



ARIZONA
School Facilities
• BOARD •

June 12, 2019

Lindsey Perry, CPA, CFE
Auditor General
Office of the Auditor General
2910 North 44th Street
Suite 410 Phoenix, Arizona 85018

Reference: Office of the Auditor General's Review of the Building Renewal Grant Fund
SFB Response

Dear Ms. Perry:

Attached, please find the School Facilities Board response to the Auditor General's Draft Comments of the Review of the Building Renewal Grant Fund audit.

The School Facilities Board (SFB) receives these findings and recommendations recognizing the Office of the Auditor General's (OAG) review of the Building Renewal Grant (BRG) Fund as it relates to the 217 Arizona School Districts' access through application to grant funding. The Building Renewal Grant Fund is governed by Title 15, Chapter 16, beginning at Arizona Revised Statutes (A.R.S.) §15-2001 through A.R.S. §15-2032.

This OAG special audit of Arizona School Facilities Board Building Renewal Grant Fund expenditures for the period of July 1, 2016 through June 30, 2018 is enabled by Laws 2018, Ch. 285, §30. As outlined in session law, this audit addresses the BRG Fund project (BRG) process, including:

Auditor General; special audit; school facilities board; building renewal grant fund expenditures; delayed repeal

- A. The auditor general shall complete a special audit pursuant to section 41-1279.03, Arizona Revised Statutes, of the school facilities board building renewal grant fund expenditures for the period of July 1, 2016 through June 30, 2018. The special audit shall include a review of applicable records of the school facilities board, school districts and county school superintendents and any other necessary information to:
 1. Assess the building renewal grant process, including reviewing grant applications, requests for and distribution of monies, grant closeout forms and the proposed scopes of work, including school district, school facilities board and vendor participation and roles in developing these proposed scopes of work.
 2. Assess the vendor selection, procurement, contracting and oversight processes for projects funded by the building renewal grant fund.

3. Provide building renewal grant program details, including the number of project requests and awards, number and types of districts and schools receiving awards, types of projects, total grant monies awarded and number and types of vendors performing projects funded with building renewal grant fund monies.
 4. Audit work in any other areas deemed necessary by the auditor general.
 5. Recommend improvements, as appropriate, for the processes listed in this subsection.
- B. The school facilities board, school districts and county school superintendents shall cooperate with and provide information and records to the auditor general to facilitate the completion of the special audit.
- C. On or before June 30, 2019, the auditor general shall submit copies of the special audit to the president of the senate, the speaker of the House of Representatives, the joint legislative budget committee and the governor's office of strategic planning and budgeting. The auditor general shall provide a copy of the special audit to the secretary of state.

As the School Facilities Board continues to address a greater number of projects, the agency has been identifying, evaluating, prioritizing, and implementing improvements as a part of the daily construct of the School Facilities Board operating environment. Many of the improvements have been codified in Policy, as appropriate, which is a continuous improvement strategy. There is a full-day Board Workshop, open to the public and scheduled for July 10, 2019. The agenda includes review and discussion of progress toward improvement of agency processes. This is an annual examination of the Policy Review Schedule which has already been shared with the SFB Board, and is attached to this response.

Continuous efforts to improve the Agency have required prioritization of initiatives. The highest priorities have been evaluating and processing grant funding requests, and decreasing the length of time to process payments. This prioritization is required as SFB staffing was largely designed before the adoption of the Building Renewal Grant Fund and is not presently sufficiently staffed for a robust and growing workload. Examples of the increases are shown in the table below:

Workload	FY16	FY17	FY18	FY19
BRG Projects (awarded)	456	673	978	1269
New Schools	2	6	6	17
Districts Requesting BRG Funding	NA ¹	100	NA ¹	190
BRG Expenditures (including Supplemental)	\$29M	\$31M	\$42M	\$76M
FTE	9	10	12	12
Consultants (BRG and NSF funded)	0	0	3	2

¹ This data was queried biannually. Data for even years is not available.

As demonstrated in the chart above, the growth associated with workload has outpaced FTE increases.

