



FINAL REPORT

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**Beverly Hills Unified School District**  
**MEASURE E AND MEASURE BH CONSTRUCTION BOND PERFORMANCE**  
**AUDIT REPORT FOR THE FISCAL YEAR**  
**ENDED JUNE 30, 2020**

March 29, 2021

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Moss Adams LLP  
999 Third Avenue, Suite 2800  
Seattle, WA 98104  
(206) 302-6500





T (206) 302-6500  
F (206) 622-9975

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999 Third Avenue  
Suite 2800  
Seattle, WA 98104

**March 29, 2021**

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

**Subject:** 2008 Measure E and 2018 Measure BH Construction Bond Performance Audit Report  
for the Fiscal Year (FY) Ended June 30, 2020

Dear Board Members:

This report presents the results of the performance audit completed by Moss Adams LLP (Moss Adams) for the Beverly Hills Unified School District's (BHUSD) 2008 Measure E Construction Bond and the 2018 Measure BH 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. In addition, 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, and requires 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 audit results, based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and audit results, based on our audit objectives. The performance audit objectives, scope, methodology, results, and a summary of the views of responsible District officials are included in the report body.

Moss Adams has conducted audits of this program for the past five years. Over that time, Bond Program management has changed from Totum Consulting to Team Concept Development Services (TCDS), and many of the past audit observations have been addressed or partially addressed. Based on our experience, the District has progressed well and is receptive to audit recommendations. Through

inquiry and review of documents, we confirmed that of the 11 observations from the prior year, four observations have been closed, the District has taken steps to address six observations, and the District has not taken steps to address one observation. We have identified an additional two observations for improvement opportunities which relate to new objectives added to the audit work plan for the fiscal year (Master Planning and Bond Program Transparency). The Claims and Avoidance Procedures and Maintenance and Warranty of Measure E and BH Assets were not included within our scope for fiscal year (FY) 2020.

Performance audit procedures described in this report cover the period from July 1, 2019 through June 30, 2020. Our procedures covered both expenditures and the effectiveness and efficiency of internal controls. Based on the performance audit procedures performed and the results obtained, we have met our audit objectives.

Based on the performance audit procedures performed and the results obtained, we have met our audit objectives. We conclude that for the fiscal year ended June 30, 2020, Bond proceeds were used only for Listed Projects under Measures E and BH, which authorized the sale of the Bond, with the potential exception of legal fees related to the Los Angeles County Metropolitan Transportation Authority (MTA) and Federal Transit Administration (FTA) and MTA's plan to construct part of the Los Angeles subway expansion beneath Beverly Hills High School (see Observation No. 3 in the report body).

Based on our assessment, we identified several good management practices as described below:

- The District utilizes the Multivista Construction Documentation system to store detailed project photos from project inception to track project status and progress.
- The District contracts with Keystone Solutions to support reconciliation of expenditures.
- BHUSD and the Project Management Team have proactively developed and implemented policies and procedures to address audit report recommendations to support a successful Bond Program.
- BHUSD and the Program Management Team consist of highly experienced development professionals with a strong track record of successful completed projects.
- The District utilizes other revenue sources to maximize the impact of Measure E and Measure BH funds.
- Citizens' Bond Oversight Committee (CBOC) agendas, meeting minutes, and annual reports were posted on the District website.
- Board of Education (BOE) agendas, meeting minutes, approvals, etc. were posted on the District website.
- The Measure E and Measure BH Bond Program website was updated periodically by the District.
- The District utilizes project management software for Measure E and BH projects, which captures project documentation in one place.

We also 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 improvement opportunities, which relate to compliance with Bond Program requirements and operational effectiveness and efficiency:

### **Expenditure Management and Controls**

- Of the sampled expenditures, only 2 of 76 (2.6% of Measure E and BH samples) did not meet contractual agreements for payment terms (see Observation No. 4a in the report body).
- The District did not provide compliant documentation for 5 of the 76 sampled expenditures (6.6%; 1 of 44 or 2.3% of Measure E samples, and 4 of 32 or 12.5% of Measure BH samples) to validate compliance with District policies for payment approvals. Of the samples reviewed, five did not include complete approvals. Of those five, two lacked approval signatures and dates, and three lacked approval dates for either the first, second, or both approvers (see Observation No. 4b in the report body).
- The District did not include adequate documentation within monthly payment applications to support that Contractor charges complied with the open-book accounting requirements specified within Contract Documents for the Beverly Hills High School Modernization and El Rodeo Modernization Projects. However, based on inquiry with TCDS and the District, all documentation is available at the jobsite and a final close-out review and audit will be performed (see Observation No. 4c in the report body).

### **Program Management**

- Documentation to evidence a detailed review of the Bond Program staffing needs by the District was not available upon request. Based on inquiry, the District and TCDS conducted a review of the Bond Program's staffing needs. However, the documentation of this review was not included in the purchase order submittal to District management or the Board for review to ensure alignment with contract terms and appropriateness (see Observation No. 7 in the report body).

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

- Monthly program reporting to key stakeholders did not include change order, schedule, or budget to forecast information as recommended by the Government Finance Officers Association (GFOA) and the San Diego Taxpayers Association (SDCTA). However, a Bond Program Budget Worksheet was under development during the fiscal year (see Observation No. 8 in the report body).

## Procurement Procedures and Controls

- Defined reporting protocols, training, and escalation procedures were not available to validate that adequate controls were in place to identify, prevent, and detect procurement fraud. Additionally, and as a best practice, the District maintained a Consolidated Bid and Procurement Activity Report 2019-2020 during the fiscal year; however, documentation to support periodic review by the District and key stakeholders was not available (see Observation No. 10 in the report body).

## Master Planning

- The District Master Plan did not include all best practice key performance indicator (KPI) metrics identified by the Government Finance Officers Association (GFOA). The most recent comprehensive BHUSD Master Plan available for review was dated February 2018. Although the Plan was for both Measure E and future funding (i.e., Measure BH) it excluded Measure E on a consolidated level. The plan did not include cash flow modeling and timing of expenditures based on project schedules and timelines, and had not been formally updated with the total program budget consideration and Board approval thereafter (see Observation No. 11 in the report body).

## Bond Program Transparency

- BHUSD practiced 14 out of the 16 best practices as defined by San Diego Taxpayers Educational Foundation (SDTEF). However, based on SDTEF best practice guidance, Bond Program transparency could be improved by including the number of CBOC vacancies and organizing the information in one consolidated page on the CBOC website to support easy navigation and transparency (see Observation No. 12 in the report body).

