

Horace Mann School Modernization scheduled to begin in 2014

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www.bhusd.org/apps/pages/index.jsp?dir=2013&pREC_ID=251531&type=d&uREC_ID=31885	

Executive Summary

This Annual Report of the Citizens' Oversight Committee ("COC" or "Committee") covers the fiscal year from July 1, 2012 to June 30, 2013 and updates for several matters addressed by the Committee in the July 1, 2013 through December 31, 2013 period.

The primary responsibility of the COC is to monitor the expenditure of Measure E funds by the Beverly Hills Unified School District (BHUSD or District) to ensure that they are utilized in the manner prescribed by Measure E to achieve certain goals:

"Provide safe and modernized school facilities, make necessary structural, seismic safety repairs, upgrade, repair and reconstruct aging classrooms, infrastructure, multi-use, gyms, libraries, science, technology and labs; roofing, plumbing, heating, ventilation and electrical systems; renovate Beverly Hills Unified School District schools to better protect student/staff from unauthorized entry, security risks and natural disasters."
[Measure E ballot language 2008]

In exercising this over-arching duty, the COC created several sub-committees that have engaged in conferences with a variety of decision-makers, reviewed information from numerous sources, attended meetings, conducted independent research, made recommendations and shared their findings with the full Committee, which then submitted its recommendations to the Beverly Hills Board of Education ("BOE").

Some major 2013 accomplishments of the Measure E program included the completion of the Horace Mann auditorium renovation and significant progress in closing out multiple projects with State of California regulators. In addition, several campuses received significant infrastructure upgrades. The District continues to face the critical need for a well qualified Chief Facilities Officer. After a nine-month search, a Chief Facilities Officer was hired in September 2013 only to resign in January 2014.

The COC believes that there is a critical need for funding school facility construction and renovation. As previously stated in the COC's January-June 2012 Report:

"Of greater significance is the conclusion by the Citizens' Oversight Committee that the \$334,000,000 in Measure E funds are insufficient to achieve the desired objectives at all five school sites – which means that the original goals must be scaled back or supplemental revenues must be obtained through the sale of additional Bonds which, in turn, may increase property tax rates. Or an entirely new Bond Measure must be voted on by the community. The Citizens' Oversight Committee recommended to the Board of Education that due to the currently available low interest rates, the necessary funds should be borrowed through the accelerated sale of the remaining authorized Bonds

I. Audits

A. Performance Audit:

On March 19, 2014, Harvey M. Rose Associates, LLC (“HRA”) submitted the annually required Performance Audit of the Beverly Hills Unified School District Measure E Program for the fiscal year ended June 30, 2013 (“Performance Audit”) which may be found at:

http://www.bhusd.org/apps/pages/index.jsp?dir=2013&pREC_ID=251531&type=d&uREC_ID=31885

The referenced report covers compliance with Measure E as well as evaluations of master planning and facilities programming, expenditure controls, and contract solicitation and award processes. HRA’s report includes a broad series of recommendations. A majority of the recommendations of this report were duplicative of those presented in the prior year’s performance audit reports. The Board of Education should take immediate action to address the Performance Audit Report recommendations.

The COC requests that District Staff provide it with monthly status reports at COC meetings with an overall goal of addressing each of the recommendations no later than September 2014.

Selected Performance Audit Findings:

Of the eighteen Performance Audit findings, the five that the COC deems most significant are as follows:

HRA Finding 1.5 (HRA Page 1-9)

“The Board of Education should take further steps to commit the use of Measure E funds to specific project sites and sizes based on a completed Facilities Master Plan and accepted educational specifications¹ so that the Facilities and Planning Department can move forward with the Measure E program and so there will be a master list of specific projects to compare against actual Measure E expenditures by District management and by future performance auditors, as required by State law.”

COC Recommendation #1

The COC recommends that the Board of Education update and amend the District-wide Facilities Master Plan to incorporate all Board approved specifications and an approach to implementing green technology. Once the revised Measure E Master Plan is approved, the District should update project and site level budgets, delineated by each school site, as well as budgets for non-construction-related spending such as legal expenditures.

