



FINAL REPORT

Beverly Hills Unified School District

MEASURE E CONSTRUCTION BOND FUND PERFORMANCE AUDIT REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2019

March 25, 2020

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March 25, 2020

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 (FY) Ended June 30, 2019

Dear Board Members:

This report presents the results of the performance audit completed by Moss Adams for the Beverly Hills Unified School District's 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. 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, audit 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 four 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. Through inquiry and review of documents, we confirmed that of the 17 observations from the prior year, seven observations have been closed, the District has taken steps to address an additional eight

observations, the District has not taken steps to address one observation, and one observation remained undetermined because there were no new instances in the current fiscal year for review. We have identified an additional two observations for improvement opportunities.

Performance audit procedures covered the period from July 1, 2018 through June 30, 2019. Based on the performance audit procedures performed and the results obtained, we have met our audit objectives. We conclude that for the fiscal year (FY) ended June 30, 2019, Bond proceeds were used only for Listed Projects under the 2008 Measure E, 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) regarding 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 a number of good management practices as described below:

- BHUSD and Project Management team have proactively developed and implemented policies and procedures to address audit report's recommendations to support a successful Bond Program.
- BHUSD and Program Management team consist of highly experienced development professionals with a strong track record of successful completed projects.
- The District filled two positions during the audit period: Director of Purchasing and Executive Director of Construction and Facilities, which will support program execution.
- The District utilizes other revenue sources to maximize the impact of Measure E funds.
- Citizen Bond Oversight Committee (CBOC) agendas, meeting minutes, and annual reports were posted on the District website.
- Board of Education agendas, meeting minutes, approvals, etc. 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 utilizes a project management software for Measure E 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 help those charged with District governance and oversight information 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

- One of the 61 sampled expenditures (1.6%) did not meet contractual agreements for payment terms (see Observation 4A in the report body).



- Based on sampled billing documentation, open-book accounting documentation as described in Contract Article 6.1 was not provided with invoice submissions to the District to substantiate the cost of work incurred by the Contractor for the Beverly Hills High School Modernization Building Projects. However, based on the invoice submissions provided by the District, only summary-level documentation was provided, excluding both cost documentation and appropriate lien releases from both the contractor and subcontractors on the Project. The Contractor lien releases appeared to be available upon request from TCDS (see Observation No. 4c in the report body).

Program Management

- TCDS created a Staffing Plan system by estimating future staffing needs. However, the estimate of future staffing needs did not include base staffing requirements for Bond Program project needs, or key metrics such as the number of personnel (both in-house District staff and consulting staff), number of active and planned projects, and dollar value of active and planned projects. Evidence of Board review of the total planned staffing level per fiscal year was not available through our audit period (see Observation 7 in the report body).
- Through June 30, 2019, the District did not maintain a consolidated warranty and preventive maintenance log for all assets incorporated into school site construction, and the District was unable to provide complete and accurate reporting for items under warranty (see Observation 12 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) (see Observation 8 in the report body).

Procurement Procedures and Controls

- Although compliant with Public Contracting Code, the District did not provide Board of Education (BOE) authorization to procure services without a competitive process or documentation to evidence a competitive process was followed for selection and award of two professional service providers for the Beverly Hills High School B1/B2 Modernization (BHHS B1/B2 Modernization) Project and one security service provider for the District (see Observation 9A in the report body).
- The District directly awarded the BHHS B3/B4 Modernization Preconstruction Project in the amount of \$331,500 to ProWest on December 4, 2018 without a competitive procurement process. The District also directly awarded the BHHS B3/B4 Modernization Construction Project in the amount of \$8,657,650 to ProWest on May 14, 2019 via change order and without a competitive procurement process. The District provided the legal basis and supporting documentation to substantiate awarding the Project to ProWest without completing a competitive bid process (see Observation 9B in the report body).
- The District was unable to provide Board-approved budgets for one legal professional service provider (see Observation 9C in the report body).

- On October 9, 2018, the BOE approved the Construction & Facilities Policies & Procedures Manual; however, defined reporting protocols, training, or escalation procedures were not available to validate adequate controls were in place to identify, prevent, and detect procurement fraud (see Observation 10 in the report body).