SFB staff continues to develop technology applications that improve performance. Prior to January 2018, payment applications were processed on paper (these are referred to as Legacy projects). In January 2018, PayAppinator was released and Districts began using the online application for payments. Processing time has been reduced from an average of 57 days in January 2018 to 13 days in April 2019 for both types of projects, and reduced from an average of 29 days in July 2018 to 7 days in April 2019 for PayAppinator projects. As the Legacy projects are completed and closed out, and user proficiency increases, the expectation is that turnaround times will continue to improve. The SFB was awarded the Good Government Award from the Governor's office in recognition for the development of this application.

Continued enhancements to PayAppinator are also planned, and include counting the days an application is in suspense after rejection for incomplete or inaccurate submittals, so that Districts and SFB Liaisons are alerted when action is required. After a prescribed suspension length, the SFB will know to reach out to their district personnel to assist in resubmittals. Prior to commencing these enhancements, SFB will explore the eCivis platform as a potential solution that might address multiple process improvements noted by the Auditor General.

SFB staff continues to provide a compelling value proposition from which the Districts derive benefit. As an example, SFB will continue to develop and deploy training, information about best practices, and presentations through social media channels and professional organizations. There are also opportunities to offer credentialed trainings so District personnel can acquire Continuing Education Units (CEU) for certification.

Our agency would like to thank the auditors for their thorough effort in understanding the processes, goals, and challenges we face in advancing the mission of the SFB. We largely agree with the findings and will put processes in place consistent with our funding to ensure the agency's long-term success.

Sincerely;

Paul G. Bakalis, AIA, NCARB
Executive Director
School Facilities Board
1700 West Washington Street
Suite 104
Phoenix, Arizona 85007

attachments: **Attachment One:** *Policy Review Schedule*

Cc: *Sean McCarthy*
SFB Board Chair
Debra Sterling
Assistant Attorney General

Finding 1: Districts' BRG project delays and Board's lack of monitoring contribute to potential health and safety risks, increased State costs, and BRG Fund monies sitting idle for years

Recommendation 1: The Board should review all 628 open BRG projects to determine each BRG project's current status, including determining whether a deficiency still exists and remains uncorrected, if the BRG project has received a construction project award, if construction has started, and if construction is complete, before cancelling or closing these projects.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: In July 2018 there were 768 open legacy BRG projects (projects approved prior to January 10, 2018), at the Auditor General's findings, 628 were still in open status. Currently, there are roughly 500 legacy BRG projects left in open status. Staff is concentrating their efforts on closing all that are eligible. The current process for identifying candidate projects for closure is to review the status of projects awarded prior to January 10, 2018, contact the districts to obtain the necessary paperwork, and then determine the actions required to close the project which may include processing additional payments. These payments are not processed online they are executed in a paper environment and therefore take more time to process than an online process. The SFB will undergo a review of its IT systems and eCivis, and will evaluate tools (i.e. monthly status updates, remaining unencumbered funds, timeline, percent work to complete, etc.) that enable the SFB to work with Districts to correct deficiencies and close projects in a timely manner. As the remaining legacy projects are closed, all projects awarded will be online providing for a much shorter turnaround time.

Recommendation 2: The Board should establish processes consistent with State policy and supported by written policies and procedures, where appropriate, to:

Recommendation 2a: Obtain and track each BRG project's project-completion time frames.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB will request timelines from the districts.

Recommendation 2b: Track each BRG project's phase status and each phase's start and end dates.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB will request status updates from the districts.

Recommendation 2c: Require districts to provide regular project status updates for open BRG projects.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB will evaluate the potential for its IT systems to collect this data. For example, districts could be prompted to enter a status update when they submit payment applications online.

Recommendation 2d: Develop and implement management reports and other tools to systematically and regularly monitor each open BRG project's status and progress.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB will develop and implement management reports (i.e. monthly status updates, remaining unencumbered funds, timeline, percent work to complete, etc.).

Recommendation 3: The Board should establish processes for using the data from its monitoring activities, supported by written policies and procedures, where appropriate, to:

Recommendation 3a: Work with districts to address any obstacles that prevent them from making progress and mitigate any health and safety impacts related to the continued existence of an uncorrected deficiency.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Once the management reports are implemented, SFB will be better positioned to identify projects that need SFB guidance. Currently, we rely on the districts and their liaisons to communicate and identify where and when additional guidance is needed.

