

**BHUSD - ANNUAL REPORT OF THE  
CITIZENS' BOND OVERSIGHT COMMITTEE (CBOC)  
MEASURE E & BH BOND BUILDING FUNDS  
YEAR ENDED JUNE 30, 2021**

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 2020-2021 fiscal year, i.e., the period from July 1, 2020 through June 30, 2021.

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**BACKGROUND**

The principal duties of the CBOC are to: (1) Ensure that bond proceeds have been expended for the purposes set forth in the Measure E and Measure BH ballot language, (2) Report on the progress annually to the public, and (3) Provide a compliance statement. Education Code Section 15278(b) sets 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 prioritizing the scope of building projects and managing spending levels. 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 Les Bronte (chair), Nathan Kruger (vice-chair), Richard Baron, Marc Carrel, Harry Kraushaar, Bill Bymel, Lee Egerman, Paris Elias-Benyamin, Yoav Tamir, and Don Wyse.

This report highlights the policy and programmatic issues addressed by the CBOC. During the 2020-2021 fiscal year the CBOC met five times. The CBOC's Audit Committee reviewed the District's program bond fund expenditure reports and reported its findings at those meetings. Minutes of each of the CBOC meetings are available at the District's website ([www.bhusd.org](http://www.bhusd.org)).

During the past year, the District completed the following required efforts:

- Annual Financial Audit –Performed by Moss, Levy & Hartzheim, LLP
- Annual Performance Audit – Completed by Moss Adams, LLP

Both of these audits were performed under the guidelines or Proposition 39, as well as generally accepted accounting practices (GAAP).

## FINANCIAL AUDIT RESULTS

Moss, Levy & Hartzheim, LLP issued its Fiscal Year 2020-2021 financial audit report of both Measure E and Measure BH on March 15, 2022. 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**, in all material respects, the respective financial position of the Measure E and Measure BH Bond Building Fund of the Beverly Hills Unified School District, as of and for the fiscal year ended June 30, 2021, and the respective changes in financial position for the fiscal year then ended **in accordance with accounting principles** generally accepted in the United States of America."

During the 2020-2021 fiscal year the **Measure E Building Fund expenditures were \$47,595,379** and the fund balance as of June 30, 2021, was \$47,148,336. For the same period, the **Measure BH Building Fund expenditures were \$41,902,198** and the fund balance as of June 30, 2021, was \$75,055,987.

The Financial Audit also considered the District's internal controls over financial reporting. During the test of disbursements, it was noted that **7 out of 75 disbursements were not paid timely**. The District is continuing to take steps to ensure invoices are paid in a timely fashion.

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

## PERFORMANCE AUDIT RESULTS

On March 28, 2021 Moss Adams LLP issued its Measure E and Measure BH Construction Bond Fund Performance Audit Report for the fiscal year ending June 30, 2021. Moss Adams, LLP identified the following findings:

"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, 2021, 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."

Additionally, Moss Adams reviewed and confirmed that of the 9 observations from the prior year, 3 have been closed and steps have been taken to address 6 others. Below are the open findings that the District has taken steps to improve in FY 2021 but Moss Adams has recommended that they continue to work on in FY 2022:

## Key Recommendations from Moss Adams' Performance Audit

Source	Category	Recommendation	BHUSD Response	Status of Resolution
<b>Observation 4c</b> from Moss Adams FY 2019–2021 Report	<b>Expenditure and Payment Procedures</b>	<b>The District should continue efforts to formalize a plan to conduct construction audit or review procedures on any potential non-compliant charges that are not billed to the District and to support transparency of the project.</b> As a best practice, the District's billing controls and policies should continue to be evaluated to prevent potential excessive and non-compliant charges to the District, as required by the contract. Additionally, the District should consider requiring subcontractors to submit conditional and unconditional lien waivers, in addition to the Contractor, with their payment applications to ensure timely payment and mitigate potential project risk exposures.	District concurs with the improvement recommendation.	<b>Open –</b> The District has taken steps
<b>Observation 7</b> from Moss Adams FY 2016–2021 Reports	<b>District and Professional Services Staffing Plan for the Bond Program</b>	<b>The District should continue efforts to review a detailed Staffing Plan including itemized detail such as personnel names, titles, contractual rate, total labor budgeted, and allocations within the Bond Program.</b> However, the staffing plan should include details on hourly vs. salary employees. Additionally, policies and procedures should be updated to include staffing plan policies and procedures. Staffing plan policies and procedures should include, but not be limited to, the allowability and application of vacation, sick, and holiday time, updated positions/titles and associated rates, and hourly vs. salary employee considerations.	District concurs with the improvement recommendation	<b>Open –</b> The District has taken steps
<b>Observation 8</b> from Moss Adams FY 2016–2021 Reports	<b>Design and Construction Costs Budget Management</b>	Both the SDCTA and GFOA recommends periodic <b>reporting of budget-to-actual comparisons of revenues, expenditures, schedule, and fund balances.</b> BOE-approved master plan budgets with current forecasts at the program and project level should be available with consideration of the amounts available in one consolidated report. Detailed budget-level information for current bond issuances allows the District to monitor budgetary performance against committed contract values and can serve as an early warning indicator for potential problems. This information provides decision-makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident. The SDCTA and GFOA contend that this information is essential input for demonstrating accountability and transparency. This documentation will also serve as a useful tool for District management and stakeholders to understand the timing of project schedules.	District concurs with the improvement recommendation.	<b>Open –</b> The District has taken steps