Based on the aforementioned improvement opportunities, we provided recommendations covering the following topics:

- Expenditure Management and Controls
- Program Management
- Budgetary Management and Change Order Reporting
- Procurement Controls and Contract Administration
- Master Planning and Controls
- Bond Program Transparency

We also recommend the District consider the following additional actions:

- As provided for in the lease-leaseback agreements, conduct a construction audit of Beverly Hills High School Buildings B1, B2, B3, and B4, and the El Rodeo Modernization Projects to support cost compliance, accountability, and transparency.



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Management remains responsible for 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, for any evaluation of the internal control structure, projections to future periods are subject to the risk that this structure may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

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  
Seattle, WA

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# I. BACKGROUND INFORMATION

## A. 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 Beverly Hills Unified School District (the District, BHUSD) facilities. 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, multi-use facilities, gyms, libraries, science facilities, technology, roofing, plumbing, heating, ventilation, and electrical systems; and renovate District schools to better protect student and staff from unauthorized entry, security risks, and natural disasters. The Bond Program was in its twelfth year of implementation in FY 2020.

In 2018, Beverly Hills County voters approved Measure BH Construction Bond (Bond Program) for \$385 million to provide improvements to Beverly Hills Unified School District (BHUSD or the District) facilities. The 2018 Measure BH Construction Bond funds were intended for local school repair and upgrade projects; school safety, security, and health wellness projects; District-wide instructional technology and infrastructure projects to standardize learning spaces for twenty-first century skills; and specific school site projects.

Bond Program accounting records for fiscal year (FY) 2019/2020 showed Measure E Bond Program expenditures of \$45,275,028.70 and Measure BH expenditures of \$44,312,914.76, for bond program expenditures totaling \$89,587,943.46.

## B. CALIFORNIA STATE REQUIREMENTS

A Construction Bond Program performance audit is required for BHUSD 2008 Measure E and the 2018 Measure BH Construction Bonds by Proposition 39, State Constitution Article XIII A and Education Code Section 15272. These State requirements specify that 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. In addition, 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 Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States.

Proposition 39 was passed by California voters on November 7, 2000 and amended provisions to the California Constitution and 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:

1. “To provide an exception to the limitation on ad valorem property taxes and the two-thirds 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;



2. 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;
3. To ensure that before they vote, voters will be given a list of specific projects their bond money will be used for;
4. 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
5. 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.”



## II. OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of the performance audit was verification of BHUSD compliance with Proposition 39, which requires that bond proceeds be used only for school facilities projects that were listed with the bond. The District passed the 2008 Measure E and 2018 Measure BH 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 \$45,275,028.70 and the Measure BH Bond Program expended \$44,312,914.76 in FY 2019/2020, for bond program expenditures totaling \$89,587,943.46.

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 audit results, based on our audit objectives. The evidence obtained provided a reasonable basis for our findings and audit results, 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 objectives.

Performance audit procedures covered the period of July 1, 2019 through June 30, 2020.

Management remains responsible for 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 this structure may become inadequate because of changes in conditions, or that the degree of compliance with policies and 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 full list of 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**

Moss Adams conducted the audit in accordance with GAGAS issued by the Controller General of the United States.

### **2. Attend Entrance and Exit Meetings**

We attended entrance meetings with both the District and Citizens' Bond Oversight Committee (CBOC) members. At completion of the audit, we will attend up to three exit meetings to review our report, observations, and any improvement recommendations. Those meetings include: 1) Exit meeting with District Management, 2) Meeting BOE, and 3) CBOC meeting.



### 3. Compliance with Ballot Language

We selected a representative sample of expenditures for Measures E and BH and determined that the funds were appropriately expended for Bond Program purposes. We reviewed the Bond Program’s financial records and expenditures for FY 2020 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 balances to the District’s detailed accounting records. We analyzed control processes, tested the Bond 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 confidence that expenditure transactions from the Bond Program were compliant with program and legal requirements. We tested 76 expenditures totaling \$68,226,654.63, or 76.2% of total expenditures; details for each individual measure are included in the table below:

Measure	# of Samples	Dollar Amount of Samples	Percent of Total Expenditures Sampled
E	44	\$32,690,194.49	72.2%
BH	32	\$35,536,460.14	80.2%

These transactions included payments to contractors and vendors, and journal entries of inter-fund transfers. Our testing procedures were performed to verify that:

- Expenditures were for Listed Projects
- Payment applications and invoices were approved
- Expenditures complied with approved contracts and contract types, purchase orders, 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 2019/2020. 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
- BOE 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 (FY 2019/2020) and voter-approved ballot language



We analyzed the associated sampled expenditure contracts for a more in-depth review of 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, reconciled amounts received with amounts expended, and verified that these funds were 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 duplicate 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.

#### **5. Salaries of District Employees for the Bond Program**

We reviewed the salaries of District employees charged to the Bond Program. We compared 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 Other 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 considered to be at the highest risk for non-compliance, 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 funds were spent on projects indicated in the ballot initiative.

#### **7. District and Professional Service Staffing Plan for the Bond Program**

We reviewed the District's Staffing Plan and policies and procedures to understand the approach to in-house staffing and consultant staffing. This 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 the organizational structure's alignment with Bond Program needs. We analyzed the organizational structure's alignment with 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) and San Diego County Taxpayers Association (SDCTA) standards, to measure the effectiveness of controls and transparency of 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). 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 and 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 Contract 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 implementation of the controls needed to achieve competitive contracting practices that are consistent with school construction program requirements and best practices. Change order and amendment documentation was reviewed for compliance with District' policies and procedures, Public Contract Code, California school construction State requirements, and other regulations. Controls and activities to manage change orders were evaluated. We also reviewed policies and procedures to verify whether documentation existed prior to approval of change orders and amendments and verified that required approvals were applied.

## **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 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 that are 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 the methods applied to verify key reports used for key construction program management decisions are current, accurate, and complete.

## **11. Master Planning**

We assessed the design and performance effectiveness of program management processes and controls covering master planning and alignment to the specific projects listed in the Bond Documents. Specific emphasis was placed on the implementation of policies, procedures, and practices needed to ensure project deliverables, scope prioritization, fund sources, and approvals are documented and align with policies and best practices.



## **12. Bond Program Transparency**

We assessed the effectiveness of the Public Outreach and Communication Plan compared to the San Diego Taxpayers Educational Foundation (SDTEF). We reviewed the District's activities and methods of communication to key stakeholders. Use of District means to reach Bond Program stakeholders was compared to good practices at other school districts and best practices. We evaluated the overall transparency of the Bond Program, including but not limited to evaluation of the Bond website information and Bond Program progress reports, and availability and access to information regarding Program status and expenditures. Current, accurate, and complete Bond Program reporting was assessed. Project progress, impact to Bond Program stakeholders, and delivery in accordance with Bond Program requirements were given specific consideration.

## **13. 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.

## **14. Job Site Visits**

We virtually visited selected sites and determined the authenticity of the projects in progress and/or project completion.

