

**Beverly Hills Unified School District**

**Measure E Construction Bond Fund Performance Audit Report  
for the Fiscal Year Ended June 30, 2016**

**Prepared by:**

**MOSS ADAMS LLP  
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March 31, 2017

Board of Education  
Beverly Hills Unified School District  
255 South Lasky Drive  
Beverly Hills, CA 90212

Subject: 2008 Measure E Construction Bond Performance Audit Report  
for the Fiscal Year Ended June 30, 2016

Dear Board Members:

This report presents the results of our performance audit of the Beverly Hills Unified School District's (BHUSD or the District) 2008 Measure E Construction Bond (or Bond Program) as required by District objectives and California Proposition 39, the "Smaller Classes, Safer Schools and Financial Accountability Act" (Proposition 39), California Constitution (State Constitution) Article XIII A, and California Education Code (Education Code) Section 15272. These California State (State) requirements specify that the proceeds from the sale of school facilities bonds are expended only on the specific projects listed in the proposition authorizing the sale of bonds (Listed Projects).

Both the State Constitution and Education Code require an annual independent performance audit to verify bond proceeds are used on Listed Projects. Finally, Senate Bill 1473, "School facilities bond proceeds: performance audits" (SB 1473), approved by the Governor on September 23, 2010, amended California Education Code to add Section 15286, which requires the annual performance audits to be conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States.

### **Executive Summary**

We conducted this Bond Program performance audit in accordance with GAGAS. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The performance audit objectives, scope, methodology, conclusions, and a summary of the views of responsible District Officials are included in the report body.

Based on the performance audit procedures performed and the results obtained, we have met our audit objective. We conclude that for the fiscal year (FY) ended June 30, 2016, bond proceeds were used only for Listed Projects under the 2008 Measure E, which authorized the sale of the Bond. Additionally, we noted improvement recommendations, reported below, in Expenditure

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Management and Controls, Program Management, Budgetary Management and Change Order Reporting, Procurement Controls and Contract Administration, Claim Avoidance Procedures and Controls, Cost Benefit and Value Engineering Analyses, and Maintenance of District Asset Funded and Warranty Conditions Compliance.

Performance audit procedures covered the period from July 1, 2015 through June 30, 2016. Based on our assessment, we identified a number of good management practices as described below.

- The District utilizes other revenue sources to maximize the impact of Measure E funds.
- Citizen Oversight Committee (COC) meeting minutes were posted on the District website.
- The Measure E Bond Program website was updated periodically by the District to provide key project information.
- The District has a policy and procedures manual for its construction activities.
- The District contracted with California Financial Services (CFS), a full-service financial and facility planning firm, to reconcile Fiscal Year 2015/16 expenditures.

Additionally, we evaluated the effectiveness and efficiency of internal controls to provide an analysis of the School Construction Program to provide those charged with District governance and oversight information to improve program performance and operations. We identified the following internal control deficiencies related to compliance with Bond Program requirements, effectiveness, and efficiency of operations:

### **Expenditure Management and Controls**

- The District processed and paid a vendor invoice prior to receiving invoice approval required by policy (see Objective 4a in the report body).
- District payment procedures lack adequate documentation to validate compliance with District policies and contractual agreements regarding payment terms on seven sampled expenditures (see Objective 4b in the report body).
- Certain labor charges totaling \$96,770 were allocated between the Bond Program and other District activities without direct cost identification to the Bond Program. Additionally, the District was unable to explain a \$3,236 discrepancy to the Bond Program when comparing the Labor Distribution Report and the Cost Ledger for FY 2015/16 (see Objective 5 in the report body).

### **Program Management**

- Policies and procedures were not consolidated and the means for updating the manuals were not documented (see Objective 6 in the report body).

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- The District does not have well-defined policies and procedures surrounding in-house and consultant staffing for the Bond Program (see Objective 7 in the report body).

### **Budgetary Management and Change Order Reporting**

- Monthly District reporting lacked adequate details to allow end users to analyze available bond issuance budgets at the program and project level to actual committed contract values and the associated timing of revenues, expenditures, cash flow, and fund balances as recommended by the GFOA (see Objective 8 in the report body).

### **Procurement Procedures and Controls**

- The District did not have competitive solicitation documentation available for seven active professional service contractors (see Objective 9a in the report body).
- The District's professional service contracts included change orders for new scope for amounts in excess of stated policy requiring competitive solicitation for new services (see Objective 9b in the report body).
- A professional service consultant subcontracted out specialty contractor related work under a consulting agreement, resulting in non-compliance with District policies and procedures (see Objective 9c in the report body).
- The District was unable to provide a contract for PrimeSource Consulting, a contracted professional service firm providing consulting services, as an outsourced Chief Facilities Officer, resulting in non-compliance with policies and procedures (see Objective 9d in the report body).
- Formal policies and procedures and monitoring controls to prevent and detect procurement fraud were not available (see Objective 10 in the report body).

### **Claims Avoidance Procedures and Controls**

- The District has a claims avoidance policy; however, it does not have regular reporting or documentation available to identify actions taken to identify or limit claim exposure (see Objective No. 11 in the report body).

Management remains responsible for the proper implementation and operation of an adequate internal control system. Due to the inherent limitations of any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

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This report is intended solely for the use of the District's Board of Education, District Administration, and the Citizen Oversight Committee (COC). This report is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to express our appreciation to you and all members of your staff for your cooperation throughout this performance audit.

Sincerely,

**MOSS ADAMS LLP**

Moss Adams LLP

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## **BACKGROUND INFORMATION**

### **Beverly Hills Unified School District Approved Bond Funds**

In 2008, Beverly Hills County voters approved Bond Measure E for \$334 million to provide improvements to BHUSD facilities. The Measure E School Construction Bond funds were intended to provide safe and modernized school facilities; make necessary structural seismic safety repairs; upgrade, repair, and reconstruct aging classrooms, infrastructure, multiuse, gyms, libraries, science, technology, roofing, plumbing, heating, ventilation, and electrical systems; and renovate Beverly Hills Unified School District schools to better protect student/staff from unauthorized entry, security risks, and natural disasters. The Bond Program is in its eighth year of implementation.

Bond Program accounting records for the fiscal year (FY) ended June 30, 2016, showed Measure E Bond Program expenditures of \$43,195,056 in the current year.

### **California State Requirements**

A Construction Bond Program performance audit is required for BHUSD 2008 Measure E Construction Bonds by Proposition 39, State Constitution Article XIII A, and Education Code Section 15272. These State requirements specify that the proceeds from the sale of school facilities bonds can be expended only on Listed Projects. Both the State Constitution and Education Code require an annual independent performance audit to verify Bond proceeds were used on Listed Projects. Finally, SB 1473, approved by the Governor on September 23, 2010, amended the California Education Code to add Section 15286, which requires an annual performance audit to be conducted in accordance with GAGAS issued by the Comptroller General of the United States.