While Measure E expenditures and contracts have been individually approved for specific projects by the Board of Education, the absence of a compliant Facilities Master Plan and the

¹ The California Department of Education defines educational specifications as “interrelated statements that communicate (or specify) to the architect, the public, and other interested parties what educators believe is required for a proposed educational facility to support a specific educational program. Educational specifications serve as the link between the educational program and the school facilities. They translate the physical requirements of the educational program into words and enable the architect to visualize the educational activity to be conducted so that the architectural concepts and solutions support the stated educational program.”

lack of a comprehensive list of approved specific projects renders it extremely difficult to determine how Measure E funds spent to date measure against any defined objectives.

The hiring of an experienced Chief Facilities Officer is needed in order to direct and manage Measure E activity.

HRA Finding 1.4 (HRA Page 1-9)

“The Board of Education should direct the Chief Administrative Officer to initiate a revision of the proposed educational specifications considering feedback from the Board of Education and to present the revised educational specifications to the Board of Education within three months for approval.”

COC Recommendation #2

The COC concurs that the development of and commitment to a set of educational specifications is a high priority and should come before contracting for the services and other expenditures of future major Measure E projects.

HRA Finding 3.1 (HRA Page 3-11)

“The Board of Education should direct the Chief Administrative Officer to revise the Measure E Procedures Manual to include policies and procedures regarding the competitive bidding process for public project contracts, including a \$15,000 minimum expenditure requirement for competitive bidding, to help ensure compliance with Public Contract Code 20111, within six months of the acceptance of the FY 2012-13 performance audit.”

COC Recommendation #3

The COC concurs that the Measure E Procedures Manual should be revised. We recommend that it be utilized as the guideline for the "Best Practices" being employed by the District. This manual should include the essential practices that hold outside vendors to strict accountability to them.

HRA Finding 4.1 (HRA Page 4-11)

“The Board of Education should direct the Chief Administrative Officer to amend contracts with applicable vendors or firms to include: a.) A “not-to-exceed” amount, limit for reimbursable expenses including documentation of expenses incurred, so that the District has more consistent controls over expenditures and contracts paid for with Measure E funds; and, b.) A requirement that fees and not-to-exceed amounts for all subcontractors under a prime consultant contract are approved by the Board of Education prior to any services being rendered.”

HRA Finding 4.2 (HRA Page 4-11)

“The Board of Education should direct the Chief Administrative Officer to develop a policy, within six months of the acceptance of the FY 2012-13 performance audit, that requires the in-house counsel to review and compare all invoices for legal services, including invoices for sub-consultant services and the sub-consultants’ invoices under separate contracts with the District, to ensure that services provided are: a.) within the contract amount and term; b.) within the contract scope of services; and, c.) without duplication of services being provided through other contracts.”

COC Recommendation #4 (related to HRA Findings 4.1 and 4.2)

The COC recommends that all contracts contain a “not-to-exceed” limit for reimbursable expenses, and documentation of incurred expenses be required. Further, all contractors who are providing services under a prime consultant contract should be approved by the Board prior to any services being performed. The District should revise its contracting policies to cover the contracting of all professional services and prepare a model contract with standard terms and conditions that applies to all vendors. The District should require legal and other professional services firms to provide the COC with cover pages of invoices that include summary information regarding the work performed and consultants used with a goal of facilitating improved transparency.

With respect to legal services, the in-house counsel (hired in 2014) needs to implement a system for reviewing all billings and invoices to ensure that the amounts being paid are within the contract amount and term, within the contract scope of work and not duplicative of work being performed under other contracts. Additionally, the COC recommends that there be limitations on modifying hourly rates, requirements constructed for billing methods (i.e. block billing), and limitations for multiple attorneys performing the same tasks. The in-house counsel should provide each of the law firms utilized by the District a set of billing guidelines. Any currently unpaid invoices should be redone according to the standards set by the in-house counsel. Additionally, the in-house counsel should look for refund opportunities related to prior billing issues such as unapproved hourly rates increases or items double billed to the District.

B. Financial Audit:

Christy White Accountancy (“CWA”) performed the annually required financial audit for the fiscal year June 30, 2013 and issued their report on December 13, 2013 (the “Financial Audit”). The Financial Audit found that as of June 30, 2013, the District had spent approximately \$31 million – or 43% - of the \$72 million raised through the 2009 Measure Bond Issuance, and 9% of the \$334 million total amount that has been authorized by Measure E. For 2013, CWA issued a “clean” audit opinion and its report contained no findings or recommendations.