## **15. Recommendations Recap**

We provided the District with a recap of all recommendations in an Excel spreadsheet, for their review at completion of the audit.

## **16. 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 CBOC. The individuals interviewed are listed in Appendix A of this report.



### III. AUDIT RESULTS

#### A. OBJECTIVE NO. 1 – CONDUCT A PERFORMANCE AUDIT (NO EXCEPTION)

##### Observation 1

Moss Adams conducted the audit in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States.

#### B. OBJECTIVE NO. 2 – ATTEND ENTRANCE AND EXIT MEETINGS (NO EXCEPTION)

##### Observation 2

We attended entrance meetings with both the Beverly Hills Unified School District (BHUSD, the District) and Citizens Bond Oversight Committee (CBOC) members. At completion of the audit, we will attend up to three exit meetings with the following groups to review our report, observations, and any improvement recommendations: 1) District Management, 2) the Board of Education (BOE), as determined by the District (scheduled March 23, 2021), and 3) the Citizens' Bond Oversight Committee (CBOC) (anticipated April 2021).

#### C. OBJECTIVE NO. 3 – COMPLIANCE WITH BALLOT LANGUAGE

##### Observation 3

We identified Los Angeles County Metropolitan Transportation Authority (MTA) and Federal Transit Administration (FTA) legal fees charged to the Bond Program, and it is unclear whether the scope of work performed was allowable per ballot language (Moss Adams 2019 Report Objective 3). For expenditures sampled in FY 2019/2020, the District incurred \$606,250.54 in MTA and FTA legal fees relating to MTA's plan to construct part of the Los Angeles subway expansion beneath Beverly Hills High School. The following charges were reviewed:

Vendor	Measure	Invoice Number	Invoice Date	Amount
Stroock & Stroock & Lavan LLP	E	766582	4/30/2020	\$300,048.92
Stroock & Stroock & Lavan LLP	E	757764	11/30/2019	\$151,671.37
Stroock & Stroock & Lavan LLP	E	752359	8/28/2019	\$99,975.53
Stroock & Stroock & Lavan LLP	E	753866	9/20/2019	\$54,554.72
<b>Total</b>				<b>\$606,250.54</b>



Based on inquiry with the District, FY 2021 legal charges related to the MTA subway expansion will not be funded by the Bond Program. The District obtained legal opinions that authorized the use of Bond proceeds to fund opposition to locating the MTA Subway Extension below Beverly Hills High School, and the associated costs. California Constitution and California Education Code provided the following amendment defining our criteria: “To ensure that the proceeds from the sale of school facilities bonds are used for specified school facilities projects only.” We did not see legal fees for this specific purpose addressed in the projects list within the voter approved bond measure; however, the expenditures reviewed appeared to be related to the authorized purpose based on the legal opinions obtained by the District.

**Improvement Recommendation:** The District should continue to require itemization of legal expenditures related to the MTA Subway Extension and ensure that the District’s position is defensible.

## D. OBJECTIVE NO. 4 – EXPENDITURE AND PAYMENT PROCEDURES

### Observation 4a

The District has taken steps to address the “Compliance with State Laws, District Policies, and Other Regulations” recommendations provided in the prior year’s reports (Moss Adams 2017 Report Objective 4a, Moss Adams 2018 Report Objective No. 4a, Moss Adams 2019 Report Objective 4a). Of the sampled expenditures, only 2 of 76 (2.6% of Measure E and BH samples) did not meet Public Contract Code requirements for payment terms. Public Contract Code §20104.50, or the California Prompt Payment Act, requires that local government agencies pay contractors no more than 30 days after receipt of contractors’ requests for payment. Additionally, according to the BHUSD Construction & Facilities Department Policies & Procedures Manual, Section 9.B: “An approved Monthly Pay Application shall be paid by the District within 45 days after receipt and acceptance by the Design Professional, the IOR, and the Bond Manager in accordance with the California Prompt Payment Act.” Based on our sample, we noted the following instances of not meeting these requirements:

Measure	Vendor Name	Journal ID	Transaction Reference	Invoice Date	Invoice Amount	Received Stamp Date	Check Date	Payment Issuance Duration	Payment Terms Requirement
E	FAST-TRACK CONSTRUCTION CORP.	APA2882410	17002S-4	9/30/19	\$195,833	10/15/19	11/18/19	34	30
E	QUALITY FENCE CO., INC.	APA2962028	17537S	3/4/20	\$8,500	3/4/20	4/9/20	36	30

**Improvement Recommendation:** The District should continue to evaluate the invoice payment processing procedures to ensure compliance with the California Prompt Payment Act. Additionally, the District should continue to evaluate policies and procedures to ensure alignment with the California Prompt Payment Act requirements and contractual obligations.



## Observation 4b

The District has not taken steps to address the “Compliance with State Laws, District Policies, and Other Regulations” recommendation provided in the Moss Adams 2018 report (Moss Adams 2018 Report Objective No. 4b, Moss Adams 2019 Report Objective No. 4b). The District did not provide compliant documentation for five of the 76 sampled expenditures (6.6%; 1 of 44 or 2.3% of Measure E samples, and 4 of 32 or 12.5% of Measure BH samples) to validate compliance with District policies for payment approvals. Through inquiry, 920 invoices and payment applications were processed by the District. Of the samples reviewed, five did not include complete approvals. Of those five, two lacked approval signatures and dates and three lacked approval dates for either the first, second, or both approvers.

Measure	Journal ID	Transaction Reference	Vendor Name	Invoice Date	Amount (\$)	Authorized Signer #1	Authorized Signer #1 Date Signed	Authorized Signer #2	Authorized Signer #2 Date Signed
E	APA2863268	39926-3	STROOCK & STROOCK & LAVAN LLP	9/20/19	\$54,554.72	Yes	Yes	Yes	Not Available
BH	APA2881380	40425	CITY OF BEVERLY HILLS	11/15/19	\$11,236,548.74	Yes	Yes	No	Not Available
BH	APA3148282	40956	CITY OF BEVERLY HILLS	6/8/20	\$3,532,124.00	Yes	Yes	No	Not Available
BH	APA2845673	17609S-4	TEAM CONCEPT DEVELOPMENT SERVICES INC.	9/27/19	\$81,272.44	Yes	Yes	Yes	Not Available
BH	APA2905194	17609S19	TEAM CONCEPT DEVELOPMENT SERVICES INC.	1/3/20	\$59,200.00	Yes	Yes	Yes	Not Available

According to BHUSD Construction & Facilities Department Policies & Procedures Manual, Section 9 Payment Procedures, “invoices are... counter-signed and dated by two members of the bond management team...” Complete (signed and dated) approvals were available for other sampled documentation; therefore, it appeared this procedure was inconsistently performed.

