

**BHUSD - ANNUAL REPORT OF THE
CITIZENS' BOND OVERSIGHT COMMITTEE (CBOC)
MEASURE E & BH BOND BUILDING FUNDS
YEAR ENDED JUNE 30, 2023**

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 2022-2023 fiscal year, i.e., the period from July 1, 2022 through June 30, 2023.

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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), Marc Carrel, Harry Kraushaar, Bill Bymel, Paris Elias-Benjamin, Don Wyse, Jasmine Yadgari, and Raymond Zolekhian.

This report highlights the policy and programmatic issues addressed by the CBOC. During the 2022-2023 fiscal year the CBOC met 7 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).

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

- Annual Financial Audit –Christy White, Inc
- Annual Performance Audit – Completed by Moss Adams, LLP

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

SUMMARY OF FINANCIAL AUDIT

Christy White, Inc issued its Fiscal Year 2022-2023 financial audit report of both Measure E and Measure BH on January 12, 2024. 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 BH Bond Building Fund of Beverly Hills Unified School District, as of June 30, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

During the 2022-2023 fiscal year the **Measure E Building Fund expenditures were \$76,566** and the fund balance as of June 30, 2023, was \$11,201,207. For the same period, the **Measure BH Building Fund expenditures were \$74,092,333** and the fund balance as of June 30, 2023, was \$175,760,004.

The Financial Audit also considered the District's internal control over financial reporting. Although the auditor's consideration of internal control was not designed to identify all deficiencies in internal controls, there were no material weaknesses or significant deficiencies identified.

SUMMARY OF PERFORMANCE AUDIT

On January 18, 2024 Moss Adams LLP issued its Measure E and Measure BH Construction Bond Fund Performance Audit Report for the fiscal year ending June 30, 2023. The CBOC believes the following findings are material and should be disclosed to the public:

1. Auditor unable to validate whether billing to District was compliant FY 2019-2023

- **Observation:** Absent detailed job cost documentation and subcontractor lien release documentation, we were **not able to validate whether billing to the District was compliant** with the contract terms. Per inquiry with the District and Fonder-Salari team, both contractor and subcontractor lien waivers are being received and reviewed on a regular basis are available upon request.
- **Recommendation:** As provided by the lease-leaseback agreements, the District should continue to conduct detailed reviews of monthly payment applications to verify all charges are compliant and fully supported.
 - a. As a best practice, the District's billing controls and policies should be evaluated to prevent potential excessive and non-compliant charges to the District, as required by the contract.
 - b. Additionally, the District should continue 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.
- **Management Response:** As recommended by the contract between the District and ProWest, the District commenced a **construction audit** of the BHHS B1/B2 project in May 2021, which concluded in November 2021. The District also commenced construction audits of the B3/B4 project, El Rodeo project, and the South Site Oil Wells project in June 2022. The completed

construction audit indicated that **TCDS and the contractor did not include actual cost incurred documentation** within monthly payment applications to demonstrate that contractor charges complied with the open-book accounting requirements for the Beverly Hills High School Building and El Rodeo Modernization Projects.

The District and Fonder-Salari will continue to conduct detailed reviews of each payment application. The general contractor is required to submit subcontractor lien releases for the previous month with each payment application.

2. Unclear Protocols to Prevent Procurement Fraud FY 2016-2023

- **Observation:** The District developed, but did not maintain a Consolidated Bid and Procurement Activity Report during the fiscal year as outlined in the policies and procedures. We were unable to identify reporting protocols, escalation procedures, and activity report and checklist protocols and procedures that define who and when reporting, escalation, and reports and checklists should be completed in the revised policies. Absent defined reporting protocols, or escalation procedures, it is unclear whether the District has adequate controls in place to identify, prevent, and detect procurement fraud.
- **Recommendation:** The District should maintain a consolidated bid and procurement activity report that will help District senior management identify, prevent, or detect fraud and/or other issues of non-compliance with District policies and procedures, State laws, and regulations.
 - a. Supporting documentation for this consolidated report should be readily available in a central location, either physically or electronically.
 - b. As part of its evaluation of its internal control framework, appropriate District oversight personnel should examine how complaints were handled to ensure that mechanisms for reporting potential fraud or abuse and questionable accounting or auditing practices are in place and working satisfactorily.
- **Management Response:** The District and Fonder-Salari staff **did complete fraud awareness training** during the fiscal year and will continue to do so on an annual basis. An updated procurement fraud prevention and detection controls was under development throughout the fiscal year and was approved by the Board of Education on September 26, 2023, after our audit period.

3. Master Planning FY 2020-2023

- **Observation:** The updated master budget and master schedule resulted in a reduced program budget shortfall of \$13,741,672 as presented to the Board on June 27, 2023. The reduction in the shortfall is due to updated project estimating value engineering and prioritization of project scopes. The cash flow modeling and funding source components were not included within the Program Master Budget and Master Schedule, but were included within the monthly reporting to the District.
- **Recommendation:** As a best practice, the master plan should include information surrounding cash flow modeling and funding source information to promote transparency, compliance, and accountability to key stakeholders amongst the various program and funding sources.
- **Management Response:** Per inquiry with the District and Fonder-Salari, updated master planning policies and procedures were under development throughout the fiscal year and were

approved by the Board of Education on September 26, 2023, after the audit period. BHUSD and Fonder-Salari will expand the Master Budget and Master Schedule documentation to ensure that cash flow timing and funding source information is clear and transparent. Also, the District is currently evaluating its financial options to cover the program shortfall through future modernization funding from the State of California.