Recommendation 3b: Hold districts accountable for meeting their BRG project responsibilities.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The BRG process is multifunctional and requires equal participation by the districts in completing required tasks. The SFB can identify a district's responsibilities, provide additional project management consulting as necessary, and then withhold or deny funding if a district continues to not meet its responsibilities. SFB will review any requirements and include accountability contract terms in the Terms and Conditions, including terms providing that district non-compliance or non-performance will cause payment delays until the issue has been corrected. In addition, SFB will continue to constantly communicate with the districts as to the various requirements and encourage timely compliance. SFB's communication will include site visits, SFB meetings, and other direct outreach.

Recommendation 3c: Proactively plan and request funding for future BRG projects. Before requesting a supplemental or increased appropriation, the Board should first review its

management reports and make a written determination of how much committed money can be recommitted to other projects.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Once the management reports are implemented, SFB will be better positioned to make a written determination of how much committed money can be recommitted to other projects.

Recommendation 3d: Plan Board staff's workload based on the status of its existing BRG projects.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Currently, the SFB projects future capital funding needs by observing trends in the number and type of BRG applications along with the aging of facilities. Once the management reports are implemented, SFB's ability to project future workload will be enhanced. For example, when it becomes evident that a substantial number of projects are nearing completion, SFB will shift and/or increase resources as necessary to accommodate the workload.

Recommendation 4: The Board should work with the Arizona Office of Grants and Federal Resources to obtain access to and implement the use of eCivis SRM for managing BRG projects. If the Board determines that it will continue devoting staff time and resources to modify its own IT systems to manage BRG projects, it should conduct and document the results of a cost-benefit analysis and justify the use of these resources rather than using the eCivis system.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB will evaluate eCivis and if there is a benefit to adoption, it will be adopted as appropriate. The SFB has reached out to the Arizona Department of Administration Office of Grants and Federal Resources to request information. If the Board determines that it will continue devoting staff time and resources to modify its own IT systems to manage BRG projects rather than using the eCivis system, the SFB will conduct and document the results of a cost-benefit analysis to justify the use of these resources.

Finding 2: Board should improve its use of IT systems to better ensure timely payments to districts and BRG project closures so unspent monies can be recommitted to other BRG projects

Recommendation 5: The Board should modify its PayAppinator system to track and monitor the timeliness of open payment requests and rejected payment requests.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The data is currently available in PayAppinator. A process is being developed to ensure appropriate parties are notified about the status of open payment requests and rejected payment requests. The process will define a number of days a project is in suspense and will alert the Liaison and District as to the ongoing suspended status.

Recommendation 6: The Board should work with the Arizona Office of Grants and Federal Resources to obtain access to and implement the use of eCivis SRM for managing BRG project closeout. If the Board determines that it will continue devoting staff time and resources to modify the PayAppinator for managing BRG project closeout, it should conduct and document the results of a cost-benefit analysis and justify the use of these resources rather than using the eCivis system

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Same answer as indicated for Recommendation 4

Recommendation 7: The Board should develop and implement processes, supported by written policies and procedures where appropriate, to:

Recommendation 7a: Address any problems that are potentially leading to payment requests not being paid within 30 days.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Historically, projects that were not online took longer to process because of the difficulty of processing in a paper environment. With the adoption of PayAppinator, which includes the ability for electronic signatures, this challenge has been eliminated and project payment status is available in real-time. Payments are currently being processed within an average of 7 days.

Recommendation 7b: Regularly follow up with districts and provide assistance as needed to help ensure they resubmit rejected payment requests in a timely manner.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB will evaluate its IT systems and the eCivis system and also consider implementing automated reminders that will alert the district once a rejected payment has been suspended, and periodic reminders until the payment issue has been resolved.

Recommendation 7c: Address any problems that are potentially leading to untimely project closeout.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: As stated in the response to Recommendation 1, the SFB will undergo a review of its IT systems and eCivis, and will evaluate tools (i.e. monthly status updates,

remaining unencumbered funds, timeline, percent work to complete, etc.) that enable the SFB to work with Districts to correct deficiencies and close projects in a timely manner. As the remaining legacy projects are closed, all projects awarded will be online providing for a much shorter turnaround time.