**Improvement Recommendation:** The District should continue efforts to sign and date all invoice approvals and evaluate the invoice approval process to ensure compliance with District policies and procedures. Additionally, the District should consider clarifying within policies and procedures whether one of the sign-offs on Bond Program expenditures, on all or certain invoices (e.g., legal), should include a District employee.



## Observation 4c

**The District has taken steps to address the “Compliance with State Laws, District Policies, and Other Regulations” recommendation provided in the Moss Adams 2018 report (Moss Adams 2018 Report Objective No. 4c, Moss Adams 2019 Report Objective No. 4c).** The District does not include adequate documentation within monthly payment applications to support that Contractor charges complied with the open-book accounting requirements specified within Contract Documents for the Beverly Hills High School Building and El Rodeo Modernization Projects. However, based on inquiry with TCDS and the District, all documentation is available at the jobsite and a final close-out review and audit will be performed. Contract Article 6.1 states the following: “Open Book Accounting. The Contractor’s GMP shall be based on actual procured quotes and bids from Subcontractors, vendors, and suppliers or based on estimated costs. In addition, Contractor shall include District Approved General Conditions cost, a fee markup, insurance fee and a bond fee. This total construction cost, or Base Cost, shall be added to subcontractor, vendor and supplier contingencies, and the Construction Contingency to form the entire GMP. As costs are incurred during the course of the Project, the Job Cost Accounting shall be updated to include actual costs incurred.”

Based on sampled billing documentation, open book accounting documentation as described in Contract Article 6.1 was not provided with invoice submission to the District to substantiate the cost of work incurred by the Contractor. In the FY 2020 Expenditure Population report provide by the District, ProWest Constructors reported billings to the District in the approximate amount of \$35 million for Measure E, and \$13.5 million for Measure BH, for a total billing to the District of approximately \$48.5 million.

Based on inquiry with Team Concept Development Services (TCDS), “All costs are reviewed on a weekly basis whether a part of the contingency or are shown in the percentage to complete. Pay applications are reviewed in detail on a monthly basis. The pay requests are not based on job cost documentation. They are based on the SOV, actual subcontractor contracts, and cash flow to complete.” Contractor lien releases were available upon additional request; however, subcontractor lien releases were not immediately available from the District. However, absent detailed job cost documentation and subcontractor lien release documentation, we were not able to validate that billings to the District were compliant with the contract terms.

**Improvement Recommendation:** As provided by the Lease-Leaseback Agreements, the District should continue efforts to formalize a plan to conduct construction audits or review procedures to ensure any potential non-compliant charges are not billed to the District and to support transparency of the Project. As a best practice, the District’s billing controls and policies should continue to be evaluated to prevent potential excessive and non-compliant charges to the District, as required by the Contract. Additionally, the District should consider requiring subcontractors to submit conditional and unconditional lien waivers, in addition to the Contractor, with their payment applications, to ensure timely payment and mitigate potential project risk exposures.



## **E. OBJECTIVE NO. 5 – SALARIES OF DISTRICT EMPLOYEES FOR THE BOND PROGRAM (NO EXCEPTION)**

### **Observation 5 (No Exception)**

The District has addressed the “Time Tracking System for Employees Not Fully Dedicated to the Bond Program” recommendation provided in the prior year’s report (Moss Adams 2018 Report Objective No. 5a, Moss Adams 2019 Report Objective No. 5). We evaluated and reviewed the funds used for administrator salaries, only to the extent that they performed administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California’s Office of the Attorney General. Opinion No. 04-110 states that “a school district may use Proposition 39 school bond proceeds to pay the salaries of district employees to the extent they perform administrative oversight work on construction projects authorized by a voter approved bond measure.” Upon review of the labor expended from Measure E, labor charges were either supported by timecard documentation or appeared consistent with Opinion 04-110 requirements, resulting in no exception.

## **F. OBJECTIVE NO. 6 – COMPLIANCE WITH STATE LAWS, DISTRICT POLICIES, AND OTHER REGULATIONS (NO EXCEPTION)**

### **Observation 6 (No Exception)**

The District has addressed the “Compliance with State Laws, District Policies, and Other Regulations” recommendation provided in prior reports (Moss Adams 2017 Report Objective No. 6, Moss Adams 2018 Report Objective No. 6, and Moss Adams 2019 Report Objective No. 6). On October 9, 2018 the BOE approved the Construction & Facilities Policies & Procedures Manual. Per this manual: “This manual is a living document and will be reviewed annually and updated periodically, no less than once every three years, to reflect implementation of the current Master Plan and changes over time.” Through inquiry and documentation provided, we determined that the Bond Management Team actively updates the manual to reflect the most current laws, policies, and other regulations applicable to the District. Within this manual the team also maintains a log of updates made (see Observation No. 11 for additional information).

## **G. OBJECTIVE NO. 7 – DISTRICT AND PROFESSIONAL SERVICES STAFFING PLAN FOR THE BOND PROGRAM**

### **Observation 7**

The District has taken steps to address the “District’s Professional Service Staffing Plan for the Bond Program” recommendation provided in prior reports (Moss Adams 2016 Report Objective No. 7, Moss Adams 2017 Report Objective 7, Moss Adams 2018 Report Objective 7, and Moss Adams 2019 Report Objective 7). Documentation to evidence a detailed review of the Bond Program’s staffing needs by the District was not available upon request. Based on inquiry, the District and TCDS conducted a review of the Bond Program staffing needs. However, the documentation of this review was not included in the purchase order submittal to District management or the Board for review to ensure alignment with contract terms and appropriateness. The TCDS



Staffing Plan purchase order submittal did not include itemized detail such as projected personnel, title, contractual rate, and annual budget amount by listed projects to support alignment with contract terms and with Bond Program needs. Based on inquiry, the projected itemized detail was available for specific project budgets, but documentation to support the total staffing plan and formal District review of the itemized detail as outlined therein was not available. As a sign of progress, the Management and the Board approved a purchase order (PO No. 18848R) for TCDS for the fiscal year with amounts budgeted for each project objective.

**Improvement Recommendation:** The District should continue efforts to review a detailed Staffing Plan including itemized detail such as personnel names, titles, contractual rate, and annual budget by the listed projects within the Bond Program and associated policies and procedures for both the District and consultants, to correlate Bond Program projects to Bond Program staffing needs and to confirm compliance with contract terms. Additionally, all itemized reviews and staffing plans conducted by the District and TCDS should be included with the purchase order submittal.