Proposition 39 was passed by California voters on November 7, 2000. Proposition 39 amended provisions to the California Constitution and the California Education Code. The purpose and intent of the initiative was “to implement class size reduction, to ensure that our children learn in a secure and safe environment, and to ensure that school districts are accountable for prudent and responsible spending for school facilities.” It provided for the following amendments to the California Constitution and California Education Code:

- a) “To provide an exception to the limitation on ad valorem property taxes and the two-third vote requirements to allow school districts, community college districts, and county offices of education to equip our schools for the 21st Century, to provide our children with smaller classes, and to ensure our children’s safety by repairing, building, furnishing and equipping school facilities;
- b) To require school district boards, community college boards, and county offices of education to evaluate safety, class size reduction and information technology needs in developing a list of specific projects to present to the voters;

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- c) To ensure that before they vote, voters will be given a list of specific projects their bond money will be used for;
- d) To require an annual, independent financial audit of the proceeds from the sale of the school facilities bonds until all of the proceeds have been expended for the specified school facilities projects; and
- e) To ensure that the proceeds from the sale of school facilities bonds are used for specified school facilities projects only, and not for teacher and administrator salaries and other school operating expenses, by requiring an annual independent performance audit to ensure that the funds have been expended on specific projects only.”



## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of the performance audit included verification of BHUSD compliance with Proposition 39, which required that bond proceeds only be used for school facilities projects that were listed with the Bond. The District created the 2008 Measure E Bond funds under Proposition 39 and, as such, is required to expend these fund proceeds only on Listed Projects, and not for school operating expenses. The Measure E Bond Program expended \$43,195,056 in FY 2016.

We conducted this Construction Bond Program performance audit in accordance with GAGAS. As required by GAGAS, we planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objectives. Because GAGAS performance audit procedures require reasonable assurance, and these audit procedures did not require detailed examination of all transactions and activities, there is a risk that compliance errors, fraud, or illegal acts may exist that were not detected by us. Based on the performance audit procedures performed and the results obtained, we have met our audit objective.

Performance audit procedures covered the period July 1, 2015 through June 30, 2016.

Management remains responsible for the proper implementation and operation of an adequate internal control system. Due to inherent limitations of any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

This performance audit did not constitute an audit of financial statements in accordance with *Government Auditing Standards*. Moss Adams was not engaged to and did not render an opinion on District internal controls.

The performance audit objectives (as specified by the District and agreed upon for this performance audit) and methodology applied included the following:

1. Conduct a Performance Audit

We conducted the audit in accordance with GAGAS for Performance Audits as codified by the Government Auditing Standards, December 2011 Revision issued by the Comptroller General of the United States.

2. Attend Entrance and Exit Meetings

We attended entrance meetings with both the District and Citizen Oversight Committee members. At the completion of the audit, we attended up to three exit meetings to review our report, observations, and any improvement recommendations. Those meetings included: 1) exit meeting with District Management, 2) meeting with District Audit Committee and full Board of Education as determined by the District, and 3) Citizen Oversight Committee meeting.

3. Compliance with Ballot Language

We reviewed the Bond Program’s financial records and expenditures for the fiscal year ended June 30, 2016 to verify that funds were used for approved Bond Program purposes as set forth in the ballot language, Bond documents, Board-approved listed projects, and Proposition 39 requirements. We reviewed the Bond Program’s financial records and expenditures by obtaining the Comprehensive Annual Financial Report and comparing the balances to the District’s detailed accounting records. We analyzed control processes, tested the Program expenditure cycle, and sampled supporting documentation to validate internal controls. Testing procedures included the use of Audit Command Language (ACL) to select a statistical, monetary unit sample to provide a 90 percent level of confidence that expenditure transactions from the Bond Program were compliant with Program and legal requirements. We tested 60 expenditures totaling \$26,827,532. These transactions included payments to contractors and vendors, and journal entries of inter-fund transfers. Our testing procedures were performed to verify:

- Expenditures were for Listed Projects.
- Approval of payment applications and invoices.
- Expenditure compliance with approved contract and contract types, purchase order, or other procurement documentation.
- Expenditures were recorded in the proper period, accurate, and complete on the District’s books and records.

We interviewed District and Bond Program personnel and analyzed key documentation to assess the design of controls over Bond expenditures, including review, authorization, and oversight of the District’s Listed Projects, contracts executed, accounting for Bond proceeds issued, and payments made and recorded for FY 2016. The documents we analyzed to assess Bond Program risk and controls design included:

- Proposition 39 Bond language and Project Lists.
- The District’s construction planning documentation.
- Board of Education meeting agendas and minutes.
- Applicable Construction Program contract documentation.
- Accounting for Bond Program proceeds and supporting documentation for expenditures taken from the District’s books and records.
- Review of Project Expenditures (15/16) and Voter Approved Ballot Language.

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We analyzed the associated sampled expenditure contracts for a more in-depth review of the project expenditures. Selected contracts were reviewed to gain an understanding of payment processes, cycle time, allowable charges, and reimbursable costs. Supporting documentation for District labor charged was analyzed for complete identification of staff activities incurred and accurate allocation of cost between the Bond Program and other District activities.

4. Expenditure and Payment Procedures

We verified District compliance with its policies and procedures related to Proposition 39 expenditures and payments for the period. We documented the use of Bond Program funds and segregation of these funds for Bond Program purposes, traced bond funds received by the District, reconciled amounts received with amounts expended, and verified that these funds have been expended for Bond Program purposes. Payment approval and cost accounting controls design and operation were verified, including receipt of lien releases, segregation of duties, and controls to verify receipt of goods and services. Review for payment compliance with contract terms was conducted. We performed a search for duplicated payments and missed discounts. We gathered and tested data to determine compliance and measure the effectiveness of payment controls. Processes to review and approve contractor charges were analyzed to prevent excessive charges and overpayments, and payment applications were reviewed to assess the adequacy of supporting documentation. We also reviewed the field methods used to validate progress and percent complete.

5. Salaries of District Employees for the Bond Program

We reviewed the salaries of District employees charged to the Bond Program. We compared the labor charges to Proposition 39 objectives and confirmed their allowability per Opinion 04-110 issued on November 9, 2004, by the State of California Attorney General.

6. Compliance with State Laws, District Policies, and Regulations

We analyzed District compliance with State laws and regulations regarding school district facilities programs. We performed a risk assessment to identify laws and regulations that the District may be subject to. We then selected certain laws and regulations that are considered highest risk for further review to assess District compliance. This analysis did not constitute a legal opinion or a complete analysis for compliance with all applicable state laws and regulations. We assessed compliance with the pertinent District policies and regulations governing the District's facilities program. We validated District policies and regulations regarding the facilities program's processes and controls. We designed the performance audit to provide reasonable assurance that Bond expenditure controls and practices were consistent with District policies and Proposition 39 objectives to ensure that funds were spent on projects indicated in the ballot initiative.

