

**BEVERLY HILLS UNIFIED SCHOOL DISTRICT
ANNUAL REPORT OF THE CITIZENS' BOND OVERSIGHT COMMITTEE
MEASURE E BOND BUILDING FUND AND
MEASURE BH BOND BUILDING FUND
YEAR ENDED JUNE 30, 2020**

The Citizens' Bond Oversight Committee (CBOC) is pleased to provide its annual report on the \$334 million General Obligation Measure E bond initiative passed in November 2008 (Measure E) AND the \$385 million General Obligation Measure BH bond initiative passed on June 5, 2018 (Measure BH). This report covers the 2019-2020 fiscal year, i.e., the period from July 1, 2019, through June 30, 2020.

Principal duties of the CBOC are to ensure that the proceeds have been expended for the purposes set forth in the Measure E and Measure BH ballot language, report on the progress annually to the public and provide a compliance statement. Education Code Section 15278(b) sets for the responsibilities for the oversight committee:

- *The **purpose** of the Citizens' Bond Oversight Committee shall be to **inform the public** concerning the **expenditure of bond revenues**.*
- *The Citizens' Bond Oversight Committee shall actively review and **report on the proper expenditure** of taxpayers' money for **school construction**.*

The District's Board of Education is responsible for monitoring, prioritization of projects commenced and spending levels of individual projects. The CBOC has no authority over how and when monies are spent. By reporting the proper expenditure of funds and holding the district and its agents accountable for their decisions, the CBOC may have an impact on future spending decisions and timing. The current CBOC members are Richard Baron (Chair), Les Bronte, Bill Bymel, Lee Egerman, Paris Elias-Benyamin, Nathan Kruger, Jason Rund, Richard Schreiber, Yoav Tamir and Don Wyse.

This report highlights the policy and programmatic issues addressed by the CBOC. During the 2019-2020 fiscal year the CBOC met five times. The CBOC reviewed the District's program bond fund expenditure reports and discussed its findings at the meetings. Minutes of those meetings are available at the District's website (www.bhusd.org). The District completed the following required efforts:

- Financial Audit – Annual, performed by Moss, Levy & Hartzheim, LLP
- Performance Audit – Annual, completed by Moss Adams, LLP

All audits were performed under the guidelines of Proposition 39, as well as generally accepted accounting standards.

Financial Audit Results

Moss, Levy & Hartzheim, LLP issued its financial audit report of both Measure E and Measure BH on March 15, 2021. The Financial Audit focused on the accuracy and fairness of the Financial Statements prepared by the District on the Measure E Building Fund. The following is the firm's opinion of the financial statements for both Measure E and Measure BH:

"In our opinion, the financial statements referred to above **present fairly**, on all material respects, the respective financial position of the Measure E Bond Building Fund of the Beverly Hills Unified School District, and as for the fiscal year ended June 30, 2020, and the respective changes in financial position for the fiscal year ended **in accordance with accounting principles** generally accepted in the United States of America."

During the 2019-2020 fiscal year the **Measure E Building Fund expenditures were \$25,275,020** and the fund **balance as of June 30, 2020, was \$94,329,225.**

For the same period, the **Measure BH Building Fund expenditures were \$44,312,915** and the fund **balance as of June 30, 2020, was \$116,424,198.**

The Financial Auditors also considered the District's internal controls over financial reporting. During the test of disbursements, it was noted that 1 out of 27 disbursements were not paid timely. Note that the District processed over 900 facilities invoices for the fiscal year.

The CBOC was pleased with the overall work of Moss, Levy & Hartzheim.

Performance Audit Results and Comments

On March 29, 2021, Moss Adams LLP issued its Measure E and Measure BH Construction Bond Fund Performance Audit Report for the fiscal year ending June 30, 2020. Moss Adams, LLP identified the following finding(s) based on its performance audit report for the fiscal year ended June 30, 2020:

"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 3 in the report body)."

Additionally, Moss Adams, LLP reviewed and confirmed that of the 11 observations from the prior year, 4 have been closed and steps have been taken to address 6 others. They identified the following **two additional improvement opportunities**:

1. **Master Planning** - **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. 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. Appropriate and relevant narrative should be maintained and **reported to key stakeholders, including the CBOC**, 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.
2. **Bond Program Transparency** - 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.
 - 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 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.

Below are the open findings that the District **has taken steps to improve** in FY 2020 but Moss Adams has recommended that they **continue to work on** in FY 2021

1. **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.
2. **Expenditure & payment procedures** - The District should:
 - Continue to **evaluate the invoice payment processing** procedures to ensure compliance with the California Prompt Payment Act.
 - Continue to evaluate policies and procedures to ensure alignment with the **California Prompt Payment Act requirements** and contractual obligations.
 - Continue efforts to **sign and date all invoice approvals** and evaluate the invoice approval process to ensure compliance with District policies and procedures.
 - 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**
 - Formalize a plan to conduct construction audits or review procedures to ensure any potential **excessive or non-compliant charges are not billed to the District**.
 - To evaluate its billing controls and policies to prevent potential excessive and non-compliant charges to the District, as required by the Contract.
 - 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.
3. **District & 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.
4. **Design & construction cost budget management** - 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.

5. **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 CBOC was pleased with the overall work of Moss Adams, LLP.

CBOC Comments

The CBOC had comments on the following issues/recommendations:

1. **The Master Plan has not been formally updated** and published since 2018 despite large changes in scope, cost and timing. This has made it **difficult for the CBOC to properly perform its role in providing oversight**. While there were a handful of change orders that were published, these did not reflect the massive expansion in overall expenditures and shifting timelines. As the District makes changes to the scope and budget in the Master Plan, the CBOC is requesting more transparency as to the nature and justification of those changes.

The Moss Adams 2020 audit specifically calls this out as a new improvement area for the District: **“A current Master Plan** with defined policies and procedures will allow for **greater transparency** with key stakeholders. Ensure defined processes are in place for master planning, including when to utilize these procedures, 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. Appropriate and relevant narrative should be maintained and reported to key stakeholders, including the CBOC, on a regular basis.”

2. The CBOC will have a mid-year "check-in" to review the District's progress in resolving performance audit findings.
3. **In conclusion, the CBOC opines that the District is in compliance with the requirements of Article XIII A, Section 1(b)(3) of the California Constitution, that bond revenues were expended only for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities, and that funds were not used for any teacher or administrative salaries or other school operating expenses.**