

PROPOSITION 39 GENERAL OBLIGATIONS BONDS

PROPOSITION M BOND CONSTRUCTION FUND OF

PALOMAR COMMUNITY COLLEGE DISTRICT

PERFORMANCE AUDIT REPORT

FOR THE YEAR ENDED
JUNE 30, 2014



San Diego

Los Angeles

San Francisco
Bay Area

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**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
AUDIT REPORT
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For the Year Ended June 30, 2014**

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**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2014**

The Palomar Community College District was established in 1946 and serves a district covering 2,555 square miles, an area slightly larger than the state of Delaware. The District includes a 200-acre campus, one education center located in Escondido, and four outreach sites in Fallbrook, Pauma Valley, Mt. Carmel and Camp Pendleton. This District operates under a locally elected five-member Board form of government and provides educational services to more than 26,000 full-time and part-time students each fall and spring semester.

In November 2006, the District's voters approved by more than the required 55% favorable vote, Proposition M, authorizing the issuance and sale of general obligation Bonds, not to exceed \$694,000,000. Proposition M was designed to provide funds to maintain and modernize the 60 year old college's San Marcos campus and to create new educational opportunities in under served areas of the District. The basis for Proposition M is the Master Plan 2022, which was published in August 2003.

- In May, 2007, Series 2006A Proposition M general obligation Bonds were sold. Series 2006A consisted of \$160,000,000 of current interest bonds. The bonds will mature through 2032.
- In October, 2010, Series 2010B and Series 2010B-1 Proposition M general obligation Bonds were sold. Series 2010B consisted of \$1,500,000 of current interest bonds, \$27,883,491 of capital appreciation bonds and \$62,115,410 of convertible capital appreciation bonds. Series 2010B-1 consisted of \$83,500,000 of Build America Bonds. The bonds will mature through 2046.

Proposition M is a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Introduction and Citizens' Oversight Committee Member Listing, continued
June 30, 2014**

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Proposition M including formation, composition and purpose of the Citizens' Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Citizens' Oversight Committee was comprised of the following members as of June 30, 2014:

<u>Name</u>	<u>Title</u>	<u>Representation</u>
Thomas W. Clark	Chair	Community-at-Large
Jesse Lyn Clark	Co-Chair	Active in the Support and Organization of the Community College District
Terry L. Ardinger	Member	Community-at-Large
Glen Winn	Member	Active in a Senior Citizens' Organization
Rod D. Jones	Member	Active in a Business Organization
Katelyn Morikawa	Member	Student who is Currently Enrolled in the District and Active in a Community College Group
Vacant*	Member	Active in a Bona Fide Taxpayers' Organization

*Member resigned in 2013-14 and the District has been actively looking for a replacement through advertisement, contact with organizations, etc.

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Governing Board Members and
Proposition M Independent Citizens' Oversight Committee
Palomar Community College District
San Marcos, California

We have audited the financial statements of the Proposition M bond construction fund of the Palomar Community College District (the "District") as of and for the fiscal year ended June 30, 2014 and have issued our report thereon dated November 28, 2014. Our audit was made in accordance with generally accepted auditing standards in the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Proposition M General Obligation Bonds for the fiscal year ended June 30, 2014. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds of the sale of the Proposition M Bonds were only used for the purposes set forth in the Proposition M ballot language and not for any other purpose, such as teacher and administrative salaries.

In performing our audit of compliance, we performed procedures including but not limited to those listed as follows:

Internal Control Evaluation

Procedures Performed:

Inquiries were made of management regarding internal controls to:

- Prevent fraud or waste regarding Proposition M projects, including budgetary controls
- Ensure adequate separation of duties exists in the fiscal services department for Proposition M funds
- Prevent material misstatements in the financial statements
- Ensure expenditures are allocated to the proper fund(s)
- To follow applicable regulations, including regulations related to bidding and contract management

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Internal Control Evaluation (continued)

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the fiscal year 2013-14 financial statement balances for the Proposition M bond construction fund are not materially misstated.

Results of Procedures Performed:

The result of our audit tests show that internal control procedures appear to be working to meet the financial and compliance objectives required by generally accepted accounting standards and applicable laws and regulations. An unqualified opinion was expressed on the financial statements.

Facilities Site Walk

Procedures Performed:

We performed a site walk to verify that Proposition M funds expended for the fiscal year ended June 30, 2014 were for valid facilities acquisition and construction purposes. CWA toured multiple District construction sites where construction work had commenced, including the Humanities Building Project, LRC Building, T-Building Remodel and the Escondido Educational Center Remodel Project. Auditor noted no major change orders related to the projects and that the LRC building is just finishing the design phase of the project.

Results of Procedures Performed:

Results of the site walks indicate that the major 2013-14 Proposition M construction projects at Palomar College were successfully completed and advanced into 2014-15 expenditure/construction phases where applicable.

Test of Expenditures

Procedures Performed:

The following performance tests of expenditures and transfers were performed:

We tested approximately \$12.2 million (39%) of the 2013-14 Proposition M expenditures (62 separate payments) for validity, allowability and accuracy. Expenditures sampled in our test included payments made to contractors, consultants and other vendors.

Results of Procedures Performed:

We found the expenditures and transfers tested to be in compliance with the terms of the Proposition M Facilities Plan, and applicable state laws and regulations without exception.

Test of Contracts and Bid Procedures

Procedures Performed:

For the fiscal year ended June 30, 2014, we performed testing of three contracts to determine compliance with District policy and Public Contract Code provisions related to contracting and bidding:

- Project: Humanities Building AV Installation
Original Contract Award Amount: \$89,650
- Project: Palomar Site Utility Project
Original Contract Award Amount: \$3,524,564
- Project: Palomar Clear & Grub Project
Original Contract Award Amount: \$251,319

Results of Procedures Performed:

We found that the contracts tested were awarded in all cases to the lowest responsible bidder and appear to be working follow proper bidding procedures. In addition, we tested change orders and determined the change orders were executed in accordance with District internal controls and were in compliance with applicable provisions of the Public Contract Code. Moreover, we noted that the District has been providing the Governing Board with a listing of change orders to contracts that relate to Proposition M projects in fiscal year 2013-14.

Our audit of compliance was made for the purposes set forth in the second and third paragraphs of this report would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied, in all material respects, with the compliance requirements for the Proposition M General Obligation Bonds as listed and tested above.

This report is intended solely for the information and use of the Proposition M Independent Citizens' Bond Oversight Committee, the District's Governing Board, management, and the taxpayers of Palomar Community College District and is not intended to be and should not be used by anyone other than these specified parties.



San Diego, California
November 28, 2014

FINDINGS AND RESPONSES SECTION

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Schedule of Findings and Responses
For the Year Ended June 30, 2014**

This section identifies the deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

We found Palomar Community College District's accounting systems to be functioning efficiently and effectively to account for the Proposition M bond construction fund. In addition, our tests resulted in no findings and recommendations related to the performance audit of the Proposition M bond construction fund for the year ended June 30, 2014.

**PROPOSITION M BOND CONSTRUCTION FUND
PALOMAR COMMUNITY COLLEGE DISTRICT
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2014**

There were no findings and recommendations related to the performance audit of the Proposition M bond construction fund for the year ended June 30, 2013.