

**NEWPORT-MESA UNIFIED SCHOOL DISTRICT
MEASURE F CITIZENS OVERSIGHT COMMITTEE**

**MINUTES AND REPORT OF THE MEETING OF
January 30, 2014**

The Citizens' Oversight Committee met on Thursday, January 30, 2014, at the Roderick H. MacMillian Board Room, Education Center, 2985 A Bear Street, Costa Mesa, CA 92626

Members Present:

Tristan Aley, At-Large Representative
Colleen Barney, Newport Harbor High School Zone
Judy Berry, At-Large Representative (Bona Fide Taxpayer's Organization – active member)
Cindy Brahs, Corona del Mar High School Zone
Kimberly Claytor, Newport Mesa Federation of Teachers (N-MFT) Representative
Sharon Comer, Board Appointee (Business Organization – active member)
Suzanne Gauntlett, Harbor Council Parent Teachers Association (HCPTA)
Guy Olguin, Newport Mesa Administrators Association (NMAA)
Scott Paulsen, Board Appointee (Senior Citizen Group)
Tony Premer, Corona del Mar High School Zone
Eleanor Rebard, Classified, California School Employees Association (CSEA)
Tod Ridgeway, At-Large Representative (Business Organization – active member)

Members Absent:

Shari Freidenrich, Orange County Treasurer
Robert Shaw, Newport Harbor High School Zone

Also Present:

Paul Reed, Deputy Superintendent and Chief Business Official
Patty Dreher, Executive Assistant
Tim Marsh, Administrative Director - Facilities, Maintenance and Operations
Jim Lamond – Director Facilities Development, Planning and Development

Project Management Team:

Andrew Raufi, Project Director
Craig Scaringi, Project Manager

Handouts: Building Fund (Measure F) Financial and Performance Audits
Measure F Expenditures-to date Report
Measure F Budget Allocation Summary Report
Timeline graph for Corona del Mar High School and Costa Mesa High School Projects

WELCOME AND INTRODUCTION

Deputy Superintendent and Chief Business Official Paul Reed opened the meeting at 7:00 p.m. and welcomed the committee. Self-introductions were done for the benefit of new members in attendance.

ADOPTION OF THE AGENDA AND APPROVAL OF MINUTES

Agenda for January 30, 2014 meeting was adopted as presented.

APPROVAL OF MINUTES

The minutes from the October 16, 2013 meeting were unanimously approved.

BUILDING FUND (MEASURE F) FINANCIAL AND PERFORMANCE AUDITS

Mr. Reed stated that one of the legal requirements for the Citizens Oversight Committee is to have an annual performance and financial audit on the use of bond proceeds reported to the oversight committee. Ms. Shilo Gorospe from Vavrinek, Trine, Day & Co., LLP (VTD), third party independent auditors for the District, presented the June 30, 2013 Audit Report to the committee members for the General Obligation Bonds Election 2005, Series 2007 and 2011.

Ms. Gorospe stated that the audit report encompasses both the financial and performance audits for the District Building Fund (Measure F). The goal of the financial audit is to provide an independent auditors report; that is, VTD's opinion that the financial statements of the building fund being presented are materially stated; the goals of the performance audit are to ensure that the funds of the bonds, the proceeds, are spent in accordance with the bond language. Ms. Gorospe explained that VTD goes through the process of risk assessment, review of internal controls, and sampling of transactions in order to provide the District with the results of their audit and issue their opinions which are stated in the annual report.

The financial audit, which represents the building funds specific to general obligation bonds issued under the authority granted by Prop 39, which Measure F utilized, is the first part of the audit report and the second part of the report is the actual independent auditors' report which states that VTD offers an "unmodified opinion"¹. This "unmodified opinion" is the highest level of assurance VTD can provide in this report that the financial statements in the document are fairly stated and that VTD did not have any adjustments or issues with the financial information that was audited.

Ms. Gorospe went on to say that VDT does the audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Measure F Building Fund has received a "clean report". A summary of details shows "no findings" with the internal controls of the bond program which is a clean audit. This report shows that there are no weaknesses or deficiencies with the internal control structure of the accounting for the bond funds. The performance report reviews the detail of the expenditures for the building fund and determines whether they meet the requirements of the ballot measure for expenditure of the bonds. "No exceptions" indicate that the funds being used were only for authorized bond projects.