## H. OBJECTIVE NO. 8 – DESIGN AND CONSTRUCTION COST BUDGET MANAGEMENT

### Observation 8

The District has taken steps to address the “Design and Construction Cost Budget Management” recommendation provided in prior reports (Moss Adams 2016 Report Objective No. 7, Moss Adams 2017 Report Objective 7, Moss Adams 2018 Report Objective 7, and Moss Adams 2019 Report Objective 8). Monthly program reporting to key stakeholders did not include change order, schedule, or budget to forecast information as recommended by the Government Finance Officers Association (GFOA) and the San Diego Taxpayers Association (SDCTA). However, a Bond Program Budget Worksheet was under development during the fiscal year and was presented in a summary format to the CBOC in January 2021. Design and construction budget management practices were compared to GFOA and SDCTA best practices to measure the effectiveness of controls surrounding Bond-funded projects. The District presented a Measure E and BH Citizens’ Bond Oversight Committee (CBOC) Report to the CBOC at most CBOC meetings during our audit period; however, due to Covid-19 restrictions, meetings of the CBOC were paused between February 20, 2020 and May 28, 2020. The last Citizens’ Bond Oversight Committee Report during our audit period was provided at the May 28, 2020 CBOC meeting and included the following information:

- Measure E and BH General Obligation (G.O.) Bond authorization amount
- Measure E and BH revenue, investment earnings, and expenditures to date and balance to date amounts
- Project summary information including project name with budget estimates, project commitments, expenditures, and balance amounts
- Fiscal year Measure E and BH project expenditures
- Project Progress Update



This reporting did not provide information on master plan budgets (see Observation No. 11 for further information), current forecasts, project schedule information, and cash flows at the program and project level for the issued Bond proceeds. Per the SDCTA's Oversight Committee Best Practices, at a minimum, the following should be reported to the CBOC:

- A project list, accompanied by measurements of project status in terms of budgets and timelines
- Any alterations to project budgets or timelines, with adequate explanations for these changes
- A comparison of current projects' budgets and timelines, with original budgets and timeline estimates

Current budgets and commitments were reported; however, reporting did not include change order, schedule, and budget to forecast information. Although change order reporting was provided to the Board, the information was not readily available within this reporting. Guidance from SDCTA does not limit change order reporting based on fiscal year; this information should be included within regular reporting to key stakeholders. Based on inquiry, change order documentation is available upon request, and minimal change orders occurred during the fiscal year under review. Change order reporting should include change responsibilities such as Owner initiated scope changes, design errors, contract errors, and unforeseen conditions. Without this level of information summarized for the project, responsibility for change orders and associated cost may not be evident. Absent further information, project reporting is not currently in line with best practices and lacks information needed to adequately report to key stakeholders.

**Improvement Recommendation:** Both the SDCTA and GFOA recommends periodic reporting of budget-to-actual comparisons of revenues, expenditures, schedule, and fund balances. BOE approved master plan budgets with current forecasts at the program and project level should be available, with consideration of the amounts available in one consolidated report. Detailed budget level information for current bond issuances allows the District to monitor budgetary performance against committed contract values and can serve as an early warning indicator for potential problems. This information provides decision makers time to consider actions that may be needed if major deviations in budget to actual results become evident. The SDCTA and GFOA contend that this information is essential input for demonstrating accountability and transparency. This documentation will also serve as a useful tool for District management and stakeholders to understand the timing of project schedules.

Change order reporting should include information such as itemized change amounts, percentages, descriptions, change responsibilities, schedule impacts, dates of approval, subtotals, and totals for easy end user reference. Change order documentation should be available at the project and program level and include both detailed and summary level information. Summary and detailed change reporting is necessary for understanding change order cause, responsibility, pricing, and compliance, and identifying potential duplicated work scopes and/or redundancies caused by unclear scope objectives and/or expectations within the Master Plan.



## I. OBJECTIVE NO. 9 – BIDDING AND PROCUREMENT PROCEDURES (NO EXCEPTION)

### Observation 9a (No Exception)

The District has addressed the "Bidding and Procurement Procedures" recommendation provided in prior year reports (Moss Adams 2017 Report Objective No. 9a and Moss Adams 2018 Report Objective No. 9a). According to the District's Construction & Facilities Department Policies & Procedures Manual, Section 7 Procurement, Section 4.a, Professional Services over \$175,000: "For the District, best practices dictate that professional services...which will result in an agreement for more than \$175,000, shall be procured through a competitive process unless the BOE [Board of Education] authorizes procurement of the services without a competitive process." Through inquiry and after a review of the documentation provided, we determined the professional services procured during the fiscal year followed the District's policies and procedures and public contract code, resulting in no exception.

### Observation 9b (No Exception)

The District addressed the "competitive price documentation" recommendation provided in the prior year's report (Moss Adams 2019 Report Objective No. 9b). Per Education Code 17406 (a) (2) (1) "An instrument created pursuant to paragraph (1) shall be awarded based on a competitive solicitation process to the proposer providing the best value to the school district..." Education Code 17400 (b)(1) defined best value as "a competitive procurement process whereby the selected proposer is selected on the basis of objective criteria for evaluating the qualifications of proposers with the resulting selection representing the best combination of price and qualifications." Through inquiry and documentation provided, we determined the selection of contractors included documentation of a competitive price, resulting in no exception.

### Observation 9c (No Exception)

The District has addressed the "Bidding and Procurement Procedures" recommendation provided in the prior year's report (Moss Adams 2018 Report Objective No. 9c and Moss Adams 2019 Report Objective No. 9b). No new instances of professional service procurement without a budget were sampled during the current audit period; however, on July 24, 2019, the District issued a Purchase Order (PO) for Stroock & Stroock & Lavan LLP for FTA and LACMTA legal services that was approved by the Board. In a good development, this PO established an amount for the legal services provided by Stroock & Stroock & Lavan LLP that had not been available during our prior audit period, resulting in no exception.



## J. OBJECTIVE NO. 10 – PROCUREMENT FRAUD PREVENTION AND DETECTION CONTROLS

### Observation 10

The District has taken steps to address the “Procurement Fraud Prevention and Detection” recommendation provided in prior year reports (Moss Adams 2017 Report Objective No. 10, Moss Adams 2018 Report Objective No. 10, and Moss Adams 2019 Objective No. 10). Defined reporting protocols, training, and escalation procedures were not available to validate that adequate controls were in place to identify, prevent, and detect procurement fraud. Additionally, and as a best practice, the District maintained a Consolidated Bid and Procurement Activity Report 2019-2020 during the fiscal year; however, documentation to support periodic review by the District and key stakeholders was not available. Additionally, the Construction & Facilities Policies & Procedures Manual contains a Statement of Ethical Values, description of procurement fraud, and provisions for maintaining a Consolidated Procurement Activity Report.; however, it does not appear the policies and procedures were updated to contain the following items:

- Reporting protocols, training, and escalation procedures specific to preventing and detecting fraud
- Monitoring controls and reporting, to identify and address significant procurement anomalies

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

**Improvement Recommendation:** The District should continue documentation and implementation of policies and procedures to help identify, prevent, and detect procurement fraud. Policies should include reporting protocols, training requirements, and escalation procedures specific to procurement fraud. The resulting documentation can also serve as a useful staff training tool. As a best practice, the District should continue to maintain a consolidated bid and procurement activity report that will help District senior management identify, prevent, or detect fraud and/or non-compliance with District policies and procedures, State laws, and regulations. Supporting documentation for this consolidated report should be readily available in a central location, either physically or electronically. Per the GFOA, potential instances of fraud or abuse and questionable accounting practices come to the 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) that 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. They also should document the details of how each complaint is addressed.
- As part of its evaluation of the government’s internal control framework, have appropriate District oversight personnel examine documentation of how complaints were handled to satisfy itself that mechanisms for reporting potential fraud or abuse and questionable accounting or auditing practices are in place and working satisfactorily.