7. District and Professional Service Staffing Plan for Bond Program

We reviewed the District’s staffing plan and policies and procedures for an approach to in-house staffing and consultant staffing that includes key metrics, such as positions staffed, number of personnel, number of planned projects, and dollar value of planned projects utilized by the District to help determine organizational structure alignment with the Bond Program needs. We analyzed the organizational structure alignment between the program management team and contractors by validating and evaluating processes for project reporting, communication, problem resolution, decision support, change order authorization, scope of control, and segregation of duties.

8. Design and Construction Costs Budget Management

We compared design and construction budget management practices to Government Finance Officers Association (GFOA) standards to measure the effectiveness of controls surrounding bond-funded projects. We reviewed the reporting of adopted budget, budget-to-actual, and budget-to-projected expenditures and revenue as a means to track Bond Program progress and financial standing (e.g., narratives, graphs, charts, etc.). We analyzed the design of budgetary management controls for documentation and explanation of deviations from the original budget by key construction component for user reference. We also reviewed the reconciliation of actual projects for which bond funds were expended to projects approved by the Board of Education to projects on the approved facilities master plan.

9. Bidding and Procurement Procedures

We verified that District bidding and awarding of Bond-funded construction projects complies with the requirements of the California school construction state requirements, Public Contracting Code, and State and other relevant laws and regulations. Procurement controls were evaluated for application of competitive, compliant, and fair contracting practices. We conducted interviews and reviewed relevant policies, bids, and contractor selection files. We selected a sample of contracts and assessed the implementation of controls needed to achieve competitive contracting practices that are consistent with school construction program requirements and best practices. Change order documentation was reviewed for compliance with the District’s policies and procedures, Public Contracting Code, California school construction state requirements, and other regulations. Controls and activities to manage change orders were evaluated. Specific consideration was given to change order cause, responsibility, and pricing. We reviewed policies and procedures to verify whether documentation existed prior to approval of change orders and verify that required approvals were applied. Selected change orders were tested for duplicated work scope and compliance with Proposition 39 requirements.

10. Procurement Fraud Prevention and Detection Controls

We validated that District controls are in place to prevent and detect procurement fraud. The following procedures were performed:

- Reviewed the implementation of ethics policies, reporting protocols, staffing screening requirements, consequences, and training and escalation procedures to prevent and detect fraud.
- Reviewed segregation of duties controls designed and implemented to prevent unauthorized obligations and payments.
- Reviewed the completeness of monitoring controls implemented to identify, report, and address significant procurement anomalies. Verified that methods applied to verify key reports used for key construction program management decisions are current, accurate, and complete.

11. Claim Avoidance Procedures

We reviewed the implementation of procedures designed to prevent claims filed against the District related to construction projects for the period.

12. Review of Prior Year Audit

We evaluated whether the District has taken appropriate corrective actions to address findings and recommendations from previous engagements that are significant within the context of the audit objectives.

13. Job-Site Visits

We visited selected sites and determined the authenticity of the projects in progress and/or project completion. We reviewed the field methods used to validate progress and percent completion.

14. Audit Completion Deliverables

We provided the District a recap of all the recommendations in an Excel spreadsheet for the District's review at the completion of the audit.

**Interviews**

We interviewed key personnel responsible for administering the Bond Program, including senior management and staff from the District and Bond Program Management Team responsible for overseeing the work associated with the Bond Program. We also interviewed members of the Citizen Oversight Committee. The individuals interviewed are listed in Appendix A of this report.

## **AUDIT RESULTS**

### **Objective No. 1 – Conduct a Performance Audit**

Observation 1: We conducted the audit in accordance with GAGAS for Performance Audits as codified by the Government Auditing Standards, December 2011 Revision issued by the Comptroller General of the United States.

### **Objective No. 2 – Attend Entrance and Exit Meetings**

Observation 2: We attended entrance meetings with both the District and Citizen Oversight Committee members. At the completion of the audit, we attended up to three exit meetings to review our report, observations, and any improvement recommendations. Those meetings included: 1) exit meeting with District Management, 2) meeting with District Audit Committee and full Board of Education as determined by the District, and 3) Citizen Oversight Committee meeting.

### **Objective No. 3 – Compliance with Ballot Language**

Observation 3a: The performance audit procedures applied provided reasonable assurance, in accordance with GAGAS, that during the fiscal year ended June 30, 2016 bond proceeds were expended only on allowable Proposition 39 expenses for which the sale of the bonds were authorized.

Additionally, we evaluated the effectiveness and efficiency of internal controls to provide an analysis of the school construction program to provide those charged with District governance and oversight information to improve program performance and operations.

### **Objective No. 4 – Expenditure and Payment Procedures**

Observation 4a: The District processed and paid a vendor invoice prior to receiving invoice approval required by policy. Invoice 125671 from HMC Architects for Beverly Hills USD El Rodeo Modernization/Addition was signed for approval by the past Chief Facilities Officer on April 12, 2016. However, check payment for the invoice was issued March 25, 2016. Per the BHUSD Facilities Procedures Manual, Section 1.9 Payment Procedures, invoice approval and signature by the Chief Facilities Officer are to be obtained prior to payment processing and Los Angeles County Office of Education (LACOE) check issuance.

Improvement Recommendation: The District should comply with policies and procedures and ensure that all invoices receive signature approval prior to payment processing. The District should review and update the controls surrounding invoice submission to LACOE to prevent non-compliance with policies and procedures.

Observation 4b: District payment procedures lack adequate documentation to validate compliance with District policies and contractual agreements regarding payment terms on seven sampled expenditures. According to BHUSD Facilities Procedure Manual,

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Section 2.5 Contractor Payment Policies, "Monthly Pay Application shall be paid directly by the District within 45 days after receipt and acceptance by the Construction Manager in accordance with the California Prompt Payment Act" and per contractual agreement for sampled Architect/Design work, the "District shall, within 30 calendar days of receiving such statement [invoice], review the statement and pay all approved charges thereon." The following seven expenditures were potentially non-compliant with District policies and procedures and contractual obligations:

Vendor	Service Type	Invoice Date	Check Date	Variance (Invoice Date – Check Date)
DLR Group	Architect/Design	11/12/2015	12/17/2015	35
HMC Architects	Architect/Design	2/1/2016	3/25/2016	53
HMC Architects	Architect/Design	3/1/2016	4/19/2016	49
WLC Architects	Architect/Design	2/19/2016	4/11/2016	52
WLC Architects	Architect/Design	2/19/2016	4/11/2016	52
ProWest Constructors	Contractor	6/30/2016	8/25/2016	56
PCN3, Inc.	Contractor	5/5/2016	6/30/2016	56

According to the BHUSD Facilities Procedure Manual, Section 1.0 Payment Procedures, "as Invoices are received for payment, the Administrative Assistant will review and route for PM/Director review and approval within (3) three days." Time stamps or other means of documentation were not available within these sampled invoices to validate when the District received the invoice. Time stamps were available on other sampled documentation; therefore, it appeared this procedure was inconsistently performed. Without a date of receipt within invoice documentation, we were unable to validate compliance with District policies and procedures and or contractual obligations.