Claims Avoidance Procedures and Controls

- Based on our experience, the District has good policies and procedures surrounding claim avoidance; however, absent claim avoidance reporting documentation, we were not able to validate compliance with District policies and procedures (see Observation No. 11 in the report body).

We have provided improvement recommendations related to our observations on the following: Expenditure Management and Controls, Program Management, Budgetary Management and Change Order Reporting, Procurement Controls and Contract Administration, Claim Avoidance Procedures and Controls, and Maintenance of District Asset Funded and Warranty Conditions Compliance.

We have also noted the following opportunities for the District to consider additional actions:

- Conduct a construction audit on the Beverly Hills High School Modernization of Buildings B1, B2, B3, and B4 Projects to ensure they are compliant and charges are not excessive.
- Perform additional review procedures focused on the District's master planning during the Measure E and Measure BH performance audit.

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 the 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, gyms, libraries, science, 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 eleventh year of implementation.

Bond Program accounting records for fiscal year (FY) 2019 showed Measure E Bond Program expenditures of \$41,526,530 in the current year.

B. 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 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 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-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;
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 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 \$41,526,530 in FY 2019.

We conducted this Construction Bond Program performance audit in accordance with Generally Accepted Government Auditing Standards (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 objective.

Performance audit procedures covered the period July 1, 2018 through June 30, 2019.

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 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 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 attended or 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 with District Audit Committee and full BOE as determined by the District, and 3) CBOC meeting.



3. Compliance with Ballot Language

We reviewed the Bond Program's financial records and expenditures for FY 2019 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 61 expenditures totaling \$33,698,561, or 81% of total expenditures. 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 were in compliance with approved contract 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 2018/2019. 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 2018/2019) 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 for an 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 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 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 the District's policies and procedures, Public Contract Code, California school construction State requirements, and other regulations. Controls and activities to manage change orders were evaluated. We 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 which 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. 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. Maintenance and Warranty of Measure E Assets

We reviewed District processes and procedures for maintenance of District assets funded with Measure E, including compliance with warranty conditions of those assets. We reviewed District practices for maintenance of a list of all assets incorporated into school site construction and complete and accurate information regarding items under warranty. We reviewed the District's implementation of controls surrounding the required maintenance of its assets in accordance with warranty terms, application of a formal system of logging this information for inventory purposes, and use of warranties where possible.

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 visited a selected site 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.

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 District Audit Committee and full Board of Education, as determined by the District (scheduled March 2020), and 3) the Citizens' Bond Oversight Committee (CBOC) (anticipated March 2020).

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, where it is unclear whether the scope of work performed was allowable per ballot language. For expenditures sampled in FY 2018/2019, the District incurred \$1,921,245.14 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	Invoice Number	Invoice Date	Amount
Stroock & Stroock & Lavan LLP	747080	5/6/2019	\$506,403.68
Stroock & Stroock & Lavan LLP (unsupported through January 17, 2020)	748886	6/30/2019	\$371,868.83
Kasowitz, Benson, Torres & Friedman LLP	1806515	10/23/2018	\$396,048.79
Kasowitz, Benson, Torres & Friedman LLP	1804078	7/10/2018	\$312,563.05
Kasowitz, Benson, Torres & Friedman LLP	1901153	2/28/2019	\$202,737.71
Kasowitz, Benson, Torres & Friedman LLP	1805103	8/22/2018	\$50,934.35



Vendor	Invoice Number	Invoice Date	Amount
Atkinson, Andelson, Loya, Ruud & Romo	551857	8/31/2018	\$43,876.43
The Tao Firm	236	6/30/2019	\$17,275.05
Miller Starr Regalia	S.M. email	6/30/2019	\$14,000.00
The Tao Firm	235	6/30/2019	\$5,537.25
Total			\$1,921,245.14

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 report (Moss Adams 2018 Report Objective No. 4a). However, 1 of 61 (1.6%) of sampled expenditure did not meet Public Contract Code requirements for payment terms. Public Contract Code §20104.50, or California Prompt Payment Act, requires that local government agencies pay contractors no more than 30 days after receipt of contractors' request for payment. Based on our sample, we noted the following isolated instance for Project-based contractors:

Vendor Name	Journal ID	Transaction Reference	Invoice Date	Invoice Amount	Received Stamp Date	Check Date	Payment Issuance Duration	Payment Terms Requirement
DLR Group, Inc.	APA 1906895	16143T-1	10/10/18	\$19,600.00	10/29/18	12/7/18	39	30

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." However, the 45-day payment terms within



policies and procedures appeared to be inconsistent with the California Prompt Payment Act requirements.

