthly reports be created to serve as an early warning system for identifying future cash flow shortfall. 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.

Objective No. 10 – 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 only reported the revised budget on the reporting schedule; this is not consistent with recommended practices and prevents end users from analyzing key construction reporting metrics such as financial performance relative to adopted budget, budget-to-actual, budget-to-projected expenditures and revenues, and schedule of value line item variances. Additionally, the report lacked other means to clarify Bond Program progress and financial standing (e.g., narratives, graphs, chart, etc.).

Design and construction budget District Management practices can be improved to increase the effectiveness of controls surrounding Bond funded projects as identified in the following observations:

- 1) Project budgets adjustments are developed by the Project Manager (PM), approved by the Director of Planning and Construction (DPC) and Chief Facilities Executive (CFE), and are included in the monthly Capital Facilities Financing Plan (CFFP) agenda item for approval by the Board of Trustees (BOT). The Project Financial Summary by project within the CFFP includes the Revised Budget but excludes details regarding budget adjustments, scope additions and revisions, and the overall impact to the original budget. Not including the projects financial performance relative to the original budget prevents report users from understanding where the project stands in relation to the original budget and the causes for the changes.
- 2) The reported savings and overages on the CFFP can be misleading. Portions of the total construction budget for many projects include an internal program management component; however, this is not broken out separately in any of the monthly reports for District Management, the BOT, the Citizens' Bond Oversight Committee (CBOC) and other end users. Without reporting these major components separately, end users do not have visibility as to whether savings or scope reductions in one section offset overages in the other, resulting in an on-budget job. These types of summary level variances and narratives are needed to clearly understand the job's progress and financial standing.

Improvement Recommendation: The GFOA recommends that local government agencies 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. 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.

Objective No. 11 – 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 selection of the general contractor for 30 percent of the active and close-out phase Bond Program projects for the year ending June 30, 2014. We found no exceptions.

Objective No. 12 – Change Order Procedures

Observation: The change order procedures were evaluated against District Policies and Procedures, California State School Requirements, Public Contracting Code, and State Allocation Board’s Best Practices regarding compliance with change order procedures. Construction change order information was not adequately reported to required end users. Per District Policy, the BOT and the CBOC should be provided with the information necessary to oversee the use of Proposition O funds; however, the reported change order information did not identify total change order impact for each project with responsibilities identified. The District provided a monthly report to the CBOC with the cumulative change order percentage for each active project; however, this information, along with total change order responsibility, was not included on the Project Financial Report by project. For example, neither the Financial Summary nor the Project Financial Report clearly identify whether total changes are directed by the District, or are related to scope changes, design errors, contractor errors or unforeseen conditions. Without this summary level information included on individual project reports, responsibility for change orders and associated costs will not be evident to key decision makers.

Improvement Recommendation: Total change order impact and assigned responsibility details are needed within monthly Project Financial Report to ensure that change order information is sufficiently reported to District Management, the BOT and the CBOC. Absent this additional information, change order details are not adequately reported to end users.

Also, See Objective No. 21a for National City Middle School specifics regarding change order procedures.

Objective No. 13 – Claim Avoidance Procedures

Observation: The District policies, procedures and practices were evaluated to anticipate, identify, document and address potential claims. The District had a Claims Management and Dispute Resolution procedure that addresses how to identify, document and report claims. However, there was not a formal written policy and procedure addressing how to avoid future claims.

Improvement Recommendation: Written policies and 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.

Objective No. 14 – Expenditure and Payment Procedures

Observation: Proposition 39 Proposition O expenditure and payment practices were evaluated against District policies and procedures. We found no exceptions.