## K. OBJECTIVE NO. 11 – MASTER PLANNING

### Observation 11

**The District Master Plan did not include all best practice key performance indicator (KPI) metrics identified by the Government Finance Officers Association (GFOA).** The most recent comprehensive BHUSD Master Plan available for review was dated February 2018; although the Plan was for both Measure E and future funding (i.e., Measure BH), it excluded Measure E on a consolidated level. The plan did not include cash flow modeling and timing of expenditures based on project schedules and timelines, and had not been formally updated with the total program budget considerations and Board approval thereafter. As a good practice, in October 2018 TCDS updated the Board with project progress and Measure E and BH scope considerations including the El Rodeo Modernization Acceleration Project. A study session update completed in January 2020 focused on Project considerations and budget impacts, but an updated master plan with budget considerations (i.e., both Measure E and BH) was not included. As a good practice, the Bond Program Team attends board meetings, provides project updates, and requests study sessions when significant updates to project costs or timelines arise, but these changes or updates are not incorporated into a Board-Approved Master Plan. Additionally, the District’s policies and procedures for master planning did not include specifics on the District’s role in the master planning process, components to be included in the Master Plan, frequency of updates, and responsible District parties for master planning. In the associated GFOA best practice article “Multi-Year Capital Planning”, the elements shown in the following table were identified as some of the best practices to be included in the development of a Master Plan:

Best Practice Master Planning Components per GFOA	Included in the BHUSD Master Plan?
Program Financials:	
<ul style="list-style-type: none"> <li>○ Total Program Cost</li> </ul>	Partial <sup>1</sup>
<ul style="list-style-type: none"> <li>○ Cash Flow Modeling and Timing of Expenditure based on Project Schedule/Timeline</li> </ul>	No
<ul style="list-style-type: none"> <li>○ Funding Source (including outside Prop 39 funding sources)</li> </ul>	Yes



Best Practice Master Planning Components per GFOA	Included in the BHUSD Master Plan?
Project Components (Non-Financial):	
○ Project Scope aligning to Ballot Language and Program Costs	Yes
○ Project Schedule/Timeline	Yes <sup>2</sup>
○ Master Planning Policies and Procedures	Partial <sup>3</sup>

<sup>1</sup> The February 2018 Master Plan included a consolidated outlook on BH, but Measure E Projects were presented on an individual basis.

<sup>2</sup> Information based on the Master Plan Schedule within the October 2018 report.

<sup>3</sup> The Master Plan policies and procedures were last revised on March 10, 2009 and did not include specific policies and procedures on the master planning process, components to be included in the Master Plan, frequency of updates, and responsible parties for master planning.

**Improvement Recommendation:** As a best practice, BHUSD should continue efforts to ensure defined and documented processes are in place for master planning, including when to utilize these procedures (e.g., thresholds), who is responsible for each activity from the District, and procedures for final approval. Documentation requirements for any Master Plan changes from the original approved documents should include, but not be limited to, information surrounding the proposed change, basis for change, estimated cost impact, estimated schedule impact and associated cash flow timelines, and change initiator and approver. Master Plan reporting should include a summary level Project Stages Report with dates of key milestones achieved, and estimated dates of key milestones to be achieved. Appropriate and relevant narrative should be maintained and reported to key stakeholders on a regular basis. Deviations should be discussed with BHUSD management and documented accordingly within monthly reporting. Responsibilities should be assigned, and appropriateness of the policies and procedures should be evaluated on an ongoing basis. A current Master Plan with defined policies and procedures will allow for greater transparency with key stakeholders, more efficient communication of the work being done, and compliance with the Measure E and BH ballot language.

## L. OBJECTIVE NO. 12 – BOND PROGRAM TRANSPARENCY

### Observation 12

**BHUSD practiced 14 out of the 16 best practices as defined by San Diego Taxpayers Educational Foundation (SDTEF). However, based on SDTEF best practice guidance, Bond Program transparency could be improved by including a number of CBOC vacancies and organizing the information in one consolidated page on the CBOC website to support easy navigation and transparency.** We reviewed the BHUSD Facilities & Construction Department website and the Citizens’ Bond Oversight Committee (CBOC) website for items identified as a communication and transparency best practice by the SDTEF. The table below outlines the two best practices for a transparent bond program that we were unable to identify on the BHUSD Facilities & Construction website or the CBOC website:



School Bond Program Transparency per SDTEF	Criteria	Available on BHUSD and CBOC Websites?
Vacancies Listed	Any committee vacancies, expected vacancies, or lack of vacancies are listed on the CBOC website.	No
Number of Vacancies	The number of current CBOC committee vacancies is listed on the CBOC website. While this is not a scored criterion, SDTEF recommends having no vacancies when possible.	No

See [Appendix B](#) for a comprehensive list of SDTEF benchmark website criteria for School Bond Transparency.

**Improvement Recommendation:** Per the SDTEF School Bond Transparency Summary Report, continuing improvement recommendations for CBOC websites are as follows:

- The District should include Vacancies Listed and Number of Vacancies on the website as recommended by the SDTEF. Additionally, the District should continue to update all information on the CBOC website on a regular basis, including posting up-to-date agendas, minutes, financial and performance audits, and annual reports. Access to up-to-date information is vital to transparency. Districts should continue to update all website materials to reflect the most accurate information. Audits and financial reports should be available in a timely fashion and should take no longer than a few months to prepare. Similarly, project status updates should be regularly provided—including budget updates and construction progress with expected timelines for completion.
- As a best practice the District should continue to consider updating the CBOC organization website to make it easier to navigate to find specific information as outlined by the SDTEF. An ideal CBOC website would organize these files by type and date in separate links, so that any interested party could easily find available information.

## M. OBJECTIVE NO. 13 – REVIEW OF PRIOR YEAR AUDIT AND OPEN AUDIT LOG

### Observation 13

We reviewed the prior year's performance findings and recommendations within the Measure E and BH FY 2020 audit. 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 of the 11 observations from the prior year, four observations have been closed, the District has taken steps to address six observations, and the District has not taken steps to address one observation. We have identified an additional two observations for improvement opportunities; two of which relate to new objectives added to the audit work plan for the fiscal year (Master Planning and Bond Program Transparency). The Claims and Avoidance Procedures and Maintenance and Warranty of Measure E and BH Assets were not included within our scope for FY 2020. Please see the following summary table.