Improvement Recommendation: The District should continue efforts to time and date-stamp all invoices when received, and evaluate the invoice payment processing procedures to ensure compliance with the California Prompt Payment Act. Additionally, the District should evaluate policies and procedures to ensure alignment with the California Prompt Payment Act requirements and contractual obligations.

Observation 4B (No Exception)

The District has addressed the “Compliance with State Laws, District Policies, and Other Regulations” recommendation provided in the prior year’s report (Moss Adams 2018 Report Objective No. 4b). On March 4, 2020, the District provided additional invoice approval documentation to demonstrate the District received proper approvals for all sampled invoices. Based on our review, with the addition of the District’s additional invoice documentation, all sampled invoices received complete (signed and dated) approvals, resulting in no exception.

Observation 4C

The District was unable to provide adequate documentation to support that Contractor charges complied with the Open-Book Accounting requirements specified within Contract Documents for the Beverly Hills High School Modernization Building Projects. 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. The FY 2019 Expenditure Population report provide by the District, ProWest Constructors reported billings to the District in the approximate amount of \$23.6 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 subcontract contracts, and cash flow to complete.” However, absent detailed job cost documentation and adequate lien release documentation, we were not able to validate that billings to the District were compliant with the contract terms (see Observation No. 9d for further information). On March 4, 2020, the District provided the contractor’s conditional and unconditional lien waiver examples in support of documentation received during the billing process; however, this information was not included within the District’s Accounting Department records or requirements for invoice processing, and excluded subcontractor lien releases. However, based on the invoice submissions provided by the District, only summary-level documentation was provided, excluding both cost documentation and appropriate lien



releases from both the contractor and subcontractors on the Project. The Contractor lien releases appeared to be available upon request from TCDS.

Improvement Recommendation: The District’s billing controls 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 both the Contractor and subcontractors to submit conditional and unconditional lien waivers with their payment applications, to ensure timely payment and mitigate potential project risk exposures. The District’s Accounting Department should ensure that evidence of the Contractor’s conditional and unconditional lien waivers are included within payment applications to ensure timely payment and mitigate potential project risk exposures. Additionally, the District should consider requiring the Contractor to provide subcontractor lien releases as well.

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

Observation 5

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). 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.” On October 9, 2018 the Construction & Facilities Policies & Procedures Manual was approved by the Board of Education, which included detail on the District’s time tracking system for employees not fully dedicated to the Bond Program. 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

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 and Moss Adams 2018 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 the documentation provided, 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.



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, and Moss Adams 2018 Report Objective 7). During our audit period and as a significant improvement, TCDS created a Staffing Plan system by estimating future staffing needs. The information in the following table was provided for FY 2017–2019 and FY 2019–2020 within the TCDS Budget 2019–2020 workbook provided on October 17, 2019.

Period	TCDS Hourly Billing Total	TCDS Fee	TCDS Reimbursable	i-Xero (see Observation No. 9a for further information)	Total
Actual FY 2017–2019	\$2,856,400	\$435,573	\$44,384	\$2,329,222	\$5,665,579
Planned FY 2019–2020	\$3,750,000	\$1,887,315 ¹	\$36,000	\$1,200,000	\$6,873,315
Total	\$6,606,400	\$2,322,888	\$80,384	\$3,529,222	\$12,538,894

¹ Fee includes Developer Fee Work Adjustment in the amount of \$512,685 (\$2,400,000 – \$512,685)