Objective No. 15 – Best Practices in Procurement

Observation: District procurement practices were evaluated against District policies and procedures, California State School Requirements and Public Contracting Code. The following observations resulted from our assessment:

- 1) The Bonita Vista High School HVAC upgrade project was awarded to the contractor with the lowest base bid, however we found that the bid documentation included a bid amount which was \$38,454 lower than the executed purchase order value. Given that work was to be awarded to the low bidder per District policy, the purchase order value made the selected contractor the third lowest bidder and therefore they should not have been awarded the work.
- 2) The policies and procedures of the Program Management Plan (PMP) and the practices of the Planning and Construction Department were inconsistent for the procurement of contractors. The PMP did not include detailed criteria for surveying, evaluating, ranking, and screening request for proposal and request for qualification respondents. This type of evaluation process is a best practice applied on Federal contracts. This process model includes documented contractor surveying practices and ranking of respondents based on specific criteria (e.g., a technical proposal, a management proposal, past performance and pricing information, etc.) in order to select the most qualified contractor.

Improvement Recommendations:

- 1) The District should ensure that complete bid and procurement files are maintained to support all bid, award and purchase order values. Additionally, during the bid analysis and evaluation phase the District should conduct a bid leveling analysis, which ensures that all bidders are accounting for the appropriate components within their bid amount (e.g., alternates, allowances, etc.) as defined by the bid, request for proposal or request for qualifications prior to contract award.
- 2) The PMP and related practices should be expanded in the areas of surveying, analyzing, and ranking respondents and application of specific proposal evaluation criteria when selecting contractors. The District may want to consider utilizing the Federal Acquisition Regulations and guidance provided by the National Association of State Procurement Officials in its procurement processes.

Objective No. 16 – Delivered Quality Analysis

Observation: The District’s Standardized Items List was reviewed and compared to specifications provided within procurement documentation and inspection reports. The Standardized Items List included general product and system requirements (e.g., library equipment, residential appliances, plumbing, etc.). Procurement documentation included specifications according to building codes not identified within the Standardized Items List or within inspection reports. 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.).

Improvement Recommendation: The District should create 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 provided to all bidders during the procurement process.

Objective No. 17 – Monitoring Local Participation Requirements and other Related Board Policies

Observation: Board Procurement Policies were reviewed for District compliance to socioeconomic requirements. Per Board Policy AR 7140 (Architectural and Engineering Services), projects that receive state funding should include maximum participation by small business firms as defined by Government Code 14837. Small business firms include independently owned and operated businesses that are not dominant in their field, have a principal office located in California, and have fewer than 100 employees and annual gross receipts of \$10,000,000 or less over the previous three years. We found no exceptions as the District made an effort to solicit and utilize small businesses within construction projects.

Objective No. 18 – Effectiveness of Bond Communication Program

The Government Finance Officers Association’s best practices regarding communication of capital improvement strategies was compared to District practices.

Per the District’s communication policy, the BOT should receive sufficient reporting on a monthly basis to provide oversight covering the use of Proposition O funds. The following communication weaknesses were identified when comparing District policies with actual practices:

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Internal Communication:

- 1) The Master Plan did not clearly identify the scope priorities for the first issuance of Proposition O funds. A Master Plan, with Proposition O's scope priorities identified, is needed so that the BOT can properly review revisions and additions to scope and ensure that these revisions are in line with the scope priorities. The latest Master Plan was approved in 2006, and the need for a new one is critical to understanding the prioritization of projects and project scope as submitted by individual schools in relation to the original approved Master Plan. Absent an updated Board approved Master Plan, project progress and scope priority timelines of Proposition O are unclear.
- 2) The Project Financial Summary report provided to the BOT and the CBOC does not reflect the financial standing of Proposition O. A stand-alone Proposition O report is needed so that the BOT and the CBOC can understand Bond Program expenditures and funding status. Current reporting combines 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.
- 3) Certain Form 3500 requests result in change orders for Proposition O objectives; however, the prioritization of requests, and documentation of why certain requests are approved and others are pending is not clear. This lack of documented prioritization was evident through our job site visits with school administrators and the monthly reports to the BOT. School administrators were not clear on the timeline of Proposition O related Form 3500 requests and the expected timing of Board approval and construction commencement. Additionally, this information needs to be clearly documented and reported so that the BOT can understand and conclude on change orders and their relation to scope priorities.