¹ Wording was revised this year to "unmodified opinion" from "unqualified opinion" to provide clarity standards and to change the terminology for a better understanding that there are no exceptions to the audit standards.

Mr. Reed summarized the audit in simple terms as confirming that the District was using the Measure F bond funds both in accordance with the law and in conformance with what the voters authorized in approving Measure F.

A question was asked as to how large warrants were reviewed. Ms. Gorospe's responded that the District's internal control process identifies everyone who is authorized in the reviewing and approving process of each warrant transmittal and who in the District and McCarthy organizations should be signing off on the warrant transmittals. The District's internal controls also ensure that the detail of expenditures are being evaluated by the appropriate personnel and that the warrants being paid meet the compliance of the voter approved language in the ballot initiative for the bond project.

Mr. Reed further explained that the term "internal controls" refers to the operation of the project manager staff, facilities staff and the fiscal services staff in handling the payment of bills. The Orange County Department of Education has another level of oversight for construction projects to review that warrants are not paid without the Board of Education's approval of a contract and individual payment approval. All contractors are treated the same regardless of the amount of the contract.

Ms. Gorospe further explained that construction administrative documents are also reviewed by VTD. Contracts are reviewed for contract requirements language and compared to the invoices being paid by the bond; however, the reasonableness of the construction administrative costs is not looked at by the auditors as it would be a different level of review outside the scope of the audit. Looking at the expenditures for reasonableness on an authorized project is part of the project management and district facilities staff. Full public exposure of all expenditures is also facilitated by the existence of the Citizens Oversight Committee.

A question arose regarding the \$1.7 million project management costs for the Measure F program. Mr. Reed clarified that project management costs are considered part of the overall construction process and the degree of reasonableness is established by the market in general. He pointed out that another audit occurs by the State at the end of the project to identify the reasonableness of the construction project in view of eligibility for State reimbursement. Preparation for a State audit is done all along the way including using the AccountAbility software program to track all expenditures for reasonableness at the end of the project.

Ms. Gorospe responded to the question regarding the procedure section of the financial report and what VTD reviews when auditing by saying that in addition to reviewing everything that is over a calculated threshold, called materiality by VTD, and below is tested. VTD tests all the large dollars as well as a sample of all the projects to ensure the entire population is accounted for in the audit test. Of the \$25 Million in expenditures for the 2013 fiscal year, 67% were reviewed.

Ms. Gorospe further stated that the annual Measure F Building Funds audit is done in conjunction with the District's annual financial audit. Fiscal year end for the District is June 30 of each year and after staff has finalized all year end processes and closed the books with the county, the auditors then review the prior year with the majority of the field work done in

September/October. Submittal to the State for the bond reports usually occurs in January after completion of the financial and performance reports.

Ms. Gorospe was asked as to the purpose of the Management Letter attached to the financial report. She explained that the Management Letter is intended as direct communication outside the published audit to the Governing Board and the Citizens Oversight Committee. The purpose of this letter is to include any issues that might be of importance to the stakeholders that fall outside the scope of the financial report itself such as difficulty with management or staff that might impede the auditors from collecting the data necessary for the financial report. The Management Letter is also a clean report and there is no additional information necessary to report.

The Financial Report was received and accepted by the committee.

DISTRICT REPORT

Mr. Reed stated that the four major projects which include the enclave and theater projects at both the Corona del Mar and Costa Mesa high schools are progressing well. From the District's perspective all the projects are moving in a reasonable fashion and major changes are now visible to the community.

Mr. Reed also stated that of the sports facilities projects the only project that falls under Measure F and the C.O.C's purview is the Davidson Field at Newport Harbor, however he'd be happy to answer general questions about the other projects. He explained that launching all the projects had been slowed by the fact that the District has found it necessary to update the architectural contracts to help reduce the number of change orders on the Measure F projects. The District has found through experience that the computer drawings the architects use for each project do not always coordinate throughout the paperwork for each work process within the project which necessitates the change orders that have been occurring and adding additional costs to the contracts. The new contracts will put the onus on the architects to ensure that the paperwork is consistent throughout the drawings for the work flow and therefore reduce the number of change orders to the contract. Generally it is not considered unusual to have up to 10% change order costs on a project for various reasons such as soil conditions or additional sewer lines. Change orders for the two enclave projects are at 5% and the theaters are between 1% and 2%. Overall change orders on these projects have been within the norm.