The estimate of future staffing needs did not include base staffing requirements for Bond Program project needs, or key metrics such as the number of personnel (in-house District staff and consulting staff), number of active and planned projects, and dollar value of active and planned projects. Evidence of Board review of the total planned staffing level per fiscal year was not available through our audit period. Board approval for the total planned amount was not available. These metrics could be analyzed to help determine the effectiveness of the staffing related to the number of the Bond Program projects, and whether the Bond Program organizational structure is aligned with its needs. TCDS invoices are reviewed monthly by the Chief Business Officer (CBO) and Superintendent to ensure that hourly and fee billings are consistent with the contract between the District and TCDS; however, these billings are not compared to the staffing planned activity to ensure appropriateness and alignment with staffing projections. As a good practice, both the CBO and the Superintendent are members of the Facilities Subcommittee which is a vehicle to support adequate processes for project reporting, communication, problem resolution, decision support, scope of control, and segregation of duties.

Improvement Recommendation: The District should continue to develop and implement the Staffing Plan and associated policies and procedures for both the District and consultants, to correlate Bond Program projects to Bond Program staffing needs. The Staffing Plan and associated budget amounts should be submitted to the Board to be evaluated for reasonableness, appropriateness, and alignment with contractual terms. The District should continue developing District staff in various Bond Program positions to support processes for project reporting, communication, problem resolution, decision support, scope of control, and segregation of duties.



H. OBJECTIVE NO. 8 – DESIGN AND CONSTRUCTION COSTS BUDGET MANAGEMENT

Observation 8

The District has not 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, and Moss Adams 2018 Report Objective 7).

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 County Taxpayers Association (SDCTA). 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 Citizens’ Bond Oversight Committee (CBOC) Report to the CBOC at every CBOC meeting during our audit period. The May 23, 2019 report included the following information:

- Measure E General Obligation (GO) Bond authorization amount
- Measure E committee 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 project expenditures
- Project Progress Update

However, this reporting does not provide information on original budgets, 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 lacked adequate change order, schedule, and budget-to-forecast information. Although change order reporting is provided to the Board, the information was not readily available within reporting. Additionally, based on inquiry, there was only one change order during the current fiscal year. Guidance from SDCTA does not limit change order reporting based on fiscal year; this information should be included within regular reporting to key stakeholders. 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, responsibility for change orders and associated cost will not be evident to key decision makers. 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, cash flow, 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 comment 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 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.

Change order reporting should include information such as itemized change amounts, percentages, descriptions, change responsibilities, dates of approval, subtotals, and totals for easy end user reference. Change order documentation should be available at the project and program level and should 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

Observation 9A

The District has taken steps to address 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) by implementing the new policies and procedures defining professional service procurement requirements. However, although compliant with Public Contracting Code, the District did not provide BOE authorization to procure services without a competitive process or documentation to evidence a competitive process for selection and award of two professional service providers for the Beverly Hills High School B1/B2 Modernization (BHHS B1/B2 Modernization) Project and one security service provider for the District per policy and procedure requirements. 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."



The following table assesses the alignment of awarded professional contracts with policies and procedures:

Professional Service Provider	Original Contract Date	Original Contract Amount	Professional Service Procurement Requirements per Policy Section 7 4.a		
			BOE Authorization to Procure Services without a Competitive Process (Y/N)	Formal Competitive Solicitation Documentation (Steps 1-10 in Policy)	Board of Education Approved? (Y/N)
iXero LLC	8/1/18	\$3,761,671	N	N	Y
RMA Group	4/24/18	\$388,190	N	N	Y
Leighton Consulting, Inc.	5/9/18	\$314,380	N	N	Y

Team Concept Development Services Inc. (TCDS) entered into an agreement with iXero, LLC for security planning, campus security operation center implementation, and District security training and rehearsal program services. However, based on best practices and our experience, all agreements for services provided to the District should be procured and executed by and according to District's policies and procedures. TCDS was unable provide documentation to demonstrate that iXero was competitively procured per policy and procedure.

The District also executed agreements with Leighton Consulting, Inc. and RMA Group to provide services for the BHHS B1/B2 Modernization Project. Based on inquiry and documentation provided by the District, RMA Group and Leighton Consulting, Inc. were prequalified on April 26, 2016 and March 24, 2011 respectively, through a competitive procurement process and award. The professional service provider agreements were approved by the BOE; however, documentation was not provided to demonstrate that selection of these prequalified vendors, for the Project's specific scopes of work, was competitive and in compliance with policies and procedures.