Improvement Recommendation: The District should time/date stamp all invoices when received and evaluate the invoice payment processing procedure to ensure compliance with District policies and procedures and contractual obligations.

**Objective No. 5 – Salaries of District Employees for the Bond Program**

Observation 5: Certain labor charges totaling \$96,770 were allocated between the Bond Program and other District activities without direct cost identification to the Bond Program. Additionally, the District was unable to explain discrepancy between financial reporting and the labor distribution report in the amount of \$3,236. We evaluated and reviewed the funds used for salaries of administrators only to the extent they performed administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004, by the State of California Attorney General. Certain District labor charges totaling \$96,770 were allocated to the Bond Program without direct cost identification to the Bond Program. The basis for allocation was identified as an



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estimated 90 percent allocation for the Administrative Assistant – Facilities in the amount of \$86,628 and a 10 percent allocation for the Director of Maintenance & Operations in the amount of \$4,143 and Custodial Manager in the amount of \$5,929. Based on inquiry with the District, the Administrative Assistant – Facilities role was actually 100 percent dedicated to the Bond Program. Labor allocations resulting from Bond Program meetings for the Director of Maintenance & Operations and Custodial Manager in the amount of \$10,073 (\$4,143 + \$5,929) were discontinued in November 23, 2015, and February 10, 2016, respectively. Timesheets or other means of directly identifying labor costs to the Bond Program for these employees were not evident.

Additionally, the District was unable to explain a \$3,236 (\$10,034 - \$6,144 - \$654) discrepancy to the Bond Program when comparing the Labor Distribution Report and the Cost Ledger for FY 2015/16. The Total Labor Distribution report was \$187,994, whereas the FY 2015/16 cost ledger was \$198,028 resulting in a discrepancy in the amount of \$10,034 (\$187,994 - \$198,028). Two reconciling items were provided by the Director of Fiscal Affairs:

1. A reconciling item relating to a paycheck miscoding for the Chief Facilities Officer was available to explain \$6,144 of the variance. The paycheck was originally coded to a different fund account; however, it was later corrected and coded to the Bond Program. The Labor Distribution Report does not pick up journal entries.
2. Additional support was provided in the amount of \$654 relating to benefit charges for the Director of Maintenance & Operations and the Custodial Manager that were not picked up from the Labor Distribution Report but were included within the cost ledger. It was unclear why these charges were not reported on the Labor Distribution Report.

However, no supporting documentation was available to explain the remaining discrepancy in the amount of \$3,236 (\$10,034 - \$6,144 - \$654). The unexplained variance appeared to be resulting from a reporting discrepancy between the Labor Distribution Report and the financial reporting on benefits.

Improvement Recommendation: The District should implement processes and controls to support and validate the applicability and accuracy of labor charged to the Bond Program. Specifically, a time tracking system should be implemented for those employees not fully dedicated to the Bond Program, so all costs incurred are identifiable and have a beneficial relationship to the Bond Program and cost objectives. Additionally, the District should perform a regular reconciliation between the Labor Distribution Report and financial reports to ensure completeness and accuracy of labor charges to the Bond Program.

**Objective No. 6 – Compliance with State Laws, District Policies, and Other Regulations**

Observation 6: Policies and procedures were not consolidated and the means for updating the manuals were not documented. District policies and procedures were documented amongst, but not limited to, the following documents:

- Beverly Hills Unified Facilities and Planning Procedures Manual
- CUPCCAA Process and Procedures Final Draft



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- Various Resolutions (e.g., 2015-2016-039, 2015-2016-040, 2015-2016-041, and 2015-2016-043)

The BHUSD Facilities Procedures Manual was submitted to the Board of Education on June 10, 2015. The CUPCCAA Procedures were adopted and implemented with Resolution No. 2015-2016-013 dated January 26, 2016.

We compared the District's Facilities Procedure Manual to District, State, and Bond Program requirements as determined by our risk assessment of applicable laws and regulations. Our analysis considered laws, policies, and regulations that the District is subject to. Below is a summary of areas and objectives where we noted exceptions:

- Compliance with Ballot Language – See Objective No. 3
- Compliance of Salaries of District Employees for the Bond Program – See Objective 5
- Bidding and Procurement Procedures – See Objective No. 9

Improvement Recommendation: As a best practice, the District should consolidate all policies, procedures, and resolutions into one document to ensure effective controls and communication of the policies and procedures. The GFOA recommends, within their article “Documenting Accounting Policies and Procedures,” that the documentation of accounting policies and procedures should be evaluated annually and updated periodically, no less than once every three years. Any changes in policies and procedures should be updated in the documentation promptly as they occur and a specific employee should be assigned the duty of overseeing this process. The resulting documentation can also serve as a useful training tool for staff.

**Objective No. 7 – District and Professional Services Staffing Plan for the Bond Program**

Observation 7: The District does not have well defined policies and procedures surrounding in-house and consultant staffing for the Bond Program. The District and Professional Services Staffing Plan (Staffing Plan) and District policies were analyzed for comparison of the number and magnitude of Bond Program projects to determine in-house and consultant staffing for Bond Program projects. The Totum Project Management, or Construction Manager, Staffing Plan for FY 2015/16, submitted to the District July 22, 2015, allocated total personnel to program management and/or the project site, but did not specifically include analysis surrounding staffing needs based on the project needs of the Bond Program. That is, it did not base staffing requirements on the Bond Program projects need; instead, it excluded key metrics such as the number of personnel, number of planned projects, and dollar value of planned projects, which could be analyzed to help determine if the Bond Program organizational structure is aligned with its needs. Monthly invoices were approved by the District; however, no documentation of policies or procedures were available to validate the District's periodic review of the various projects progress to ensure staffing requirements remained consistent with the Staffing Plan and/or invoice submissions. Roles and responsibilities were defined for the Construction Manager at a summary level within the BHUSD Facilities and Planning Procedures Manual, Section 1.1; however, roles by personnel or job description were not available. The Construction Manager provided an organization chart dated May 26, 2015, with specific job sites identified and assigned personnel; however, it did

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not appear to be updated on a regular basis. The District did not have an in-house staffing plan to align with Bond Program needs or have well defined roles and responsibilities documented within the BHUSD Facilities and Planning Procedures Manual.

Improvement Recommendation: A Staffing Plan for both the District and consultants should be implemented to correlate Bond Program projects to Bond Program staffing needs. The Construction Manager's organization chart, or equivalent reporting, should be updated based on current Bond Program activity by project so District Management can validate adequate staffing levels and identify and prevent potential staffing redundancies. Additionally, the Facilities Procedure Manual should define roles and responsibilities by personnel, for both in-house and contractor staff, to allow management to ensure that duties are performed consistently. Per the GFOA's article "Documenting Accounting Policies and Procedures," the documentation of accounting policies and procedures should indicate which employees are to perform which procedures and should delineate the authority and responsibility for each employee. This will also allow District management to identify staffing requirement gaps and or redundancies and or identify skill or training requirement gaps.

