


## MEMORANDUM

TO: Board President Richard Barrera, Vice President John Lee Evans  
And Members of The Board of Education

FROM: G. Johnson 

DATE: February 10, 2011

**SUBJECT: DRAFT LETTER FORWARDING ICOC RECEIPT OF FISCAL YEAR  
2009-2010 PROP S PERFORMANCE AUDIT AND FINANCIAL AUDIT**

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The Fiscal Year 2009-2010 Performance Audit and Financial Audit of the Proposition S bond program has been received and reviewed by the ICOC.

Attached is the ICOC Review of the Fiscal Year 2009-2010 Proposition S Performance Audit and Financial Audit. It includes a summary of audit findings and ICOC review comments.

ICOC review comments are forwarded to the Board for consideration.

The annual bond audits do not address the need for funding sources to maintain facilities and equipment provided by Proposition S. The ICOC has expressed concern about the lack of sustainable funding sources for major maintenance and repair (MRR) of district capital facilities, and future needs to refresh i21 equipment and supporting infrastructure. Proposition S is a huge public investment. Sustainable funding sources must be secured to ensure that the facilities and equipment provided by Proposition S are maintained in a safe and functional condition while taxpayers pay off Proposition MM and Proposition S bond debt.

C: Kevin Alvin, Gregg Cantor, John Gordon, Glenn Hillegas, Daniel Morales,  
Leonard Pinson, Kim Schoettle, Matt Spathas, Deanna Spehn, John W. Stump

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# DRAFT

## ICOC Review of the Fiscal Year 2009 – 2010 Proposition S Performance Audit and Financial Audit

The Proposition S (Prop S) Independent Oversight Sight Committee (ICOC) has received, and reviewed the Performance Audit and the Financial Audit for the Prop S Bond Program Fiscal Year 2009-2010. The independent audit firm, Christy White Accountancy Corporation, conducted both audits.

Both audits were subject to applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS). The audits did not identify any loss of public funds, misappropriations or defalcations. The audits conclude that Prop S complies with the requirements of Proposition 39 and District financial statements fairly represent the Prop S financial position. A summary of audit findings and ICOC review comments is provided below.

Contrary to ICOC expectations for a joint receipt of draft audits, the ICOC Audit subcommittee received a presentation from the auditor of the final audits at its February 7, 2011 meeting. A special meeting of the ICOC was called in response to late receipt of the audits, and in order to receive the audits prior to term expiration, and possible rotation, of some ICOC members.

The ICOC had viewed the previous fiscal year's performance audit as a limited scope audit because it did not include a Prop S effectiveness review. The Fiscal Year 2009-2010 Prop S Performance Audit included an effectiveness review of numerous items documented in the July 12, 2010 meeting of the ICOC Audit subcommittee. Several audit findings resulted from the performance audit's review of the following:

- Compliance with Applicable Laws and Regulations
- Bond Expenditures and Recordkeeping
- Internal controls Over Facilities Procurement
- Management's Efforts to Maximize Potential Funding and Reduce Program Costs
- Effectiveness of Program Management
- Bond Issuance Process
- Fraud Risk
- Efforts at soliciting and monitoring participation of local firms and workers
- Compliance with labor compliance regulations
- Compliance with applicable project labor agreements
- Compliance with Board approved staffing plan
- Activities of Bond Oversight Committee
- Efforts to inform and engage community stakeholders about bond-funded projects

Below is a summary of audit findings and ICOC review comments. Two audit findings were shared between the Performance and Financial audits. The Performance audit included three additional audit findings.

- **Performance and Financial Audit finding #2010-1: Post Award Contracts Payment Process**
  - Audit testing showed data entry of payment information in both the CM12/Primavera project management system and the district PeopleSoft financial system. While timely construction payments were being made, professional services payments were backlogged with processing times of nearly 60 days. Audit recommendations call for review for unneeded redundant data entry steps, and possible use of a 3rd party technology consultant to assist in design and implementation of a more efficient system that maintains evidence of approval by required parties, and updates both data systems.
  - ICOC concurs.

- **Performance and Financial Audit finding #2010-2: Internal Audit and Finance Department Involvement**
  - Audits found that the District's internal audit department is not currently providing regular internal audit services to the Prop S program, and that the finance department does not have access to the CM12/Primavera project management system and has a relatively limited involvement in managing facilities activities. Audit recommendations call for consideration of use of Prop S funds to provide support from the District's internal audit department, providing finance department read-only access to the program management system, and revisiting the finance department's authority over expenditures of Prop S funds.
  - ICOC concurs with use of the District's internal audit department services. However, the ICOC has concerns over the potential use of Prop S bond proceeds for short-term internal bridge financing of the District's operational costs. Short-term internal bridge financing of operational costs using Prop39 bond funds has occurred in other school districts despite voter expectations that Prop39 bond proceeds will not be used for any purpose other than completing the projects listed in the bond. The facilities department has assured the ICOC that there is no plan or intent to use Prop S bonds for any purpose other than completing bond projects. Ensuring adequate financing of operational costs is the responsibility of the financial department; given current budget challenges, potential use of bond funds for short-term internal bridge financing represents a finance department potential conflict of interest issue. The ICOC opposes any use of bond funds for short-term internal bridge financing.
- **Performance Audit finding #2010-3: Independent Citizens' Oversight Committee Meeting Minutes**
  - Audit found that only draft versions of ICOC meeting minutes are posted on the Prop S ICOC web site. Audit recommendations call for final/approved meeting minutes to be posted.
  - The ICOC concurs. Recent establishment and filling of an ICOC Secretary will serve to insure that this occurs.
- **Performance Audit finding #2010-4: Financial Advisory Services**
  - Audit found that the District has used the same financial advisory firm to provide advice related to issue of Prop S bonds and other aspects of the bond financing transactions including assumptions related to future property assessed valuation levels and bond interest rates; services provided included two financing scenarios based on 25 year and 40 year bond maturities. Because of the large difference of \$3.5 billion in expected total debt service costs of the two scenarios, audit recommendations called for consideration of a second opinion from a financial advisory firm free of any potential bias that might arise from being compensated for the issuance of Prop S bonds. The audit further stated that the second opinion should consider including assumptions related to expected construction costs, and a discounted cash flow analysis to demonstrate scenario benefits.
  - The ICOC concurs. Normal audit procedures look at the net bond proceeds and do not include any assessment of the full cost of bond issuance to taxpayers. Prop S was designed to address only high priority capital facility needs that could be addressed without raising currently imposed tax rates. After all Prop S listed projects are completed the Facility Master Plan documents there will still be capital facility needs that must be addressed. The ICOC is concerned that continued use of 40 year bonds likely means that remaining facility needs, after the completion of all Prop S projects, cannot be met without raising taxes. A second opinion by a financial advisory firm could properly and fully assess the consequences of financial decisions regarding future bond issuances and refinancing, insuring that Board financial decisions are fully informed decisions.
- **Performance Audit finding #2010-5: Prop S Construction Contract Change Order Reporting**
  - The audit found errors in change order amounts and rates as reported to the ICOC. Audit recommendations call for improved gathering of and quality assurance of reported data.
  - The ICOC concurs.