Source	Category	Recommendation	BHUSD Responses		Status of Resolution
			Management Response	Planned Resolution Date (Prior Year Responses)	
Observation 3 from Moss Adams 2017–2020 Reports	Compliance with the Ballot Language	The District should continue to require itemization of legal expenditures related to the MTA Subway Extension and ensure that the District’s position is defensible.	Agree	Ongoing	Open – The District has taken steps
Observation 4a from Moss Adams FY 2017–2020 Reports (Objective No. 4b from Moss Adams FY 2016 Report)	Expenditure and Payment Procedures	The District should continue to evaluate the invoice payment processing procedures to ensure compliance with the California Prompt Payment Act. The District should ensure sufficient documentation for journal entries is available to evaluate their processing. Additionally, the District should continue to evaluate policies and procedures to ensure alignment with the California Prompt Payment Act requirements and contractual obligations.	Agree	FY 2019/2020	Open – The District has taken steps
Observation 4b from Moss Adams FY 2018–2020 Reports	Expenditure and Payment Procedures	The District should continue efforts to sign and date all invoice approvals and evaluate the invoice approval process to ensure compliance with District policies and procedures. Additionally, the District should consider clarifying within policies and procedures whether one of the sign offs on Bond Program expenditures, on all or certain invoices (e.g., legal), should include a District employee.	Agree	Open	Open – The District has not taken steps
Observation 4c from Moss Adams FY 2019–2020 Report	Expenditure and Payment Procedures	The District should continue efforts to formalize a plan to conduct construction audit or review procedures on any potential non-compliant charges that are not billed to the District and to support transparency of the Project. As a best practice, the District’s billing controls and policies should continue to be evaluated to prevent potential excessive and non-compliant charges to the District, as required by the Contract. Additionally, the District should consider requiring subcontractors to submit conditional and unconditional lien waivers, in addition to the Contractor, with their payment applications, to ensure timely payment and mitigate potential project risk exposures.	Agree to consider.	FY 2020/2021	Open – The District has taken steps
Observation 5 from Moss Adams FY 2020 Reports (Objective No. 5 from Moss Adams FY 2016 Report, Observation No 3b from Moss Adams 2017 Report, Observation 5 from Moss Adams FY 2018 Report, and Observation 5 from Moss Adams FY 2019 Report [no exception])	Salaries of District Employee for the Bond Program	The District should ensure all labor expenditures that utilize bond funds are supported by labor documentation to ensure all bond labor is compliant with Opinion-110. 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.	Closed	Closed	Closed
Observation 7 from Moss Adams FY 2016–2020 Reports	District and Professional Services Staffing Plan for the Bond Program	The District should continue efforts to review a detailed Staffing Plan, including itemized detail such as personnel names, titles, contractual rate, and annual budget by the listed projects within the Bond Program and associated policies and procedures for both the District and consultants, to correlate Bond Program projects to Bond Program staffing needs and to confirm compliance with contract terms. Additionally, all itemized reviews and staffing plans conducted by the District and TCDS should be included with the purchase order submittal.	Agree	FY 2019/2020	Open – The District has taken steps
Observation 8 from Moss Adams FY 2016–2020 Reports	Design and Construction Costs Budget Management	Both the SDCTA and GFOA recommends periodic reporting of budget-to-actual comparisons of revenues, expenditures, cash flow, schedule, and fund balances. BOE approved master plan budgets with current forecasts at the program and project level should be available, with consideration of the amounts available in one consolidated report. Detailed budget level information for current bond issuances allows the District to monitor budgetary performance against committed contract values and can serve as an early warning indicator for potential problems. This information provides decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident. The SDCTA and GFOA contend that this information is essential input for demonstrating accountability and transparency. Cash flow reporting should also include revenues, cash, and expenditures by timeframe in order to document that sufficient funding is available to meet	Agree	FY 2019/2020	Open – The District has taken steps



Source	Category	Recommendation	BHUSD Responses		Status of Resolution
			Management Response	Planned Resolution Date (Prior Year Responses)	
		<p>financial requirements for Measures E and BH. This documentation will also serve as a useful tool for District management and stakeholders to understand the timing of project schedules.</p> <p>Change order reporting should include information such as itemized change amounts, percentages, descriptions, change responsibilities, schedule impacts, dates of approval, subtotals, and totals for easy end user reference. Change order documentation should be available at the project and program level and include both detailed and summary level information. Summary and detailed change reporting is necessary for understanding change order cause, responsibility, pricing, and compliance, and identifying potential duplicated work scopes and/or redundancies caused by unclear scope objectives and/or expectations within the Master Plan.</p>			
Observation 9a from Moss Adams FY 2016–2020 Reports	Bidding and Procurement Procedures	The District should ensure that all professional services provided to the District are either BOE authorized to forgo competitive procedures or procured competitively and executed by the District as required by District policy. Additionally, as specified in Objective 10 in this report as a best practice, the District should maintain a consolidated bid and procurement checklist and activity report that allows 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 a central location, either physically or electronically. A checklist or equivalent mechanism, with appropriate signoffs on procurement requirements, can serve as a good tool for all relevant parties (Accounting, as well as Planning, Construction, and Procurement) to validate compliance with policy and procedure requirements and adequate segregation of duties and controls.	Closed	Closed	Closed
Observation 9b from Moss Adams FY 2018–2020 Report	Bidding and Procurement Procedures	The District should continue to consult with legal to ensure procurement practices are compliant and update procurement policies and procedures surrounding preconstruction and construction lease-leaseback contracts in agreement with Education Code 17406 and best practices. Consistent with the Education code and best practices, best value criteria should include both price and qualifications for the scope of services needed. Additionally, the District should continue its plan to utilize the Right to Audit clause stated with Article 7.3 of the Contract Terms, to ensure that charges to the District are compliant and not excessive (see Observation 4c for further information).	Closed	Closed	Closed
Observation 9c from Moss Adams FY 2018–2020 Reports	Bidding and Procurement Procedures	As a best practice, the District should define budgets for all of their professional service providers to ensure adequate oversight and control over Bond Program expenditures. Program reporting should be updated accordingly to promote accountability and transparency (see Objective No. 8). Furthermore, the District should consider requiring an annual staffing plan for vendors such as these, to be utilized as the basis for annual budgets (See Objective No. 7).	Closed	Closed	Closed
Observation 10 from Moss Adams FY 2016–2020 Reports	Procurement Fraud Prevention and Detection Controls	The District should continue documentation and implementation of policies and procedures to help identify, prevent, and detect procurement fraud. Policies should include reporting protocols, training requirements, and escalation procedures specific to procurement fraud. The resulting documentation can also serve as a useful staff training tool. As a best practice, the District should continue to maintain a consolidated bid and procurement activity report that will help District senior management identify, prevent, or detect fraud and/or noncompliance with District policies and procedures, State laws, and regulations. Supporting documentation for this consolidated report should be readily available in a central location, either physically or electronically. Per the GFOA, potential instances of fraud or abuse and questionable accounting practices come to the attention of responsible parties thanks to employees or citizens who become aware of such practices. The GFOA provides the following relevant recommendations:	Agree to consider	FY 2019/2020	Open – The District has taken steps