External Communication:

- 4) Per the GFOA, "organizations should consider strategies that utilize multiple methods of communication to reach different audiences." The District's website includes key information regarding the Proposition O ballot language, tax rate statements, the role of the CBOC and their meeting minutes, project information and other related news which has been updated on a regular basis; however, other media platforms such as Facebook, YouTube and Twitter were severely outdated. The District's website does not provide links to Facebook, YouTube and Twitter, however a Google search of the Bond Program for the District generated links to the outdated social media websites.

Additionally, the GFOA suggests that communication not be limited to providing information, but rather the District providing a forum for the public to provide feedback. Aside from attendance at CBOC meetings, there was little feedback received from the public.

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Improvement Recommendations:

- 1) 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. The Master Plan should be reconciled to the available Bond funds and updated on an ongoing basis. This information is necessary in order to provide the BOT adequate information to sufficiently oversee and conclude on the Bond Program's 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.
- 2) Per BOT requirements and Education Code 15278, the CBOC should be provided any necessary information concerning the status of the Bond Program that is needed for them to perform their oversight role. The current financial reporting makes understanding the financial standing of Proposition O against the originally issued \$180 million difficult to quantify. 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.
- 3) Form 3500 requests resulting in Proposition O related change orders should be clearly documented and reported to the BOT. The approved Form 3500 requests should be in line with the prioritization and project scope objectives from the Master Plan. This information is not only necessary for the BOT to conduct their required oversight, it will also provide visibility and transparency for administrators to effectively manage their schools and expectations of work to be completed.
- 4) The District should consider modifying its communication plan to include a more varied approach to public outreach and communication that will reach and solicit input from a wider range of people and provide them with timely updates about the Proposition O Bond Program. Any unused platforms (i.e., YouTube, Facebook, etc.) should be removed to avoid the appearance of a breakdown in communication due to outdated information.

Objective No. 19 – Review of Bond Oversight Committee Meeting Minutes

Observation: Citizens Bond Oversight Committee meeting minutes were compared against Proposition 39 requirements to ensure meetings were held as scheduled, meeting minutes were appropriately taken and approved, and a quorum of members was present. We found no exceptions.

Objective No. 20 – Citizens Bond Oversight Committee Compliance

Observation: The Citizen's Bond Oversight Committee's practices were compared to the CBOC bylaws/Charter and Board Policies for proper oversight of the Bond Program. We found no exceptions.

Objective No. 21a – Special Focused Analyses – Change Orders for National City Middle School

Observation: Change orders for National City Middle School were evaluated against District policies and Public Contracting Code (PCC) requirements, specifically for competitive bidding of contract awards and cost analysis. National City Middle School's change orders totaled \$560,684, or 5% of the original contract value, and were reviewed for approvals, cost support, and compliance with District policies and PCC requirement. District-initiated change orders represented \$488,923, or 87%, of the total change order population. Two Potential Charge Order's (PCO) totaling \$351,335, or 72% of the District-Initiated change orders or 63% of the total change order population were selected for evaluation. The information regarding these two significant PCOs is detailed below:

- 1) PCO No. 18 from Change Order No. 2 totaled \$164,453 and related to the equipment, installation, and modification to the existing Fire Alarm system. Phase Two at National City Middle (NCM) included construction by McCarthy Construction for a standalone building and began in June 2013. The bid documentation for this contract included the fire system for this particular building only. However, in November 2013, the Board approved budget increases for additional fire alarm systems. This approval resulted in the December 2013 District initiated change order for an upgraded fire alarm system across NCM's outstanding buildings. Baker Electric was the subcontractor for the Fire Alarm system at NCM Phase Two and Standard Electric was their subcontractor. This work scope was awarded to this same subcontractor. This work was not included in a competitive bid. Other means of cost justification were not documented. No other exceptions were found.
- 2) PCO No. 35 from Change Order No. 3 totaled \$186,882 and related to the Garland Roof System and the forty-year warranty. The May 8, 2014, Sweetwater Modernization Standard Specification included the District's mandate for roofing materials and installation requirements and a forty-year warranty. This PCO includes the roof materials, installation, and the forty-year warranty and was executed on May 29, 2014. This change order is in line with Proposition O cost objectives as it complies with District mandated specifications. However, issues with the process and controls over the Sweetwater Modernization Standards Specification document are discussed in Issues section, No. 4, below. No other exceptions were found.