Improvement Recommendation: 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.



Observation 9B

Although compliant with policies and procedures, the District was unable to provide competitive price procurement documentation surrounding the contractor selection at Beverly Hills High School Project (B3/B4) and policies and procedures surrounding the competitive subcontractor selection process. As background, based on the prior year's audit (Moss Adams 2018 Report, Observation 9B), the District was unable to provide documentation to demonstrate that selection of ProWest Constructors (ProWest) as the Contractor for the BHHS B1/B2 Modernization Project was competitive, as the selection process did not include "best value" criteria as defined by Education Code 17406(a)(2)(1) (i.e., both price and qualification criteria components). As such, we were unable to determine whether the Project contract values were competitive and not excessive to the District. In the current audit period, the District directly awarded the BHHS B3/B4 Modernization Pre-Construction Project in the amount of \$331,500 to ProWest on December 4, 2018 without a competitive price procurement process. Further, the District directly awarded the BHHS B3/B4 Modernization Project Construction in the amount of \$8,657,650 to ProWest on May 14, 2019 via change order and without a competitive price procurement process. The District provided the legal basis and supporting documentation to substantiate awarding the project to ProWest without completing a competitive bid process. Per the District's policies and procedures: "Under lease-lease back the contracted entity may provide design assistance or hold the complete design responsibility. The contractor is responsible for construction with some or all design accountability. Preconstruction work by the developer-contractor up to the time of signing of leases is sometimes conducted under a preliminary services agreement, although some attorneys draft leases that are signed immediately and then amended as design and pricing are developed. Some attorneys draft leases providing for pre-construction services, even design responsibility, with language that calls for an amendment to give approval for construction to proceed including setting the date of completion and the guaranteed maximum price."

The District provided documentation to demonstrate the competitive process used in the early phases of the B3/B4 Project to award subcontractor work; however, documentation to demonstrate a competitive procurement process for the award to ProWest was not provided. Based on inquiry with TCDS, "actual bids are procured through a competitive process and presented to TCDS. Subcontractors are selected with TCDS and ProWest participation on a best value basis. Final subcontractor prices are negotiated with ProWest with full participation of TCDS. An estimated schedule is produced that confirms ProWest's general conditions. The final price is negotiated and agreed to line by line with TCDS. Subcontractors' and ProWest's prices are used to develop a schedule of values (SOV). The SOV is approved by TCDS." However, policies and procedures to document the subcontractor selection process and surrounding controls were not available. Absent a competitive procurement process at the Contractor level, we were unable to determine whether the Project Contract sum for B3/B4 was competitive and not excessive to the District. The total contract sum for both B1/B2 (\$38,786,668) and B3/B4 (\$8,657,650) through June 30, 2019 was \$47,444,318. No audit procedures were performed by the District to validate that charges billed were compliant with the Open-Book Accounting requirements specified within the Contract and were not excessive to the Bond Program. See Observation No. 4c for further information.

Improvement Recommendation: The District should continue to consult with legal to ensure that bid, procurement, and contract administration processes and procedures are allowable. The District should update their policies and procedures to clearly identify the criteria and documentation needed to determine if the District can forgo a competitive bid process at the Contractor level and practices



for competitive subcontractor selection. 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 9C for further information.

The District has taken steps to address the “Bidding and Procurement Procedures” recommendation provided in the prior year’s report (Moss Adams 2018 Report Objective No. 9c), and only one instance was noted in the current year versus three in the prior year’s report; however, the District was unable to provide Board-approved budgets for one legal professional service provider. As a best practice and as noted in the District’s Policies & Procedures Manual: “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 authorizes procurement of the services without a competitive process.” Although the District’s professional services can be procured through a qualification-based selection process, in the following instance the District did not use the RFQ process within the selection process:

Vendor Name	Project/Service Description	Contract Type (Construction/Personal Property/Professional Services/Special Services)	Original Contract/ PO Amount
Stroock & Stroock & Lavan LLP	Other – Legal Services	Professional Services	T&M (hourly rate)

For example, the only cost or budget elements provided for Stroock & Stroock & Lavan LLP were its hourly billable rates by employee type, as specified in their proposal. As noted by the District on March 4, 2020, due to uncertainties of the time and magnitude of the MTA and FTA-related legal dealings, the District is unable to determine a budget. While unique circumstances may prevent the District from assembling an accurate budget for specific professional service providers, this does not diminish the value of establishing Board-approved budgets as a best practice in order to provide key stakeholders with the necessary information to make long-term decisions in relation to the services being provided.

Improvement Recommendation: 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).

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 and Moss Adams 2018 Report Objective No. 10). On October 9, 2018, the BOE approved the Construction & Facilities Policies & Procedures Manual; however, defined reporting protocols,



training, or escalation procedures were not available to validate that adequate controls were in place to identify, prevent, and detect procurement fraud. 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 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 with the documentation and implementation of policies and procedures on procurement fraud 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 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 was addressed, so it can be reviewed by the Audit Committee.
- As part of its evaluation of the government's internal control framework, have the Audit Committee 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 – CLAIM AVOIDANCE PROCEDURES

Observation 11

The District has taken steps to address the “Claims Avoidance and Control Procedures” recommendation provided in prior reports (Moss Adams 2017 Report Objective No. 11 and Moss Adams 2018 Report Objective No. 11). Based on our experience, the District has good policies and procedures surrounding claim avoidance; however, absent claim avoidance reporting documentation, we were not able to validate compliance with District policies and procedures. On October 9, 2018, the Board of Education approved the Construction & Facilities Policies & Procedures Manual, which contains Claims Avoidance & Management Procedures. As a good practice, the District established a Citizens Construction Advisory Committee (CCAC) whose responsibilities include reviewing the Proposed Change Orders/Issues Log, RFIs, schedules, cash flow, Schedules of Values, and claims. However, documentation was not available from the CCAC meetings to evidence the reporting and proactive actions taken to mitigate the risk of claims. Based on inquiry with TCDS, to mitigate claim risk, “The District maintains a partnership with legal counsel, for document development, contract development and review and strategy regarding all potential claims, which means that the District stays ahead of circumstances that could lead to a claim. The observation notes that documentation was not available from the Citizens Construction Advisory Committee (CCAC), whose responsibilities include reviewing the proposed change orders/issues log, RFIs, schedules, cash flow, SOVs, and claims to evidence action taken to mitigate the risk of claims. These details of the operation affect claim resolution so, therefore, are not for public consumption.” Construction-related claims have many causes and often arise due to unresolved change orders, differing site conditions, or disruptions, delays, acceleration, and other time-related issues. Avoidance of claims requires having timely monitoring, planning, and effective actions in place.

Improvement Recommendation: The Construction and Facilities Department should consider implementing a claims avoidance log, or equivalent, to report the following: any potential differences with the Contractor (e.g., the responsibility for performing specific work on a periodic basis), claims avoided, and documentation of risk mitigation efforts.

L. OBJECTIVE NO. 12 – MAINTENANCE AND WARRANTY OF MEASURE E ASSETS

Observation 12

The District has taken steps to address the “Maintenance and Warranty of Measure E Assets” recommendation provided in prior year reports (Moss Adams 2017 Report Objective No. 12 and Moss Adams 2018 Report Objective No. 12). However, through June 30, 2019, the District did not maintain a consolidated warranty and preventive maintenance log for all assets incorporated into school site construction, and was unable to provide complete and accurate reporting for items under warranty. The District had limited controls or documentation surrounding the required maintenance of its assets, and no formal system of logging this information for inventory purposes for the period under review. Criteria had not been established to determine which assets have warranty conditions and which do not, which impacts the District’s ability to evidence consistent satisfaction of warranty requirements. However, as good progress, in March 2019 the District hired an Executive Director of Construction and Facilities who is responsible for coordinating and implementing efforts to resolve



open recommendations on maintenance and warranties. Based on inquiry with the Executive Director of Construction and Facilities, the District is currently in the process of reevaluating all maintenance and warranty policies and procedures for appropriateness, with a current effort on, but not limited to, the following areas:

- Establishing formalized maintenance plans
- Establishing and digitizing formalized close-out documentation
- Establishing formalized warranty tracking documentation
- Better utilization of the SchoolDude work order system
- Creating and formalizing District-wide standard specifications

Based on the preliminary documentation presented during our interview, it appeared that the District is making significant progress toward addressing this open recommendation in the FY 2019/2020 time period.