CBOC COMMENTS

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

1. **The District and the new bond manager Fonder-Salari have made monumental improvements in transparency, cost savings, and time-line management** to ensure the El Rodeo & BHHS projects get back on track and within budget. Fonder-Salari took over the duties from TCDS starting in July 2022 and received no transition support from TCDS. Still they **successfully turned the project around** by negotiating on behalf of the District with contractor ProWest, consultants, architects and regulatory agencies and built a team with accountability and transparency. This resulted in **reducing the budget shortfall** for BHHS to \$13,741,672 and El Rodeo being ready to **open on time** in Aug 2024. Furthermore, this team made progress in other aspects such as:
 - a. **Addressing ALL Audit Recommendations** - The CBOC is very pleased with the performance improvements that the District and Fonder-Salari have accomplished during their first fiscal period working together. Fonder-Salari **addressed every single recommendation presented in the performance audit report**. Of the 6 total audit recommendations, which were mainly carried forward since 2016, two were resolved, two were closed, and two are in plans to be resolved shortly after the fiscal year end.
 - b. **Improved Transparency** - During CBOC meetings, Fonder-Salari was in attendance and was responsive in answering concerns of the committee. Financial reporting improved drastically in comparison to previous years. For example, the District and Fonder-Salari have worked together to prepare a **“Detailed Expenditure Report”**. This financial report provides the CBOC with very accurate and thorough line by line expenditures, which allowed the committee to provide effective oversight.
 - c. **Improved Oversight by District** - CBOC’s 2021 Report stated that the “District has insufficient senior staff in place to oversee the bond program” and “does not have anyone in place to oversee the contractor’s activities and billings.” Fortunately, in 2022 the District created the position of **Construction Services Executive Director**, which is **dedicated to Bond Program management**, and filled it with Will Karrat. In 2022-2023, Mr. Karrat in partnership with the seasoned Assistant Superintendent of Business Services, Raphael Guzman, provided **dedicated oversight of the bond manager** that the District had been missing in prior years. For example, all billing from ProWest and consultants passes through a robust approval process by this team (with support from Fonder-Salari) ensuring the billing is accurate and all work is completed.
 - d. **Improved Outreach to the Community** - Fonder Salari & the District provided continuous construction updates at board meetings, which are available to the public. On the BHUSD **website**, monthly **Bond Manager Reports** with detailed construction updates were posted. Also, on the BHUSD website are monthly **aerial flyover videos** demonstrating the construction progress. Lastly, a **virtual construction town hall**

meeting took place on May 4, 2023 to inform community members of construction progress.

2. **The District has Made Progress on Developing Fraud Protections, but Still Has Work to Do**
CBOC's 2022 Report emphasized that "there were no fraud reporting protocols, fraud training policies, or fraud escalation procedures in place to identify, prevent, and detect procurement fraud". Because of the severity of this gap, CBOC had previously recommended a forensic audit to identify possible fraud. Fortunately, the District has made strides developing a fraud prevention program and has held fraud training as recommended by the performance audit. Still, the performance audit calls out "We were **unable to identify reporting protocols, escalation procedures**, and activity report and checklist protocols and procedures that define **who and when reporting, escalation, and reports and checklist should be completed** in the revised policies." **CBOC recommends that the District prioritize refining these procedures to ensure that no bond funds are lost to fraud.**
3. **Still No Transparency For the \$12 Million Security Program Provided by TCDS**
Despite multiple requests over the last 3 years by the CBOC, the District still has not reported details of the estimated \$12 million security program implemented by the former bond manager. 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 included. Therefore, **we are concerned that this project may have been an inappropriate use of bond funds.** In addition, work was given to TCDS without going through the typical RFP process, and the vendor was not a security provider. Without going through a typical RFP process, the District did not know whether it was getting the most competitive price. It also could not assess various approaches from a variety of bidders and decide which approach was the best for our District. **The CBOC recommends that the Board of Education review the security program, provide greater transparency to the CBOC and the community and reconsider whether this project should have been paid for with Board funds.**
4. **CBOC requests that it be integrated into the audit process throughout the fiscal year, so it may have a greater impact in providing oversight.** Traditionally, the CBOC receives the final audit (typically from Moss Adams) in February following the year being audited (which ends June 30). This is well after the audit is fully complete and formally presented to the Board. Instead, the **CBOC requests to see initial audit findings at the same as the Board (typically in November) and have an opportunity to provide comments before the audit finalized.** Lastly, CBOC requests to receive audit updates similar to the Board, which may occur multiple times throughout the fiscal year in order to increase transparency and insight.

CBOC RECOMMENDATIONS

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

1. **CBOC recommends that the District continue to prioritize refining its fraud protection procedures to ensure that there are no bond funds lost to fraud. There is a specific need to create a checklist or guide on how to report and escalate fraud if one suspects fraud.**
2. **Evaluate whether the comprehensive security program implemented by TCDS was an appropriate use of bond funds.**

3. **CBOC requests to obtain performance audit findings at the same as the board in order to provide comments before the audit is finalized. Lastly, CBOC requests to receive audit progress updates similarly as the board receives their updates, which may occur a few times throughout the fiscal year.**

Citizens' Bond Oversight Committee
Beverly Hills Unified School District