Finding 3: Board members failed to disclose interests, and 1 Board member failed to refrain from participating in decisions related to those interests

Recommendation 8: The Board should establish a process to allow Board members to fully disclose substantial interests in its public meetings as a reason for not participating in a meeting agenda item. These disclosures should be documented in the Board's meeting minutes, including the name of the person with an interest (i.e., Board member or Board member's relative), the interest's description, and the reason the Board member is refraining from voting or otherwise participating.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: It has been the responsibility of each Board member to recuse themselves as appropriate. It's worth noting neither the Board nor staff select the vendors who perform work funded by SFB Grants and Board Members recuse themselves out of an abundance of caution. The SFB staff endeavors to make apparent, by attachments to the Board package, the names of vendors and other information. Because the projects are taken to the Board in phases, information from a prior phase may not be visible in a subsequent phase. It is evident that Board Members have made a good faith effort to recuse themselves despite the few reported deficiencies. The SFB is currently evaluating IT systems that will provide a more robust display of data displaying all instances and identifying companies who have provided services for a specific project. In addition, the Board currently completes a conflict-of-interest form at least annually, which is maintained in a separate special file for public inspection. SFB staff will discuss with the Board additional strategies to assist in identifying potential conflicts of interest. The SFB has modified its agenda format to include an item in which Board members identify and state any known conflicts of interest at the beginning of each Board meeting. The SFB will work with its Assistant Attorney General to provide training to Board members on a regular basis.

Recommendation 9: The Board should develop and implement a process to help Board members identify meeting agenda items involving their interests, such as notating Board meeting agendas and/or adding vendor names to the project summary, to identify agenda items for which Board members have conflicts based on the interests listed on their forms.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Same answer as indicated for Recommendation 8.

Recommendation 10: The Board should continue using its new, more comprehensive conflict-of-interest form.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Board will continue using its new, more comprehensive conflict-of-interest form.

Recommendation 11: The Board should develop and implement a process to ensure new Board members complete and file a conflict-of-interest form before they begin serving on the Board.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Board will implement the explanation in Recommendation 10 in order to comply with this recommendation.

Recommendation 12: The Board should require all Board members and employees to complete conflict-of-interest forms at least annually and maintain these disclosures in a separate special file for public inspection.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB will require all board members and employees to complete conflict-of-interest forms at least annually and maintain these disclosures in a separate special file for public inspection.

Finding 4: Board staff and vendor actions and Board procurement policy and guidance for districts could confuse districts, leading to decreased competition, potentially unfavorable pricing, and compliance issues

Recommendation 13: The Board should develop a written policy, procedure, or other employment document that prohibits Board staff from requiring or recommending that districts use specific vendors for projects that receive Board monies.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB will create an employment document for new employees which will require their signature clearly stating the expectation prohibiting Board staff from requiring or recommending that districts use specific vendors for projects that receive Board monies. This form will be reviewed with each new employee by their supervisor.

Recommendation 14: The Board should revise its policies for districts to explicitly state that districts are solely responsible for procuring, selecting, and contracting with vendors, and that Board staff are not authorized to select vendors or otherwise require or suggest that districts use specific vendors.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: While SFB staff is prohibited from requiring or recommending that districts use specific vendors for projects that receive Board monies, the SFB will revise policy to include the recommended language.

Recommendation 15: The Board should reassess and revise its procurement policy to ensure it does not mislead districts and is consistent with the School District Procurement Rules and the USFR and explicitly states that districts must comply with all requirements in the School District Procurement Rules and the USFR, such as the USFR's requirement for considering cumulative purchases when determining the appropriate procurement method in addition to following the Board's procurement policy.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB will revise its policies to include references to the School District Procurement Rules and the USFR.

Recommendation 16: The Board should revise its terms and conditions to:

Recommendation 16a: Change "procurement rules developed by the State Board of Education" to the "School District Procurement Rules adopted by the Arizona State Board of Education."

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff will comply.

Recommendation 16b: Add a reference to the USFR purchasing guidelines.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff will comply.

Recommendation 16c: Delete the reference to "Arizona Procurement Code."

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff will comply.

Recommendation 16d: Also require that district staff who are responsible for procuring and selecting vendors, such as the business manager or chief financial officer, sign the terms and conditions

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff will evaluate expanding the list of required signatures to include the Governing Board President, Superintendent, CFO/Business Manager and Facilities Director.