Improvement Recommendation: As a best practice, the District should continue efforts to ensure compliance with all warranty conditions to sustain a level of protection against breach of warranty and proper maintenance of District facilities in accordance with warranty conditions. For all school sites, a consolidated summary project closeout report should be maintained, to include warranty and preventive maintenance log details such as major assets, applicable items under warranty, dates of installation, required periodic maintenance, and actual maintenance conducted. The contents of this report should be reported to stakeholders on a regular basis.

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 FY 2019 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 17 observations from the prior year, seven observations have been closed, the District has taken steps to address an additional eight observations, the District has not taken steps to address one observation, and one observation remained undetermined because there were no new instances in the current fiscal year for review. We have identified an additional two observations for improvement opportunities.



Source	Category	Recommendation	BHUSD Responses		Status of Resolution
			Management Response	Planned Resolution Date	
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 time/date-stamp all invoices when received, and evaluate invoice payment processing procedures to ensure compliance with District policies and procedures 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 has addressed the “Expenditure and Payment Procedures” recommendation provided in the prior year’s report (Moss Adams 2018 Report Objective No. 4b).	Agree	Closed	Closed
Observation 4c from Moss Adams FY 2020 Reports	Expenditure and Payment Procedures	The District’s billing controls should continue to be evaluated to prevent potential excessive and non-compliant charges to the District as required by the Contract. The District’s Accounting Department should ensure that evidence of the Contractor’s conditional and unconditional lien waivers are included within payment applications to ensure timely payment and mitigate potential project risk exposures. Additionally, the District should consider requiring the Contractor to provide subcontractor lien releases as well.	Agree to consider.	FY 2020/2021	Open (New)
Observation 5 from Moss Adams FY 2018–2020 Reports (Objective No. 5 from Moss Adams FY 2016 Report)	Salaries of District Employee for the Bond Program	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)	Agree	Closed	Closed
Observation 6 from Moss Adams 2016–2020 Reports	Compliance with State Laws, District Policies, and Other Regulations	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).	Agree	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 to develop and implement the Staffing Plan and associated policies and procedures for both the District and consultants, to correlate Bond Program projects to Bond Program staffing needs. The Staffing Plan and associated budget amounts should be submitted to District Management and or the Board and be evaluated for reasonableness, appropriateness, and alignment with contract terms. The District should continue developing District staff in various Bond Program positions to support processes for project reporting, communication, problem resolution, decision support, scope of control, and segregation of duties.	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 recommend periodic reporting of budget-to-actual comparisons of revenues, expenditures, cash flow, and fund balances. BOE-approved Master Plan budgets and current forecasts at the program and project level should be available, with consideration of the amounts available. 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 comment 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 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.	Agree	FY 2019/2020	Open – The District has not taken steps