Issues regarding the change order control process for NCM are highlighted below:

- 1) Per Resolution No. 4150, Section 2, of the District's Policies, the Director of Planning and Construction is only able to execute change orders up to \$150,000. However, Change Order No. 2, in the amount of \$275,819, and Change Order No. 3, in the amount of \$278,978, were both executed by the Director of Planning and Construction.
- 2) Per Resolution No. 4150, Section 7, of the District's Policies, change orders and contract amendments exceeding \$200,000 shall be approved by the Board of Trustees (Board) prior to execution by the District. For both Change Order No. 2 and 3, \$275,819 and \$278,978 respectively, the Board approval was received after the execution of the change order. Change Order No. 2 was executed by the District on December 10, 2013; however the Board approved the change order on January 13, 2014.

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Change Order No. 3 was executed by the District on May 29, 2014; however, the Board approved the change order on July 17, 2014. The work for Change Order No. 3 commenced prior to June 30, 2014.

- 3) The District did not competitively bid out the additional fire alarm scope added for NCM. Although the change order is under the acceptable ten percent of the original contract price. Per Public Contract Code section 20118.4, the business decision, the analysis, and the associated documentation for this District initiated change order was not documented.
- 4) The approval process and documentation surrounding changes to Sweetwater Modernization Standards Specification is not clearly documented. The District was unable to provide documentation for the specifications request and the timing of the approval. For example, the requestor and approver information, an internally generated and approved cost-benefit analysis, and other relevant details were not available regarding the specification change for the forty-year roof. Although, the District had a life-cycle cost analysis for the forty-year roof, it was generated by The Garland Company. Documented District analysis and validation of the basis for accepting the change order pricing was not evident. Finally, the forty-year roof technical specification requirement is very narrow in scope; therefore, it limits many companies' entrance into bidding for the work which prevents the District from getting competitive pricing.

Improvement Recommendations:

- 1) The Director of Planning and Construction should not sign change orders over \$150,000. The BOT should approve the change order to comply with District policies.
- 2) Change orders exceeding \$200,000 should not be executed by the District prior to BOT approval to comply with District Policies.
- 3) While District initiated changes are not uncommon for publicly funded capital projects and the change order work is in compliance with District policies and state regulations, the purpose and cost justification for District initiated change orders and scope additions should be clearly documented. This documentation should include the cost analysis between a change order and a new contract or competitive bidding documentation provided by the General Contractor. Management's rationale for change order approval should be well documented. Absent this information and documentation, the District may pay excessive cost for District initiated change order work.
- 4) A defined policy should be implemented for updates to the Sweetwater Modernization Standards Specifications document. 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 District's Management. Additionally, the Standard Specifications document should avoid including narrow scoped

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requirements to prevent non-competitive pricing or overbillings to the District. Absent this policy and documentation, when and why changes are made to the specifications document is unclear.

Objective No. 21b – Special Focused Analyses – Comparative Analysis of National City Middle School compared to Montgomery High School Projects

Observation: The Sweetwater District’s two projects, National City Middle School (NCMS) and Montgomery High School (MHS), have both been part of the Bond O Program. Below is a summary by projects:

	National City Middle School	Montgomery High School
Scope	New two story academic building	This project included: <ul style="list-style-type: none"> • New Gymnasium • New Classroom Building • Existing Repairs
Project Manager	Sweetwater District Facilities Group (District)	K-12 Public School Districts and Community Colleges Facility Authority – San Diego County Superintendent of Schools (Authority)
Contractor	McCarthy Building Companies, Inc. (McCarthy)	Solpac Construction, Inc. dba Soltek Pacific Construction Company (Soltek)
Contract Type	Lease Leaseback (Design Bid-Build) between District and McCarthy	Lease Leaseback between District and Authority. Design-Build between Authority and Soltek.
Procurement Type	RFQ/RFP	Authority Issued RFQ/RFP
Original Contract Amount	\$11,122,000	\$23,000,000 with Authority \$19,586,475 with Soltek
Total Change Order Amount	\$560,684	\$53,909