Source	Category	Recommendation	BHUSD Response	Status of Resolution
Observation 10 from Moss Adams FY 2016–2021 Reports	<b>Procurement Fraud Prevention and Detection Controls</b>	<p><b>The District should continue to document and implement policies and procedures to help identify, prevent, and detect procurement fraud.</b> Policies should include reporting protocols, training requirements, and escalation procedures specific to procurement fraud. The resulting documentation can also serve as a useful staff training tool. As a best practice, the District should continue to maintain a consolidated bid and procurement activity report that will help District senior management identify, prevent, or detect fraud and/or non-compliance with District policies and procedures, State laws, and regulations. Supporting documentation for this consolidated report should be readily available in a central location, either physically or electronically. Per the GFOA, potential instances of fraud or abuse and questionable accounting practices come to the attention of responsible parties thanks to employees or citizens who become aware of such practices. The GFOA provides the following relevant recommendations:</p> <ul style="list-style-type: none"> <li>• <b>Establish practical mechanisms (e.g., a hotline) that permit the confidential, anonymous reporting</b> of concerns about fraud or abuse and questionable accounting practices to the appropriate responsible parties.</li> <li>• <b>Make internal auditors (or their equivalent) responsible for the mechanisms</b> used to report instances of potential fraud or abuse and questionable accounting practices. Emphasize that internal auditors should take whatever steps are necessary to satisfy themselves that a given complaint is without merit before disposing of it. Internal auditors should also document the details of how each complaint is addressed.</li> <li>• As part of its evaluation of the government's internal control framework, have appropriate <b>District oversight personnel examine documentation of how complaints were handled</b> to satisfy itself that mechanisms for reporting potential fraud or abuse and questionable accounting or auditing practices are in place and working satisfactorily.</li> </ul>	The District will examine the feasibility of a fraud reporting hotline or another type of anonymous communication tool.	<b>Open –</b> The District has taken steps
<b>Observation 11</b> from Moss Adams FY 2020–2021 Report	<b>Master Planning</b>	As a best practice, <b>Project reporting with key project information including forecast and commitment amounts should be consistently reported to District management and key stakeholders</b> (see Recommendation No. 8 for further information). Any forecasted overruns should be addressed with detailed plans to secure additional sources of funding and identification of alternative options that reduce projected costs while still meeting the District's objectives and needs. The master plan should include information surrounding project or scope prioritization for the funding available to promote transparency to key stakeholders.	The District concurs with the improvement recommendation	<b>Open –</b> The District has taken steps

## CBOC COMMENTS

In addition to the observations and recommendations from the financial audit and the performance audit, the CBOC has its own observations, concerns, and recommendations:

1. **Lack of Staffing Plan for the Bond Manager Resulted in Poor Oversight and Possible Unchecked Growth in Staffing Expenditures**

Throughout the period of the performance audit, there was no clear staffing plan or budget that regulated labor costs for the bond manager, TCDS. Apparently, TCDS staff were given raises several times, and then the District was charged those higher hourly rates, without any Board approval or oversight. With no clear TCDS staffing plan and oversight, labor costs may have increased without adequate oversight. Without a clear staffing budget there was no way to assess whether costs had gone “over budget.” Hourly rates for bond manager staff should have been determined before the construction project commenced. Moving forward, in order to assure cost controls, the **District must create and approve a clear staffing plan with an accompanying budget and provide greater oversight on any pay increases with the bond manager and other vendors.** Since the period of the performance audit ended in June 2021, the District has taken steps towards addressing this issue.