**Objective No. 8 – Design and Construction Costs Budget Management**

Observation 8: The design and construction budget management practices were compared to GFOA standards to measure the effectiveness of controls surrounding bond-funded projects. Monthly District reporting lacked adequate details to allow end users to analyze available bond issuance budgets at the program and project level to actual committed contract values and the associated timing of revenues, expenditures, cash flow, and fund balances as recommended by the GFOA. Regular monthly reporting was provided to the Board and COC and prepared by Paragon Engineering & Management. The monthly report dated June 30, 2016, included the following information:

I. Program Level Reporting

- a. Measure E Program Financial Summary, including available bond proceeds and revenues (\$200.5 million), total expenditures, and remaining balance information.
- b. Measure E Project Status Narrative Report, including project name and summary project status narratives.
- c. Expenditure and Cash Report, including projected Measure E budget and capacity information (Board of Education-approved, projected bond proceeds and revenues or \$334 million), summary level expenditure reporting, and current capacity information (available bond proceeds and revenues or \$200.5 million).
- d. Bond Cost Status Report, including projected bond issuances and projected cost to completion information.
- e. Expenditure with Budget and Cost Information, including expenditure information through June 30, 2016, projected bond issuance amounts, and projected cost to complete.

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- f. Detailed Expenditure Information by project, service, vendor, and value reporting.
- g. Facilities and Planning, Legal, and Admin Budget Status Report.

II. Project Level Reporting

- a. Budget Status Report and School Project Status Update Reporting, including projected budget information, summary level of current contract and change order amounts, expenditures to date, projected cost to completion, and project status narrative.

III. Payables/Cost Summary

- a. Detail Expenditure Report, including detailed expenditure information for the fiscal year.
- b. Seismic Mitigation Program Reporting.
- c. Cash Flow Report, including budgeted expense, actual expense, and planned value cost.
- d. Change Order Summary Status Report for Horace Mann Building B and BHUSD Interim Housing.

The monthly status report allows end users to analyze projected bond issuance budget information at the program and project level and current detailed expenditure information; however, it does not allow end users to analyze available bond issuance budgets (\$200.5 million available bond issuance) at the program and project level to actual committed contract values and the associated timing of revenues, expenditures, cash flow, and fund balances as recommended by the GFOA. For example, for Beverly Hills High School has the following information reported within the Project Level Reporting Section:

- Projected and Forecasted Budget: \$122 million (approved original budget), \$178.5 million (Board of Education (BOE) approved July 8, 2014 included with the total \$334 million bond issuance), \$77.2 million (included within the total \$294 million BOE-approved projected bond issuance budgets), and \$313 million (included within future bond issuances in excess of Measure E).
- Original Contract and Change Order Amount: \$24.8 million and \$3.8 million, totaling \$28.6 million.
- Current Expenditure Amount: \$23.6 million.
- Cost to Complete for Current, Projected, and Forecasted Budget: \$5 million (current contract less current expenditures), \$154.9 million (cost to complete based on the total \$334 million bond issuance), \$53.6 million (cost to complete based on the projected \$294 million bond issuance), and \$289.4 million (cost to complete based on the future bond issuances in excess of Measure E).

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The monthly status report does not allow end users to understand and analyze the available bond issuance budgets at the program and project level and compare them to current contract and change orders and other committed amounts. Based on the information reported above and included within the monthly reporting, the total approved budget for Beverly Hills High School based on the current available bond issuance is unclear. The consultant at Paragon Engineering & Management was able to provide a BHUSD Measure E Bond Cost Status report with current available bond issuances at the summarized project level; however, the Board appeared to have approved budgets (\$294 million) in excess of the available bond issuances (\$200.5 million), and detailed budgets by scope item by project for the \$200.5 million current available issuance were not available. It is unclear why available bond issuance budgets are not included within the monthly reporting by project, or how current available bond proceed budgets were allocated.

The Cash Flow Report within Section III of the monthly report presents a program summary and does not provide adequate information surrounding the timing of revenues, expenditures, and cash flows at the program and project level for available bond proceeds (\$200.5 million). The Change Order Summary Status Report within Section III of the monthly report did not include any detailed change order information surrounding the \$3.8 million reported within Project Level Reporting in Section II of the monthly report for Beverly Hills High School. Detailed change order reporting by project was available within Totum Project Management's Balance Left Unused (BLU) report, which included change amount, percentages, descriptions, change responsibility, and totals for easy end user reference; however, this information has not been made available as part of monthly reporting. Summary-level change order reporting was also not available in the Program Level reporting within Section II. Similar reporting deficiencies were noted for the other projects within Measure E.

Furthermore, as a good practice, the District contracted with California Financial Services (CFS), a full-service financial and facility planning firm, to reconcile Fiscal Year 2015/16 expenditures. No material discrepancies were noted from this exercise.

Improvement Recommendation: The GFOA's article "Budget Practices" recommends budget-to-actual comparisons of revenues, expenditures, cash flow, and fund balances should be periodically reviewed during the budget period. BOE-approved master plan budgets at the program and project level should be available for both the current available bond issuance amounts and projected bond issuances. Detailed budget-level information for current available bond issuances allows the District to monitor budgetary performance against committed contract values and serves as an early warning indicator for potential problems. This provides decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident. The GFOA also comments that it is essential input in demonstrating accountability. Additionally, cash flow reporting should include revenues, cash, and expenditures by timeframe to document that sufficient funding is available to meet financial requirements for Measure E. This documentation will also serve as a useful tool for District management and stakeholders to understand the timing of project schedules.

Finally, detailed change order reporting, like those provided for Horace Mann Building B and BHUSD Interim Housing in the monthly reporting package or Totum Project Management's BLU report, should be available for all projects within monthly reporting. The reporting should be consistent, as defined by the District, and include information such as change amount, percentages,

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descriptions, change responsibility, date of Board of Education approval, and totals for easy end user reference. Change order and contingency reporting should be available at both the project and program level with both detailed and summary level information to allow end users to understand deviations from original budget amounts. Summary and detailed change order and contingency reporting is necessary to understand change order cause, responsibility, pricing, compliance, and identify potential duplicated work scopes and or redundancies caused by unclear scope objectives and or expectations within the master plan.