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Comparison: The two different projects varied significantly in scope, size and District management approach. Below is an effectiveness and efficiency analysis and comparison of key aspects of these projects:

Project Areas	Analysis
Procurement	<p>Bidding Process – Competitive bids were solicited and proposals were submitted by General Contractors for both projects. There were very few differences between the bidding processes used. Both procurements included a competitive bid from a qualified General Contractor. Both project proposals were reviewed for qualifications and price. Guaranteed maximum price (GMP) bid competitive proposals included proposed maximum prices and mark-up factors to be applied.</p> <p>Procurement Differences – There were major differences between the proposals. The National City Middle School proposal was run by the District and the General Contractors had a complete design supplied to them. The Montgomery High School proposal was issued by the Authority and was a design-build contract type. Since Montgomery High School’s contract type was a design-build, the General Contractor chose the Design Architect it worked with.</p>
Contract Type	<p>Below is a summary of the differences in contracting approach:</p> <ul style="list-style-type: none"> • The National City Middle School was a lease leaseback agreement between the District and the Contractor. The GMP project budget was originally established based on the complete design provided to the Contractor from the District. The Contractor then competitively bid the project out to subcontractors with the Districts involvement in establishing the final lump sum contract price, prior to construction. The lease leaseback contract functioned like a typical design-bid build lump sum construction contract where all pay estimates were paid in full (without interest charges) from the District to the General Contractor. • Montgomery High School had a lump sum agreement between the District and Authority. This contract was to have the Authority perform a project management role on the project and cover all costs for the project including construction, project management and contingency. Interest was not charged to the District. The Authority contracted directly with the General Contractor. The contract between the Authority and the General contractor was similar to the National City Middle School agreement which started as a GMP and converted to a Lump Sum agreement. <p>Difference Between the Contracting Approaches – The major difference between the two projects was the use of design-build versus design-bid-build contract models. Both contract models were available to the District and are commonly used. Design-build agreements are more common when the project requirements are not well established; using this method prevents submission of vague request for proposal (RFP) requirements that can result</p>

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Project Areas	Analysis
	<p>in higher than expected bids and to provide increased cost and pricing visibility. Design-bid-build agreements are often chosen when requirements are well known and lump sum pricing can be bid to allow market factors to drive project pricing competitiveness.</p> <p>No exception is taken for the use of design bid-build for the National City Middle School because the project requirements were established for this new building. We also take no exception to the use of design-build contracting for Montgomery High School due to the requirements of addressing likely unforeseen pre-existing conditions in combination with project schedule requirements. The contracting approaches taken were compliant with District Policy.</p> <p>Bidding the entire amount for the National City Middle School would have produced one competitive lump-sum bid price versus a competitively established GMP. Because a GMP approach was used to begin with, the buy-out or conversion of general contractor cost and pricing amounts to lump sum was subject to negotiation. Use of a GMP approach versus a complete competitive bid could have resulted in choosing a contractor that was not the lowest qualified bidder. The risk of project cost and pricing that exceeded market was mitigated by GMP amounts and mark-ups were competitive bid along subcontractor amounts that were competitively bid.</p>
Project Management	<p>The National City Middle School was managed by the District’s Facilities Group. This project had a District employee project manager who was specifically tasked with all aspects of the project. This individual was also supported by the rest of the facilities group staff.</p> <p>For the Montgomery High School Project, the District decided to use the San Diego County Superintendent of Schools (Authority) to manage the project. While few change orders occurred, this decision reduced the District’s control over the final project outcome and lead to an increase in the project’s total budget. At the time of the project start the District’s Facilities Group was understaffed to manage a project of this size and scope. The District had recently changed from outsourcing to STI Project Management to managing projects internally. At the start of the Montgomery High School Project, the District’s Facilities function consisted of two experienced project management personnel who were already overseeing other projects and maintenance. The treatment for the difference between the amount that the District will pay the Authority and what the Authority will actually incur was not well documented in the contractual documents provided.</p> <p>District project management provides better opportunity to control budget, schedule, scope, change order management and final product. However at the time of the Montgomery High School Project, the District did not have the resources to properly manage the project. We recommend District management of future projects to increase cost visibility and better control project budgets, schedule and scope.</p>