2. **No RFP or Transparency for New Security Program**

The CBOC is concerned with how the District provided the bond manager with a contract to develop and implement a comprehensive security program for the District. The CBOC has several concerns about this project. First, since there is little transparency about the security project, the CBOC is unclear exactly what the security contract requires. We are concerned that this project may not be appropriate to be spent out of bond funds. In addition, work was given to the vendor without going through the typical RFP process, and the vendor is not a security provider. The contract – initially planned for \$3 million but which has ultimately cost \$12 million – was to design proprietary software for the District without justification for why proprietary software was necessary and the District should not use an off the shelf product. Without going through a typical RFP process, the District could know whether it was getting the most competitive price. It also could consider various approaches from a variety of bidders and decide which approach is the best for the District. **The CBOC recommends that the Board of Education review the security program, provide greater transparency to the CBOC and the community, determine whether this project should have been conducted using Bond funds, and examine why the cost of the project grew so much.**

3. **District Provides Minimal Oversight on Bond Manager & Project Expenses**

The CBOC is convinced that the District has insufficient senior staff in place to oversee the bond program. The District has been relying solely on the contractor’s billings and does not have anyone in place to oversee the contractor’s activities and billings. Without knowledgeable senior staff, the District does not know if too many people are assigned to a project, for instance, or if the invoices are incorrect or inaccurate. The current process is very opaque, and the District has not hired senior staff with experience overseeing construction projects, overseeing security, and overseeing other key aspects of this project, to make sure everything is handled appropriately. Throughout the construction process, we understand that the Bond Manager reported directly to the Board of Education, and not to the Superintendent or senior staff. Not only is the role of the Board of

Education not to oversee a complex, multi-year, ongoing project outside of staff involvement, but the elected, part-time, Board members do not have the knowledge, experience or capability to conduct adequate oversight of the District's construction program. The CBOC is pleased to see that the recent RFP issued for a new bond manager addresses this issue, and the new bond manager will not be reporting directly to the Board. To build upon this shift, the **CBOC recommends the District hire experienced and knowledgeable senior staff to provide adequate oversight of the bond manager and the entire construction program to review and make recommendations to the Superintendent.**

4. **Need Improved Outreach to Address Community's Concerns**

As the bond program's budget shortfall has become clear, frustration has grown within the Beverly Hills community. Without a clear communication strategy, rumors develop as to the causes of the shortfall. Parents often wonder, "Why is the project taking so long? When will my child benefit from the new construction? Why are the costs so high?" The CBOC believes that a handful of presentations at Board of Education meetings are not sufficient to keep the community informed as to the progress of campus projects, changes to timelines, and the budget issues. Most people simply are not able to attend the meetings, and it's not sufficient to simply instruct community member to watch the board meeting video on the District website. The District needs to initiate a more proactive outreach program to update parents and taxpayers. **A BHUSD Assistant Superintendent should regularly attend PTA meetings, coffees with principals and other relevant meetings to provide project updates and answer questions on a quarterly basis. The District should also consider convening a Town Hall meeting to provide a comprehensive update on the construction project. Additionally, clear updates with photos and timelines should regularly be disseminated via social media and email newsletters sent out by PTA's and school principals.** This more pro-active communication will keep the community engaged and informed about something that affects each of us.

5. **A More Comprehensive Audit is Needed**

Finally, based on our concerns for the lack of transparency, and the results of the Audit of projects B1 & B2 at Beverly Hills High School, and poor oversight of expenditures by the District, the CBOC recommends that the Board of Education undertake a more comprehensive audit focused on charges from the general contractor, ProWest. The goal should be to examine all past expenditures (across BHHS B3 & B4 buildings, El Rodeo, etc...) to identify whether all charges and payments have been compliant with the contract, District procedures, bond requirements, and state law. We do not know if there are any problems, but we are concerned that with the lack of oversight, funds may have been misspent. A deeper audit would provide the District, the Board of Education, the CBOC and the community greater understanding and transparency.

## **CBOC RECOMMENDATIONS**

The below is a summary of the CBOC's recommendations:

- 1. Create and maintain an accurate staffing plan / budget for the bond manager and provide consistent oversight.**
- 2. Evaluate if the new security program is appropriate use of bond funds and send out for RFP.**
- 3. Hire experienced District personnel to oversee expenses and evaluate that costs are within contract and guidelines.**
- 4. Conduct more proactive community outreach to update parents, taxpayers and stakeholders.**
- 5. Conduct a more comprehensive audit examining all charges from the general contractor, ProWest, across the entire bond construction program.**

Citizens' Bond Oversight Committee  
Beverly Hills Unified School District