C. Supplemental Financial Information (Unaudited)

To provide the citizens of Beverly Hills with an overview of how the Measure E funds have been expended from inception (2009), the following audited (to June 2013) and unaudited (July-Dec. 2013) financial schedules are appended hereto:

- a. A breakdown of the recipients of at least \$100,000 of Measure E funds from the February 2009 inception to December 31, 2013 together with a short explanation identifying the purpose of the expense; and
- b. A cash flow summary roll-forward from Measure E inception to December 31, 2013.

II. Facilities Master Plan and Measure E Bond Financing

As noted above, the COC recommends that the Board of Education revise the District-wide Facilities Master Plan that incorporates all Board approved specifications and an approach to implementing green technology. Once the amended Master Plan is approved, the District should update project and site level budgets, delineated by school, as well as non-construction-related expenditures such as legal expenditures.

Once the amended Facilities Master Plan is approved, a funding strategy for such plan needs to be obtained. Due to staff turnover and vacancies in the Chief Facilities Officer position, coordination and efficient completion of the existing, as well as future projects, has become more difficult. A full time, highly qualified Chief Facilities Officer will be critical to the success of any plan.

The District’s ability to issue additional bonds beyond the \$117 million sold to date to finance its future plans for Measure E is impacted and constrained by a number of factors including:

1. The ability to get additional bond(s) approved
2. The lack of a fully approved amended Facilities Master Plan
3. The lack of a Chief Facilities Officer to lead the construction efforts for the District

COC Recommendation #5

As noted above, the COC recommends that the Board of Education develop a strategy to fully fund the finalized Facilities Master Plan and employ a Chief Facilities Officer capable of executing on that plan.

III. Legal Expenditures

As detailed in the Appendices, from inception (2009) through December 31, 2013, approximately \$7.2 million of Measure E funds had been spent on legal expenditures (and, in some cases, may include contractors hired by law firms). This amount represented 23% of gross Measure E spending through that date. However, through December 31, 2013 the District had reimbursed Measure E for \$2.5 million of these expenditures. Net legal expenditures of \$4.7 million, therefore, represented 15% of gross Measure E spending through that date.

The approximate break down of these legal costs are as follows:

Strategic Concepts matter	\$2.9 million
MTA, Seismic and related matters.....	\$4.1 million
Other	<u>\$0.2 million</u>
Total	Gross Legal Spending through 12/31/13 \$7.2 million
Less:	Reimbursements from the District <u>(\$2.5 million)*</u>
Net	Legal Spending through 12/31/13 <u>\$4.7 million</u>

*The District used a portion of a vendor settlement to reimburse Measure E for all legal expenditures related to the Strategic Concepts matter. In 2014, the District reimbursed Measure E an additional \$0.4 million.

IV. Communications

A major COC goal is to enhance public awareness of the issues relating to Measure E and its implementation as well as to maximize the transparency of the process. In furtherance of that goal, the COC website, located at www.bhusd.org, has been redesigned with a new graphical and textual interface. The COC will continue and expand periodic outreach to the District’s PTAs, issue periodic reports and meet with interested community groups. In accordance with the Brown Act, COC meetings are open to the public with a comment period at each meeting to allow interested individuals to address the COC and others present.