Source	Category	Recommendation	BHUSD Responses		Status of Resolution
			Management Response	Planned Resolution Date (Prior Year Responses)	
		<ul style="list-style-type: none"> <li>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.</li> <li>Establish practical mechanisms (e.g., a hotline) that permit the confidential, anonymous reporting of concerns about fraud or abuse and questionable accounting practices to the appropriate responsible parties.</li> <li>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. They also should document the details of how each complaint is addressed.</li> <li>As part of its evaluation of the government's internal control framework, have appropriate District oversight personnel examine documentation of how complaints were handled to satisfy itself that mechanisms for reporting potential fraud or abuse and questionable accounting or auditing practices are in place and working satisfactorily.</li> </ul>			
Observation 11 from Moss Adams FY 2020 Report	Master Planning	As a best practice, BHUSD should continue efforts to ensure defined and documented processes are in place for master planning, including when to utilize these procedures (e.g., thresholds), who is responsible for each activity, and procedures for final approval. Documentation requirements for any Master Plan changes from the original approved documents should include, but not be limited to, information surrounding the proposed change, basis for change, estimated cost impact, estimated schedule impact and associated cash flow timelines, and change initiator and approver. Master Plan reporting should include a summary level Project Stages Report with dates of key milestones achieved, and estimated dates of key milestones to be achieved. Appropriate and relevant narrative should be maintained and reported to key stakeholders on a regular basis. Deviations should be discussed with BHUSD management and documented accordingly within monthly reporting. Responsibilities should be assigned, and appropriateness of the policies and procedures should be evaluated on an ongoing basis. A current Master Plan with defined policies and procedures will allow for greater transparency with key stakeholders, more efficient communication of the work being done, and compliance with the Measure E and BH ballot language.	Agree	New	New
Observation 12 from Moss Adams FY 2020 Report	Bond Program Transparency	Per the SDTEF School Bond Transparency Summary Report, continuing improvement recommendations for CBOC websites are as follows: <ul style="list-style-type: none"> <li>The District should include Vacancies Listed and Number of Vacancies on the website as recommended by the SDTEF. Additionally, the District should continue to update all information on the CBOC website on a regular basis, including posting up-to-date agendas, minutes, financial and performance audits, and annual reports. Access to up-to-date information is vital to transparency. Districts should continue to frequently update all website materials to reflect the most accurate information. Audits and financial reports should be available in a timely fashion and should take no longer than a few months to prepare. Similarly, project status updates should be regularly provided—including budget updates and construction progress with expected timelines for completion.</li> <li>As a best practice the District should continue to consider updating the CBOC organization website to make it easy to navigate to find specific information as outlined by the SDTEF. An ideal CBOC website would organize these files by type and date in separate links, so that any interested party could easily find available information. Additionally, the District should add vacancies list and number of vacancies to the website to align with best practices.</li> </ul>	Agree	New	New



## **N. OBJECTIVE NO. 14 – JOB SITE VISITS (NO EXCEPTION)**

### **Observation 14 (No Exception)**

On January 28, 2021 we visited Beverly Hills High School Buildings 1, 2, 3, and 4 and the El Rodeo Project sites via a virtual walkthrough, to determine the authenticity of projects in progress and/or project completion. During our walkthrough we were able to view the projects in progress. The District uses a system called Multivista to store detailed project photos that can be pulled up on demand.

## **O. OBJECTIVE NO. 15 – RECOMMENDATIONS RECAP (NO EXCEPTION)**

### **Observation 15 (No Exception)**

**At completion of the audit, we will provide the District with a recap of all recommendations in an Excel spreadsheet for their review.**



## APPENDIX A – INTERVIEWS PERFORMED

The following key BHUSD personnel were interviewed:

- Assistant Superintendent for Business Services
- Director of Fiscal Services
- Executive Director, Construction and Facilities
- Administrative Assistant for Facilities
- Citizen Bond Oversight Committee (CBOC) Members
- Senior Bond Program Administrator
- Bond Project Coordinator



## APPENDIX B – SAN DIEGO TAXPAYERS EDUCATIONAL FOUNDATION CRITERIA FOR SCHOOL BOND TRANSPARENCY

The following best practice criteria for CBOC websites were utilized by the SDTEF to measure School Bond Program transparency. See Observation No. 12 in the report body for further information.

- **Committee Bylaws:** A link to the committee bylaws is available on the CBOC website.
- **Member Information:** A list of the names of all CBOC members is available on the CBOC website.
- **Meeting Minutes/Agendas:** Links to the most up-to-date meeting minutes and agendas are available on the CBOC website.
- **Additional Meeting Material:** Links to attachments, appendixes, presentations, and other additional materials for every CBOC meeting are available on the CBOC website.
- **Annual Reports:** A link to the annual reports is available on the CBOC website.
- **Performance Audits:** A link to separate performance audits is available on the CBOC website, or under a separate heading within the financial audits.
- **Financial Audits:** A link to the financial audit is available on the CBOC website.
- **Project List:** All projects currently being funded by the Bond are listed on the CBOC website.
- **Project Descriptions:** A brief written description of each project can be found on the CBOC website.
- **Project Progress:** The current status and plan of action for each project can be found on the CBOC website.
- **Bond Background:** A brief description of the Bond, for what it is intended, when it was passed, and its amount can be found on the CBOC website.
- **Contact Information:** The School District phone number and an email address of the CBOC point of contact is listed on the CBOC website.
- **Vacancies Listed:** Any committee vacancies, expected vacancies, or lack of vacancies are listed on the CBOC website.
- **Number of Vacancies:** The number of current CBOC committee vacancies is listed on the CBOC website. While this is not a scored criterion, SDTEF recommends having no vacancies when possible.
- **Prior-Year Reports Available:** Prior-year audits and annual reports are available on the CBOC website. This criterion must be met in order to meet the criteria listed below.
- **Budget Overview:** A breakdown of how the budget was allocated for the past year is found in the annual report or audit.
- **Program Status Updates:** An explanation of the current status of the Bond Program is found in the annual report or audit.