**Objective No. 9 – Bidding and Procurement Procedures**

District bidding and procurement practices were compared to District policies and procedures, the California State School Requirements, and the Public Contracting Code. We assessed the bidding and procurement practices for sampled vendors that utilized bond fund money and noted the following instances of non-compliance with District policies, Public Contracting Code, and improvement opportunities:

Observation 9a: The District did not have competitive solicitation documentation available for seven active professional service contractors. According to the District’s Facilities & Planning Procedures Manual, Section 1.5 Professional Services Selection Process, any agreement over \$83,400 requires following a formal competitive solicitation process, making available a Request for Qualification (RFQ), and obtaining a minimum of three Statements of Qualifications for consideration. However, upon request, the District was unable to support a competitive solicitation process for the following seven vendors:

<b>Vendor Name</b>	<b>Project Name</b>	<b>Original Contract Date or PO Date</b>	<b>Original Contract/PO Amount</b>
DLR Group	Hawthorne School Campus Redevelopment	4/18/2011	2,533,911
HMC Architects	El Rodeo K-8 School Modernization/Addition	4/18/2011	2,582,200
Leighton Consulting, Inc.	Horace Mann New Building with Underground Parking (Bldg. B)	3/12/2014	344,100
Murphy & Evertz, LLP	Legal Services - MTA Board Approved	1/2/2014	500,000
PrimeSource Consulting	Outsourced Chief Facilities Officer Services	7/29/2015	99,000
Totum Project Management	Program Management	6/30/2014	3,460,500
WLC Architects	Horace Mann New Building with Underground Parking (Bldg B) and Interim Housing (Bldg A)	4/18/2011	2,538,320

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Six of the seven firms were contracted by Bernards Builders Management Services prior to July 2014, before the current Construction Manager was in place. RFQ documentation was available for DLR Group, HMC Architects, Totum Project Management, and WLC Architects; however, three Statements of Qualification for each scope of work were not available. Without documentation supporting a formal competitive solicitation process, it is unclear whether these vendor selections were compliant with policies and procedures.

Improvement Recommendation: The District should select professional service firms through competitive solicitation process as required by District policy. Additionally, as specified in Objective 10, as a best practice, the District should maintain a consolidated bid and procurement activity report that will allow District Senior Management to identify, prevent, or detect non-compliance with District policies and procedures, state laws, and regulations. Supporting documentation to this consolidated report should be readily available in central location, either physically or electronically. A checklist or equivalent mechanism, with appropriate sign-offs on procurement requirements, can serve as a good tool for all relevant parties (Accounting, as well as Planning and Construction and Procurement) to validate compliance with policy and procedure requirements.

Observation 9b: The District's professional service contracts included change orders for new scope for amounts in excess of stated policy requiring competitive solicitation for new services. Three sampled professional service providers had amendments for new scopes of work, resulting in contractual increases over \$83,400 without competitive solicitation. Per BHUSD Facilities Procedure Manual, Section 1.5 Professional Services Selection process, an agreement for greater than \$83,400 shall be selected through a competitive solicitation process; however, the policy does not limit total change orders for consultants. The following are examples of amendments including new scope additions in excess of stated policy amount, without any additional competitive solicitation:

1. DLR Group's Change Order No. 6 effective July 1, 2015 amended the Hawthorne School Campus Development project in the amount of \$598,989 for new scope services including a "new food service building" and "new subgrade parking." These scope items were not present in the original agreement and no documentation was available or presented to the Board to document reasons why the additional scope was not bid through a competitive solicitation process.
2. HMC Architect's Change Order No. 4 effective August 10, 2015 amended the El Rodeo School Modernization project in the amount of \$1,226,395 with new scope services including a new parking structure. This scope item was not present in the original agreement and no documentation was available or presented to the Board to document reasons why the new scope was not bid through a competitive solicitation process.
3. WLC Architect's Change Order No. 3, effective April 18, 2011, amended the Horace Mann New Building, Parking, and Interim Housing project in the amount of \$2,209,500 with new scope services including a new underground parking structure. This scope item was not present in the original agreement and no documentation was available or presented to the Board to document reasons why the new scope was not bid through a competitive solicitation process.



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Improvement Recommendation: As a best practice, the District should evaluate the current District policy and procedure surrounding change orders and competitive solicitation for new scopes of work on existing contracts to ensure competitive pricing for the Bond Program. Please see Recommendation No. 8 addressing monthly change order reporting.

Observation 9c: A professional service consultant subcontracted out specialty contractor related work under a consulting agreement, resulting in non-compliance with District policies and procedures. Environmental Audit, Inc. (EAI) signed a consulting agreement with the District dated October 29, 2014, in the amount of \$162,220 for a California Environmental Quality Act (CEAQ) Compliance scope of work. Amendment No. 1 in the amount of \$144,000 was approved by the Board and District for specialty contractor work to “remove and transport the contaminated soil” at Beverly Hills High School’s Lacrosse Field. Per CUPCCAA Public Contract Code Section 22000 Contract Amount Requirements for Construction contracts from \$45,000 to \$175,000 require informal bidding procedures. Instead the District included the subcontractor contract modification within a consulting agreement, which is not specifically addressed as allowable within District policies or procedures. No competitive procedure documentation was provided by EAI to validate competitive pricing for the Bond Program. Further, the BOE minutes noted that “it is critical for this removal to be completed prior to moving students into the portable classrooms, which is scheduled for the Winter Break starting December 18, 2015.” It is unclear whether the decision to include contractor-type work within a consulting agreement was due to potential schedule issues or if this was an oversight by the Construction Manager, Board, and District.

Improvement Recommendation: The District should comply with District policies and procedures for contract administration to ensure competitive pricing for the Bond Program. The District should review and update the controls for change order approvals to prevent non-compliance with policy and procedures.

Observation 9d: The District was unable to provide a contract for PrimeSource Consulting, a contracted professional service firm providing consulting services, as an outsourced Chief Facilities Officer, resulting in non-compliance with policies and procedures. Per District policies and procedures, all agreements over \$15,000 should be in the form of a written contract to solidify terms of the agreement and reduce risk. The total purchase orders amounted to \$105,429 through June 30, 2015, and expenditures were approved by the Board.

Improvement Recommendation: The District should comply with District policies and procedures for these services. A checklist or equivalent tracking mechanism, with appropriate sign-offs on procurement related items, can serve as a good tool for all relevant parties (Fiscal Affairs, as well as Facilities) to validate compliance with policy and procedure requirements.

**Objective No. 10 – Procurement Fraud Prevention and Detection Controls**

Observation 10: Formal policies and procedures and monitoring controls to prevent and detect procurement fraud were not available. The following information was included within our assessment:

- Reporting protocols, training, and escalation procedures specific to prevent and detect fraud were not available. The District was able to provide documentation surrounding employee ethics policies, consequences, reporting protocols, and staff screening requirements. Additionally, the District has a WeTip School Safety Program on their website, which offers an anonymous hotline to students and families; however, the hotline appears to be non-procurement related as reports are conveyed to "the appropriate police, fire, and sheriff's agencies" instead of Bond Program's District personnel.
- Segregation of duties controls designed and implemented to prevent unauthorized obligations and payments were documented within BHUSD's June 2015 Facilities Procedure Manual, Section 1.9, Payment Procedures. See Objective No. 3 and Objective No. 9 (Expenditures and Procurement) for further information regarding segregation of duties controls designed and implemented to prevent unauthorized obligations and payments.
- Monitoring controls and reporting to identify and address significant procurement anomalies were not available. The District was unable to provide evidence of complete, accurate, and regular reporting of bid and procurement activity that would allow District Senior Management to identify, prevent, and or detect fraud. Certain bid and procurement documentation was available upon request (see Observation 9 for further information); however, a consolidated summary report and a central file location, including required bid and procurement documentation for all active projects, was not available.