V. Appendix

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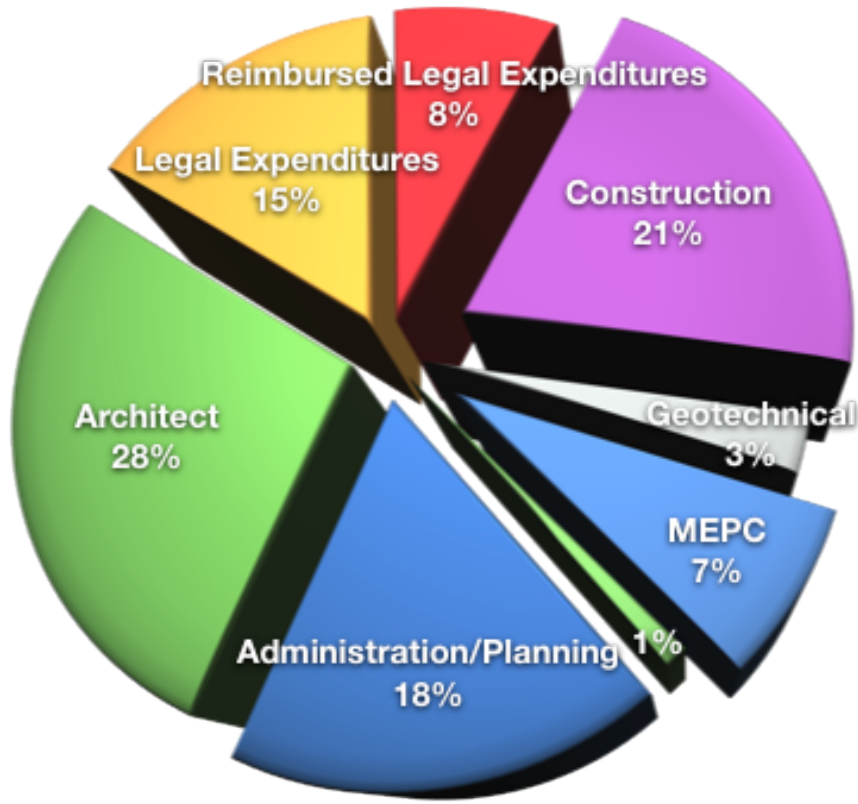
BEVERLY HILLS UNIFIED SCHOOL DISTRICT
 Measure E Expenditures - Vendors paid over \$100,000
 FROM INCEPTION THROUGH DECEMBER 31, 2013

Amount	Vendor Name	Purpose/Explanation	Administration/Planning	Architect	Attorneys	Construction	Geotechnical	MEPC	Misc
\$3,535,077	MINAKO AMERICA CORPORATION	Contractor - Horace Mann Auditorium				\$3,535,077			
\$3,115,568	HILL, FARRER & BURRILL LLP**	Attorney - MTA matter			\$3,115,568				
\$2,662,886	WLC ARCHITECTS	Architect - Horace Mann Project Manager	\$1,272,842	\$2,662,886					
\$2,490,892	BERNARDS ***	Project Manager				\$1,218,050			
\$2,419,890	DOUGHERTY & DOUGHERTY ARCHITECTS	Architect - K-8 schools		\$2,419,890					
\$2,149,843	QUINN EMANUEL *	Attorney - Strategic Concepts litigation			\$2,149,843				
\$2,058,696	STRATEGIC CONCEPTS	Former Project Manager							
\$1,445,441	LPA ARCHITECTURE	Architect - BHHS & Haw		\$1,445,441					
\$1,368,026	PAYROLL	staff payroll	\$1,368,026						
\$1,193,765	DLR GROUP	Architect - Hawthorne		\$1,193,765					
\$1,115,548	BANERJEE POCKOCK & ASSOCIATES	MEPC consultant (see below)					\$794,726	\$1,115,548	
\$794,726	LEIGHTON CONSULTING, INC.	Geotechnical consultant							
\$748,235	MILLER BROWN DANNIS ATTORNEYS *	former attorney - Strategic Concepts litigation			\$748,235				
\$694,871	HENRIKSON OWEN & ASSOCIATES, INC.	MEPC consultant (see below)						\$694,871	
\$659,042	VENABLE LLP	Attorney - Horace Mann & MTA matter			\$659,042				
\$532,679	HMC ARCHITECTS	Architect - El Rodeo		\$532,679					
\$486,635	ENVIRONMENTAL AUDIT INC.	Hazardous Materials analysis consultant						\$486,635	
\$418,397	PLUMBING PIPING & CONSTRUCTION INC.	Haw cooling tower/chiller contractor				\$418,397			
\$385,956	GENSLER	Architect - BHHS & Haw		\$385,956					
\$358,978	CST ENVIRONMENTAL ACQUISITION LP	Horace Mann Bldg. E Annex demolition				\$358,978			
\$322,259	DeJONG RICHTER	Master Plan consultant	\$322,259						
\$308,847	LA TANYA KIRK-CARTER	Forensic accountant						\$308,847	
\$262,535	DIGITAL TELECOMMUNICATIONS CORPORATION	Telecommunications contractor				\$262,535			
\$250,691	PRIMESOURCE CONSULTING ****	Facilities consultant	\$250,691						
\$239,375	DIVISION OF STATE ARCHITECT	California State Oversight	\$239,375						
\$214,497	WILLIAM SCOTSMAN	Temporary housing rentals				\$214,497			
\$189,579	ALSTON & BIRD LLP	Attorney - MTA matter			\$189,579				
\$181,827	BEST, BEST & KRIEGER	Attorney - Contract review counsel			\$181,827				
\$164,140	AT&T DATACOM	Telecommunications contractor				\$164,140			
\$149,560	AUTOMATIC BOILER COMPANY	Construction contractor				\$149,560			
\$142,105	KASOWITZ, BENSON, TORRES & FRIEDMAN LLP	Attorney - MTA matter			\$142,105				
\$132,414	Architect Fees on Buildings/Reimbursables	Architectural consultant		\$132,414					
\$118,164	LVH ENTERTAINMENT SYSTEMS	Auditorium sound contractor - Measure K				\$118,164			
\$1,202,183	135 vendors each paid less than \$100,000				\$7,186,199	\$6,439,398	\$794,726	\$2,297,054	\$308,847
\$32,513,327	<==== Total expenditures	Pct of total expenditures - by category ==>>>	17.0%	\$8,773,031	22.1%	19.8%	2.4%	7.1%	0.9%
		Pct of total expenditures - all vendors ==>>	96.3%						
		* To date, these attorneys worked solely on the Strategic Concepts litigation. To date the Board has reimbursed the Measure E fund \$2.5 million for legal and other expenses related to this matter. The reimbursement was part of a financial settlement with a former vendor.							
		** payments to Hill, Farrer & Burrill included payments to other professionals							
		*** Bernards total split between Administration/Planning and Construction							
		**** includes payments to PrimeSource Consulting and Tim Buresh							
		MEPC = Mechanical, Electrical, Plumbing and Civil Engineering							
		Source: BHUSD Business Office							

