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EXHIBIT

Prop O Performance Audit Released - 3/22/12

An in-depth review of Sweetwater District's Proposition O school construction program concluded that "the program has been managed efficiently with 73% of the public's dollars spend on hard construction costs," exceeding the industry standard of 70% spending on "hard" costs.

Eric Hall & Associates, an independent school facility fiscal and program management firm, was hired at the direction of the Sweetwater Board of Trustees to conduct a comprehensive performance audit of the Proposition O bond program

The performance audit covered the management, spending and communications for Prop O for the period from summer 2006 through June 2011. Hall & Associates conducted over 600 hours of review, analysis and reporting writing "to provide taxpayers with a review of the efficiency and effectiveness" of the bond program.

The report focused on three areas: management performance, cost performance and communication performance. Detailed analysis of the paperwork and transactions involving construction at Southwest Middle, Chula Vista High and Hilltop High provided the basis for the report.

Analysts reviewed documentation for payments, change order, board actions, the selection process for contractors and consultants, contracts for program and construction management, and the practices of the program manager and the district.

"On a scale of one to 10, I give Prop O, so far, a solid 7.5," said Eric Hall, president of Eric Hall & Associates. "There are some good things going on in the Sweetwater District's bond program."

Along with documenting the strengths of the Prop O program management, the 61-page report also included a number of recommendations to improve the efficiency and effectiveness of the bond program.

[Prop O Performance Audit - March 20, 2012](#)

Frequently Asked Questions

Q: When additional work is done at a school, does that take away prop O funding from projects beyond Phase I of Prop O?

A: No. Under Phase I of Prop O, a total of \$180 million in bonds were issued by the district. That money was allocated among the oldest nine school sites in the district with the most urgent needs for modernizations and upgrades. However, if additional work was determined to be needed at one site and paid for out of Prop O funds that did deplete the total funding available to the remaining sites identified for Phase I. However, it does not impact funding available for future phases. Recommendation: the reallocation of funds between projects should be carefully considered and reviewed publically.

Q: What was the overall "grade" for the Prop O program between 2006 and 2011?

A: Eric Hall, the lead reviewer, gave the management, spending and communications on Prop O a solid "B" grade. He noted that the Sweetwater District's and program manager, SGI's, handling of the construction program was well done overall, with room for improvements that would strengthen the efficiency and effectiveness of the program.

Q: What percentage of Prop O tax dollars were spent on actual construction as opposed to "overhead"?

A: When talking about construction, spending is divided into "hard" and "soft" cost categories. Hard costs are associated with construction, equipment and furniture. "Soft" costs involve planning, design, management, inspection fees, regulatory and environmental compliance. The audit found that 73% of every Prop O dollar went to "hard" costs with 27% to "soft" costs. This is better than the customary industry standard of 70% hard to 30% soft cost allocation.

Q: Was the rate of change orders on Prop O project excessive?

A: No. The auditors determined that the change order rate for Prop O projects overall was low--5.4%. The public contract code sets a 10% limit on change orders.

Q: Were any false or fraudulent change order claims paid?

A: The auditors found no evidence of false or fraudulent change order claims being made or paid. The report states, "A review of the six financial and performance audits conducted in the past shows that no fraud concerns have been raised."

Q: Did the payments made to the SGI, the outside consultant hired as the project manager, continue to rise as the Prop O budgets were increased by state matching funds?

A: No. The program manager was paid 8.6% of \$180 million Prop O bonds issued for Phase I. The auditors confirmed that fees paid to the program manager did NOT rise as the district received more money.

Q: Has the district borrowed from Prop O funds to cover operating expenses?

A: There was a single instance, in the 2008-2009 school year, when the district borrowed from Prop O bond funds as a bridge loan to meet operating expenses. The money was paid back, in full with