The GFOA's article "Encouraging and Facilitating the Reporting of Fraud and Questionable Accounting and Auditing Practices" states as a best practice that every government establish policies and procedures to encourage and facilitate the reporting of fraud or abuse and questionable accounting practices. Absent formalized procurement fraud policies and procedures including the reporting protocols, training, escalation procedures, and monitoring controls, it is unclear whether the District has adequate controls in place to identify, prevent, and detect procurement fraud.

Improvement Recommendation: District policies and procedures regarding procurement fraud should be implemented to assist in identifying, preventing, and detecting procurement fraud. The policies should include reporting protocols, training requirements, and escalation procedures specific to procurement fraud. This resulting documentation can also serve as a useful training tool for staff. As a best practice, the District should maintain a consolidated bid and procurement activity report that will help District senior management to identify, prevent, or detect fraud and or non-compliance with District policies and procedures, state laws, and regulations. Supporting documentation to this consolidated report should be readily available in central location, either physically or electronically. Additionally, per the GFOA, potential instances of fraud or abuse and questionable accounting practices come to the



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attention of responsible parties thanks to employees or citizens who become aware of such practices. The GFOA provides the following relevant recommendations:

- Formally approve and widely distribute and publicize an ethics policy that can serve as a practical basis for identifying potential instances of fraud or abuse and questionable accounting practices.
- Establish practical mechanisms (e.g., a hotline) to permit the confidential, anonymous reporting of concerns about fraud or abuse and questionable accounting practices to the appropriate responsible parties.
- Make internal auditors (or their equivalent) responsible for the mechanisms used to report instances of potential fraud or abuse and questionable accounting practices. Emphasize that they should take whatever steps are necessary to satisfy themselves that a given complaint is without merit before disposing of it. Further, they also should document the disposition of each complaint received so it can be reviewed by the audit committee.
- Have the audit committee, as part of its evaluation of the government’s internal control framework, examine the documentation of how complaints were handled to satisfy itself that the mechanisms for reporting instances of potential fraud or abuse, and questionable accounting or auditing practices are in place and working satisfactorily.

**Objective No. 11 – Claim Avoidance Procedures**

Observation: The District has a claims avoidance policy; however, it does not have regular reporting or documentation available to identify actions taken to identify or limit claim exposure. We evaluated and reviewed the procedures used to limit the number of claims filed against the District related to construction projects for the period. The Facilities & Planning Procedures Manual, dated May 11, 2015, Addressing Claims, Liens, and Stop Notices, Section 1.11, has the following key information:

- Policy: Except as otherwise provided in the Construction Contract, Section 20104.2 of the California Public Contract Code requires the District to respond to submitted construction claims by the Contractor within 45 calendar days for claims of \$50,000 or less, and 60 days for claims over \$50,000. It is the District’s policy that such claims are required to be reviewed and a response to each claim be sent to the contractor within the required time. Prior to a formal claim process, the mandatory dispute resolution process is required to be in accordance with the General Conditions of the construction contract of Beverly Hills Unified School.
- Purpose: This procedure describes the process for analysis, evaluation, and resolution of construction disputes and claims submitted by a Contractor.
- Resolution of Issues Prior to Claim: In a directive to resolve issues that could result in the filing of a Claim, the Contractor may request to the Construction Manager (CM) that the disputed amounts or other demand be reviewed by Senior Management.

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The Contractor request must be made within ten (10) days of the date of the rejection of proposed adjustments in the Change Order Request to the responsible CM or the Director of CM (DCM) as per General Condition’s provision of the bid contract.

However, there was no documentation of regular reporting available to identify actions taken to prevent or limit claim exposures. Construction-related claims have many causes and often arise as a result of unresolved change orders, differing site conditions, or as a result of disruptions, delays, acceleration, and other time-related issues that require timely monitoring, planning, and effective actions to avoid claims.

Improvement Recommendation: Procedures taken to avoid claims should be documented and available for review to validate compliance with the implemented claims avoidance policy. The Construction and Planning Department should utilize monthly accounting report narrative sections to address in detail potential differences with the Contractor, such as responsibility for performing specific work. Particular care should be taken to record and preserve all possible data and/or evidence with respect to any matter that may become a basis for a Contractor claim. As there may be many root causes for claims, the claims avoidance policy should include a detailed process that the District follows to identify the areas of exposure that may lead to a claim and steps to be taken to prevent claims such as document control requirements, identification of appropriate communication channels, and proactive cost, schedule, and quality control procedures to avoid claims where possible.

**Objective No. 12 – Review of Prior Year Audit**

Observation: We reviewed the prior year's performance findings and recommendations within the Measure E FY 2014-2015 audit report prepared by Harvey M. Rose Associates, LLC and ensured that the District has taken appropriate measure to implement recommendations. We interviewed District and Bond Program personnel and reviewed relevant documentation to determine the status of improvement opportunities identified in previous audits. Through inquiry and review of documents, we confirmed that all 15 recommendations have had corrective actions taken or are included within the current year’s audit recommendations within context of the audit objectives (with a June 2017 planned resolution date).

Source	Category	Recommendation	Owner	Status of Resolution	Planned Resolution Date
Finding 1.1	Program Management and Master Planning	(a) Direct the Chief Administrative Officer to provide the construction management firm with all invoices from the District’s primary geotechnical engineer and (b) direct the District’s construction management firm to include such costs in its tracking of efforts to obtain SSMP funds.	Chief Administrative Officer (CAO)	Closed – Construction Manager and District have all invoices and they are tracked within monthly reporting.	Closed