Beverly Hills Unified School District
 Measure E Expenditures - Vendors paid over \$100,000
 Inception to December 31, 2013

Administration/ Planning	Architect	Legal Expenditures	Reimbursed Legal Expenditure	Construction	Geotechnical	MEPC	Misc	Total
\$5,511,890	\$8,773,031	\$4,686,199	\$2,500,000	\$6,439,398	\$794,726	\$2,297,054	\$308,847	\$31,311,145
17.60%	28.02%	14.97%	7.98%	20.57%	2.54%	7.34%	0.99%	% of Total

Source : BHUSD Business Office



BEVERLY HILLS UNIFIED SCHOOL DISTRICT
 MEASURE E CASH BALANCE SUMMARY ROLL-FORWARD - CASH BASIS
 FROM INCEPTION THROUGH DECEMBER 31, 2013
 (UNAUDITED)

2009 Bond Proceeds		\$72,044,664
Plus - Revenues		
2008-09 interest income	\$479,138	
2009-10 interest income	\$934,446	
2009-10 other local revenue	\$65,878	
2010-11 interest income	\$842,576	
2011-12 interest income	\$554,091	
2011-12 vendor settlement (partial)	\$2,500,000	*
2012-13 interest income	\$339,574	
2013-14 interest income (6 mo)	\$73,132	
Total interest and other income		\$5,788,835
2013 Bond Proceeds -New bond		\$45,000,000
Less - Expenditures		
2008-09 expenditures	\$4,176,409	
2009-10 expenditures	\$3,828,334	
2010-11 expenditures	\$5,701,440	
2011-12 expenditures	\$7,821,742	
2012-13 expenditures	\$9,642,967	
2013-14 expenditures (6 mo)	\$1,342,436	
Total expenditures		\$32,513,327
Fund balance as of December 31, 2013 (UNAUDITED)		\$90,320,172

NOTES - All amounts prior to June 30, 2013 are from audited financial statements,