Source	Category	Recommendation	BHUSD Responses		Status of Resolution
			Management Response	Planned Resolution Date	
		Change order reporting should include information such as itemized change amounts, percentages, descriptions, change responsibilities, dates of approval, subtotals, and totals for easy end user reference. Change order documentation should be available at the project and program level and should 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.			
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 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.	Agree	FY 2019/2020	Open – The District has taken steps
Observation 9b from Moss Adams FY 2020 Reports	Bidding and Procurement Procedures	The District should continue to consult with legal to ensure that bid, procurement, and contract administration processes and procedures are allowable. The District should update their policies and procedures to clearly identify the criteria and documentation needed to determine if the District can forgo a competitive bid process at the Contractor level and practices for competitive subcontractor selection. 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.	Agree. Please note the District has evidence that market price was achieved on the total construction price.	FY 2019/2020	Open (New)
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).	Given the uncertainties and the magnitude of current and possible future litigation related to the current subway project crossing District property, the District is unable at this point to set a maximum anticipated budget related to this event. Legal expenses related to this litigation are closely monitored and tracked. The law firms hired by the District in this and other closely related lawsuits have unique and valuable expertise with this type of specialized subject matter litigation.	FY 2019/2020	Open – The District has taken steps
Observation 9b from Moss Adams FY 2019 Reports	Bidding and Procurement Procedures	The District should ensure RFP performed is consistent with best practices and per Education Code 17406 (2)(B) for lease-lease back construction agreements with price considerations.	Agree	FY 2019/2020	Undetermined
Observation No. 9d from Moss Adams FY 2018–2019 Report	Bidding and Procurement Procedures	The District has addressed the “Bidding and Procurement Procedures” recommendation provided in the prior year’s report (Moss Adams 2019 Report Objective No. 9d).	Agree	Closed	Closed



Source	Category	Recommendation	BHUSD Responses		Status of Resolution
			Management Response	Planned Resolution Date	
Observation No. 9e from Moss Adams FY 2019 Report	Bidding and Procurement Procedures	The District has addressed the "Bidding and Procurement Procedures" recommendation provided in the prior year's report (Moss Adams 2019 Report Objective No. 9e).	Agree	Closed	Closed
Observation 9f from Moss Adams FY 2018–2019 Reports and Observation 9h from Moss Adams 2017 Report	Bidding and Procurement Procedures	The District has addressed the "Bidding and Procurement Procedures" recommendation provided in the prior year's report (Moss Adams 2019 Report Objective No. 9f).	Agree	Closed	Closed
Observation 9g from Moss Adam's FY 2019 Report and Observation 9i from Moss Adams 2017 Report	Bidding and Procurement Procedures	The District has addressed the "Bidding and Procurement Procedures" recommendation provided in the prior year's report (Moss Adams 2019 Report Objective No. 9g).	Agree	Closed	Closed
Observation 10 from Moss Adams FY 2016–2020 Reports	Procurement Fraud Prevention and Detection Controls	<p>The District should continue with the documentation and implementation of policies and procedures on procurement fraud 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 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:</p> <ul style="list-style-type: none"> 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 was addressed, 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 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. 	The District concurs with the need to be vigilant with fraud prevention and detection.	FY 2019/2020	Open – The District has taken steps
Observation 11 from Moss Adams FY 2016–2020 Reports	Claim Avoidance Procedures	The Construction and Facilities Department should consider implementing a claims avoidance log, or equivalent, to report in detail any potential differences with the Contractor, such as the responsibility for performing specific work on a periodic basis, claims avoided, and documented risk mitigation efforts.	Agree to consider.	FY 2020/2021	Open – The District has taken steps



Source	Category	Recommendation	BHUSD Responses		Status of Resolution
			Management Response	Planned Resolution Date	
Observation 12 from Moss Adams FY 2016–2020 Reports	Maintenance and Warranty of Measure E Assets	As a best practice, the District should continue efforts to ensure compliance with all warranty conditions to sustain a level of protection against breach of warranty and proper maintenance of District facilities in accordance with warranty conditions. For all school sites, a consolidated summary project closeout report should be maintained and should include warranty and preventive maintenance log details such as major assets, applicable items under warranty, dates of installation, required periodic maintenance, and actual maintenance conducted. The contents of this report should be reported to stakeholders on a regular basis.	Agree	FY 2019/2020	Open – The District has taken steps



N. OBJECTIVE NO. 14 – JOB SITE VISITS

Observation 14 (No Exception)

On October 17, 2019 we visited the Beverly Hills High School Building 1 and Building 2 Project site to determine the authenticity of projects in progress and/or project completion. During our walk-through we were able to view the project in progress. At that time, roofing, window retrofitting, HVAC, electrical, brick restoration, metal stud framing, and seismic retrofits were in process on site.

O. OBJECTIVE NO. 15 – RECOMMENDATIONS RECAP

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
- Team Concept Development Services (Consultants):
 - Senior Program Administrator