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<b>Source</b>	<b>Category</b>	<b>Recommendation</b>	<b>Owner</b>	<b>Status of Resolution</b>	<b>Planned Resolution Date</b>
Finding 1.2	Program Management and Master Planning	Direct the newly hired Chief Facilities Officer to provide a written response to the COC regarding any and all findings, recommendations, and concerns of this audit within three months of receiving this audit report to ensure continued compliance with State law.	Chief Facilities Officer (CFO)	Closed – CAO will provide written responses to the current year's auditor.	Closed
Finding 2.1	Budgeting and Communication Effectiveness	Direct the Chief Facilities Officer and Chief Administrative Officer to revise the District's Measure E webpages to simplify navigation to the Measure E Updates and remove information that is out of date.	Chief Facilities Officer and Chief Administrative Officer (TBD)	Closed	Closed
Finding 2.2	Budgeting and Communication Effectiveness	Direct the Chief Facilities Officer to revise the Measure E Facilities Manual section pertaining to the change order process to reflect current and best practices.	Chief Facilities Officer (TBD)	See Current Year Objective 6 and 9 for updated recommendation.	June 2017
Finding 2.3	Budgeting and Communication Effectiveness	Direct the Chief Facilities Officer to research options for, and costs and benefits of, procuring a new construction project management software, which would enable tracking of all project tasks electronically. Further, direct the Chief Facilities Officer to provide recommendations on whether to procure a new construction project management system within three months of acceptance of this audit report.	Chief Facilities Officer (TBD)	Closed – Construction Manager performs these duties.	Closed
Finding 2.4	Budgeting and Communication Effectiveness	Consider revising the Board's delegated authority for construction change orders to include the Chief Facilities Officer and to increase the delegated authority for such change orders to a level deemed appropriate after conferring with the Chief Facilities Officer, Superintendent, and Chief Administrative Officer.	Chief Facilities Officer (TBD)	See Current Year Objective 6 for updated recommendation.	June 2017

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<b>Source</b>	<b>Category</b>	<b>Recommendation</b>	<b>Owner</b>	<b>Status of Resolution</b>	<b>Planned Resolution Date</b>
Finding 2.5	Budgeting and Communication Effectiveness	Direct the Chief Facilities Officer and Chief Administrative Officer to write procedures for the routine reconciliation of Measure E expenditures during the fiscal year and at year-end.	Chief Facilities Officer (TBD) and Chief Administrative Officer	See Current Year Objective 6 and 8 for updated recommendation.	June 2017
Finding 3.1	Contract Award	Direct the Chief Administrative Officer and the Chief Facilities Officer to streamline the policies and procedures found in the District Purchasing Manual and the Measure E Procedures Manual regarding competitive bid and submit for approval by the Board within one year of acceptance of the FY 2014-15 performance audit.	Chief Administrative Officer and the Chief Facilities Officer (TBD)	See Current Year Objective 6 for updated recommendation.	June 2017
Finding 3.2	Contract Award	Direct the Chief Facilities Officer to revise the Measure E Program procedures clarify its policies on extending contracts following an RFQ process as well as selecting contractors for new projects or phases of a project through a competitive solicitation, and submit for approval by the Board within one year of acceptance of the FY 2014-15 performance audit.	Chief Facilities Officer (TBD)	See Current Year Objective 6 and 9 for updated recommendation.	June 2017
Finding 3.3	Contract Award	Review and adopt the draft Measure E Program procedures prepared by the construction management firm in May 2015 regarding insurance, future claims, and standard provisions in contracts.	Chief Administrative Officer	Closed – BHUSD Facilities Procedure Manual submitted to Board of Education June 2015.	Closed

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<b>Source</b>	<b>Category</b>	<b>Recommendation</b>	<b>Owner</b>	<b>Status of Resolution</b>	<b>Planned Resolution Date</b>
Finding 4.1	Contract Administration and Expenditure Controls	Direct the Chief Administrative Officer within one year of the acceptance of the performance audit to develop a written policy for the Measure E Program and to amend existing construction and professional services contracts as necessary to require: (a) not-to-exceed amounts, (b) limits on reimbursable expenses, and (c) all authorized subcontractor services, hourly rates and total fees.	Chief Administrative Officer	See Current Year Objective 6 for updated recommendation.	June 2017
Finding 4.2	Contract Administration and Expenditure Controls	Direct the Director of Fiscal Services, under the direction of the Chief Administrative Officer, and the Chief Facilities Officer to develop a written policy, within one year of the acceptance of the FY 2014-15 performance audit, that requires the appropriate District staff to review and compare all invoices from contractors operating under multiple contracts for 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.	Chief Administrative Officer	See Current Year Objective 6 for updated recommendation.	June 2017
Finding 4.3	Contract Administration and Expenditure Controls	Instruct the Director of Fiscal Services, under the direction of the Chief Administrative Officer, and the Chief Facilities Officer within one year of the acceptance of the FY 2014-15 performance audit to develop a written policy for the Measure E Program to require one purchase order per project in its entirety or per year, based on District staff budgeting and forecasting, in order to increase clarity in reconciliation and review of invoices and authorizations.	Chief Administrative Officer	Closed – CAO and Director of Fiscal Services to determine best methods of accounting.	Closed

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Source	Category	Recommendation	Owner	Status of Resolution	Planned Resolution Date
Finding 4.4	Contract Administration and Expenditure Controls	Instruct the Chief Facilities Officer within six months of the acceptance of the FY 2014-15 performance audit to amend the construction management contract to require prior approval from the Chief Facilities Officer for staffing additions.	Chief Facilities Officer (TBD)	See Current Year Objective 7 for updated recommendation.	June 2017
Finding 4.5	Contract Administration and Expenditure Controls	Instruct the Director of Fiscal Services, under the direction of the Chief Administrative Officer, within six months of the acceptance of the FY 2014-15 performance audit to work with the financial management system vendor to allow for the tracking of supporting documentation of expenditures by including details such as the vendor invoice number and date.	Director of Fiscal Services	Closed – Construction Manager and the District have all invoices and they are tracked within monthly reporting.	Closed

**Objective No. 13 – Job-Site Visits**

Observation: We visited selected sites to determine the authenticity of project in progress and or project completion in March 2017. We reviewed the field methods used to validate progress and percent complete at Horace Mann – Building A, Beverly Vista – Deck Project, and El Rodeo – Demo. Based on inquiry and documentation provided, payment applications are reviewed and approved by the Construction Manager, District, and Inspector of Record. Sites visited were fixed price lump sum contracts, and percent complete was determined based on construction progress as approved by the Construction Manager and District. No exceptions were noted.

**Objective No. 14 – Recommendations Recap**

Observation: We provided the District a recap of all recommendations in an Excel spreadsheet for the District’s review at the completion of the audit.

**REPORTING VIEWS OF RESPONSIBLE OFFICIALS**

We have instituted specific procedures and other internal controls to ensure accurate and compliant approval, recording and reporting of Bond-related expenditures, and to implement recommendations from audit. We are committed to strong internal controls in order to deliver the required facilities and infrastructure to support the educational needs of our community, now and in the future, as defined in our current Master Plan. Management agrees that we will develop an action plan to address the recommendations identified in this report.

**APPENDIX A – INTERVIEWS PERFORMED**

The following key BHUSD personnel were interviewed:

- Chief Administrative Officer
- Director of Fiscal Services
- Planning and Facilities Administrative Assistants
- Purchasing Agent
- Citizen Oversight Committee Members
- Construction Manager – Principals, Project Executive, Program Manager, and Project Administrative Assistants
- Consultant – Interim Director of Facilities and Planning
- Consultant – Program Controls and Reporting Manager