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Project Areas	Analysis
Change Order Management	<p>Both projects had policies in place to help minimize change order impact. The change orders for the National City Middle School are described in detail in Observation 21a. Change orders related to the Montgomery High School project were minimal and totalled \$53,900 or 0.3% of project costs. Both projects had different facts and circumstances, the District could have been and was charged for increased change order cost under these agreements.</p> <p>The difference in change order magnitude was significant, this was primarily due to excluded scope from the originally bid amounts. Fewer change orders under the National City Middle School project were expected, as known requirements were anticipated when selecting the design-bid-build project procurement method. We have identified specification, pricing and approval observations, related to the National City Middle School project, that address this increased cost. The recommended change order prevention and control requirements identified in Observation 21a should be followed to better control change order costs.</p>

Objective No. 21c – Special Focused Analyses – Overall Assessment of Change Order Process

Observation: Change order practices were compared to California State School requirements and Public Contracting Code. Change order practice exceptions were identified. Please see the audit procedures performed and observations reported under Objective No. 12 and 21a.

Objective No. 21d – Special Focused Analyses – Analysis of the District’s Power Purchase Agreement and Related Change Orders

Observation: This objective was to review the Power Purchase agreement and related change orders. Interviews were conducted and information was requested to identify the cost basis for this agreement and related change orders.

The District entered into a Power Purchase Agreement to install solar power on 23 school properties. The agreement was for the contractor to finance, install and maintain solar power generating systems and to sell power back to the District at an agreed-upon price. The District did not directly pay for the material or construction per the agreement. However, the Contractor was entitled to all power generated over the life of the contract. The District was to receive electric power under this agreement.

The District issued a RFP that provided requirements to create the opportunity for competitive bidding. Stated District cost analysis criteria were price and qualification indicated in contractor proposals as well as through the contractor interview process. We were informed that change orders were issued under this agreement.

The District was unable to provide documented cost analysis showing why this form of agreement had cost benefits that exceed the use of traditional utility payment arrangements. Documentation was not provided to show a full competitive contractor survey and

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bidding process. Also, documented change order cost and pricing support was not provided to verify District responsibility for change orders as well as to assess change order amounts and to assess the evaluation of change order pricing. Change order approval documentation was not evident.

REPORTING VIEWS OF RESPONSIBLE OFFICIALS

The following paragraph contains sample wording that other school districts have used as part of their response to the performance audit:

We have instituted specific policies, procedures and other internal controls to ensure accurate and compliant approval, recording and reporting of Bond-related expenditures. We are committed to strong internal controls in order to deliver the required facilities and infrastructure to support the educational needs of our community, now and in the future, as defined in our current Master Plan. Management agrees that we will develop an action plan to address the deficiencies identified in this report.

APPENDIX A – INTERVIEWS PERFORMED AND JOB SITES VISITED

The following key personnel were interviewed:

- SUHSD, Chief Facilities Executive
- SUHSD, Chief Financial Officer
- SUHSD, Director of Planning and Construction
- SUHSD, Director of Fiscal Services
- SUHSD, Budget Analyst
- SUHSD, Accountant
- SUHSD, Accounting Manager
- SUHSD, Purchasing Manager
- SUHSD, Contracts Manager
- SUHSD, Project Manager(s)

Job sites visited:

- Montgomery Middle School
- Montgomery High School
- National City Middle School
- Sweetwater Union High School