Fiscal 2014 amounts (through December 31, 2013) are unaudited

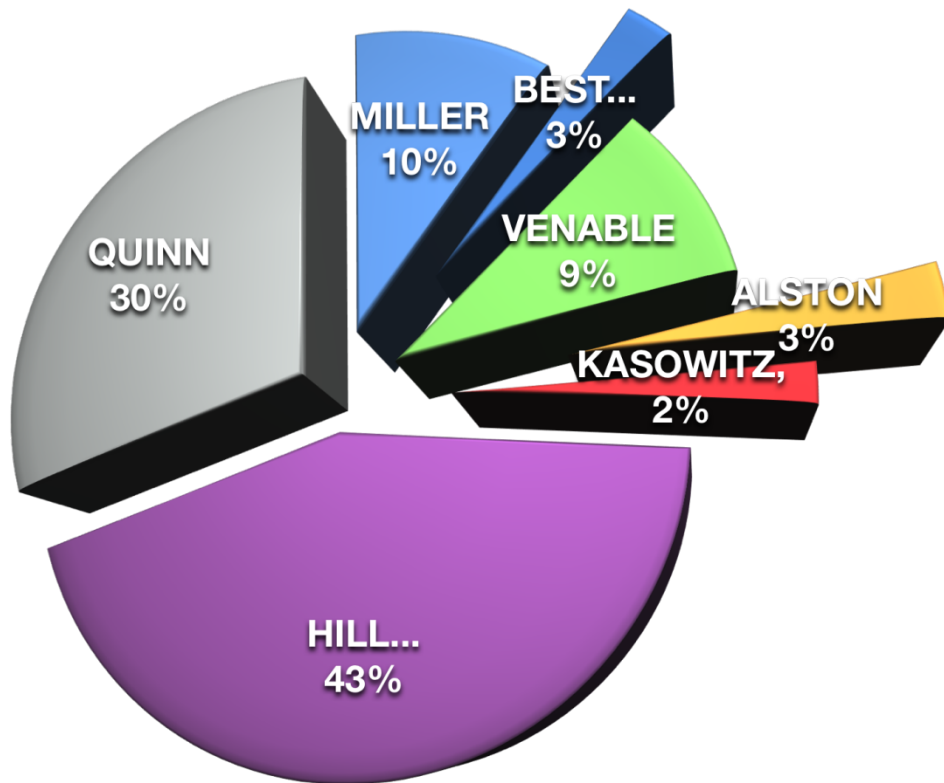
* \$2,500,000 - this item represents the return of legal expenditures

Source - BHUSD Business Office

Beverly Hills Unified School District
 Gross Measure E Legal Expenditures by Firm
 Inception (2009) through 12/31/13 (Unaudited)

PERCENT	EXPENDITURE	LAW FIRMS	MATTER
1.98%	\$142,105	KASOWITZ, BENSON, TORRES & FRIEDMAN LLP	MTA matter
2.53%	\$181,827	BEST, BEST & KRIEGER	Contract review counsel
2.64%	\$189,579	ALSTON & BIRD LLP	MTA matter
9.17%	\$659,042	VENABLE LLP	Horace Mann & MTA matter
10.41%	\$748,235	MILLER BROWN DANNIS ATTORNEYS	Strategic Concepts litigation
29.92%	\$2,149,843	QUINN EMANUEL	Strategic Concepts litigation
43.35%	\$3,115,568	HILL, FARRER & BURRILL LLP	MTA matter
	\$7,186,199		

Source: BHUSD Business Office



Members of the Citizen’s Oversight Committee (as of December 31, 2013)

Name	Role	Audit Committee	Legal/Ethics Committee	Communications Committee	Construction Committee
Woodrow Clark II, Ph.D.	Chair		Member		
Steve Hendry, CPA, CA, MBA	Vice Chair	Member	Member		
Craig Davis, MS				Co-Chair	
Bradley Gibbons					Chair
Chris Kiper, CPA (inactive)		Member			
Jerid Maybaum, Esq.			Chair		
Matthew Mokhtarzadeh, student representative					
Joe Safier, CPA (inactive), MBA		Chair			
Shirley Zaragoza, MA, CAS		Member		Co-Chair	