Ten architects have been interviewed for the three sports facility projects and recommendations will be made to the Board when the contract reformulation process is finalized. At this time the District does not have an opinion whether there will be one, two or three architects on these projects as the hiring of the architect(s) is pending on the evaluation of the firms being interviewed.

PROJECT MANAGER REPORT

Craig Scaringi reported on the progress of the Costa Mesa High School Enclave and Theater projects with a PowerPoint presentation of the site and a status report of each of the structures. The theater and enclave projects are moving as anticipated but there are several smaller projects to be completed during the summer.

Anticipated Summer phase for 2014 includes:

- completion of the front parking lot, demolition of the Lyceum after the theater is completed and staff are moved into the new theater
- demolition of the photo lab and modernization of Building D and Building E, creating a new ceramic arts classroom and the digital photo lab
- modernization of the music building
- lunch shelter
- clock tower
- completion of the parking lot

Mr. Reed responded to the question on the clock tower that will be installed: the clock tower is an element that speaks to the culture of the school as an identity. When the existing front gates come down, the clock tower will highlight the entrance to the enclave.

Mr. Scaringi and Mr. Marsh responded to the question regarding how the students will access the fields from the enclave: the walkway which starts at the end of the enclave structure will lead to the fields to provide safe access for the students adjacent to the softball backstop.

Interior enclosures for the enclave are all complete, canopies are in and the courtyard area should be completed by May/June.

Mr. Scaringi also reported on the Corona del Mar Theater and Enclave projects with a PowerPoint presentation of the site and a status report of each of the structures.

The enclave building will be completed at the end of February, 2014. Due to the compaction of the school site both projects were not able to progress at the same time which has extended the move in ready date for the theater to September/October; however, the enclave will be move in ready before the beginning of school in September and staff will coordinate the move-in with site administrators.

Mr. Reed explained the function of the Division of State Architects (DSA) as similar to a city planning department but for the State. Plans are reviewed and approved before construction can begin on a project. BIN time is the amount of time a document sits at DSA until it is reviewed which can be eight or nine months. DSA reviews for structural, fire life and safety. Each school construction project requires an Inspector of Record (IOR) hired by the District but who is charged with reporting to DSA.

Summer projects for 2014 have been sent to DSA for approval and include:

- Front entry and modernization of an existing building
- Senior parking lot
- New entry and drop off zone for the enclave was identified
- Relocatables holding the classes that have been displaced will eventually come out when the new buildings will be opened
- Renovation of the lunch area canopy

The Quarterly Budget Report was shown and expenditures identified. Mr. Scaringi explained how changes to the contingency budgets are made depending on the status of each project.

When a project is completed, remaining funds are taken out of the project and put into the contingency budget for other projects.

Mr. Scaringi stated that the theater lighting projects were separated out of the performing arts budgets as the District wanted to identify a standard for theater production lighting across the District. A theatrical consultant was involved in the process as well as drama/performing arts staff.

Mr. Reed stated that because McCarthy will be overseeing the completion process of the science labs concerns regarding past incomplete inspections should not occur.

Mr. Reed also stated that because there is still \$100 Million authorization left in the bonds to be sold, the issue of final equity across the District will be addressed when the tax base recovers and the bonds can be sold within the capped tax rate. At that time the Superintendent and the Equity Committee will make their recommendations to the Board. Mr. Reed reminded the Committee, however, that given the conditions upon selling the remaining bond authorization that the conclusion of Measure F remains in the five to ten year future.

PEOPLE’S CHOICE

Next meeting will be Tuesday, May 6, 2014 at 7:00 p.m. in the Roderick H. MacMillian Board Room, Education Center, 2985-A Bear Street, Costa Mesa, CA 92626.

ADJOURNMENT

Chair Barney adjourned the meeting at 7:57 p.m.

These minutes are distributed to the members of the Measure F Citizens Oversight Committee and the community organizations represented in the District.