



FINAL REPORT

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**Beverly Hills Unified School District**  
**MEASURE E AND MEASURE BH CONSTRUCTION BOND PERFORMANCE**  
**AUDIT REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

January 18, 2024

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MOSSADAMS



**January 18, 2024**

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

**Subject:** 2008 Measure E and 2018 Measure BH Construction Bond Performance Audit Report  
for the Fiscal Year (FY) Ended June 30, 2023

Dear Board Members:

This report presents the results of the performance audit completed by Moss Adams LLP (Moss Adams) for the Beverly Hills Unified School District's (the District or BHUSD) 2008 Measure E Construction Bond and the 2018 Measure BH Construction Bond (the 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 Construction Bond Program performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and audit results, based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and audit results, based on our audit objectives. The performance audit objectives, scope, methodology, results, and a summary of the views of responsible District officials are included in the report body.

Moss Adams has conducted audits of this program for the past seven years. Over that time, Bond Program management has changed from Totum Consulting to Team Concept Development Services (TCDS) to Fonder Salari (effective July 1, 2022). Through inquiry and review of documents, we confirmed that of the six observations from the prior year the District has taken steps to address four observations, and has addressed two observations. Overall, the District and Fonder-Salari have worked diligently to address open recommendations since the Bond Program management transition.

Performance audit procedures described in this report cover the period from July 1, 2022 through June 30, 2023. Our procedures covered both expenditures and the effectiveness and efficiency of internal controls. Based on the performance audit procedures performed and the results obtained, we have met our audit objectives. We conclude that for the fiscal year ended June 30, 2023, bond proceeds were used only for Listed Projects under Measures E and BH, which authorized the sale of the Bond.

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

- The District utilizes the Multivista Construction Documentation system to store detailed project photos from project inception to track project status and progress.
- The District contracts with Keystone Solutions to support reconciliation of expenditures.
- The District utilizes other revenue sources to maximize the impact of Bond Program funds.
- Citizens' Bond Oversight Committee (CBOC) agendas, meeting minutes, and annual reports were posted on the District's website.
- Board of Education (BOE) agendas, meeting minutes, and approvals were posted on the District's website.
- The District periodically updates the Bond Program's website.

We also evaluated the effectiveness and efficiency of internal controls to provide an analysis of the School Construction Program to provide those charged with District governance and oversight information to improve program performance and operations. Our results are summarized below and categorized as compliance or performance improvement findings. Compliance findings indicate a departure from regulations, policies, procedures, or contractual obligations while performance improvement findings indicate an opportunity to enhance efficiency, effectiveness, internal controls, or accountability.

## Expenditure Management and Controls

- **Policy Compliance:** Of the sampled expenditures, only two of 85 (2.35% of Bond Program expenditure samples) did not meet contractual agreements for payment terms. While compliant with Public Contract Code, the expenditure did not meet the District payment policies and procedures, which recommend payment of invoices within 30 days (see Observation No. 4a in the report body).

- **Contract Compliance:** The District commenced a construction audit of the B3/B4 project, El Rodeo project, and the South Site Oil Wells project in June 2022. The District did not have adequate documentation within monthly payment applications to verify that contractor charges complied with the actual cost of work incurred and open-book accounting requirements specified within the contract documents for the Beverly Hills High School Modernization and El Rodeo Modernization Projects (see Observation No. 4c in the report body).

## Procurement Procedures and Controls

**Performance Improvement:** The District developed, but did not maintain a Consolidated Bid and Procurement Activity Report during the fiscal year, as required by the Construction & Facilities Policies & Procedures Manual and identified as a best practice (see Observation No. 10 in the report body).

## Master Planning

**Performance Improvement:** The District and Fonder-Salari developed a Program Master Budget and Master Schedule to include best practice key performance indicator (KPI) metrics identified by the Government Finance Officers Association (GFOA). The Program Master Budget and Master Schedule did not appear to include cash flow modeling information; however, this is included within the monthly Bond Program update (see Observation No. 11 in the report body).

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

- Expenditure Management and Controls
- Procurement Controls and Contract Administration
- Master Planning

## Future Considerations

- **Contract Type and Cost of Work Definitions Process Improvement:** On future major capital projects, the District should continue to use a Guaranteed Maximum Price (GMP) contract type with a right-to-audit clauses and develop strong cost of work definitions for cost types such as labor, equipment, direct cost, materials, subcontractors, insurance markups and fees to support the District with budget management and cost control.
- **Change Order and Professional Amendment Reporting:** The District should continue reporting on change orders and professional amendments to the Board, CBOC, and public while offering detailed change order and professional amendment logs upon request to support the District with budget management and cost controls, and to promote bond program transparency.



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.

We would like to express our appreciation to you and all members of your staff for your cooperation throughout this performance audit.

Sincerely,

A handwritten signature in cursive script that reads 'Moss Adams LLP'.

Moss Adams, LLP  
Woodland Hills, CA

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## **I. BACKGROUND INFORMATION**

### **A. BEVERLY HILLS UNIFIED SCHOOL DISTRICT APPROVED BOND FUNDS**

In 2008, Beverly Hills voters approved Bond Measure E for \$334 million to provide improvements to Beverly Hills Unified School District (the District or BHUSD) facilities. Measure E School Construction Bond funds were intended to provide safe and modernized school facilities; make necessary structural seismic safety repairs; upgrade, repair, and reconstruct aging classrooms, infrastructure, multi-use facilities, gyms, libraries, science facilities, technology, roofing, plumbing, heating, ventilation, and electrical systems; and renovate District schools to better protect student and staff from unauthorized entry, security risks, and natural disasters. The Bond Program was in its 15<sup>th</sup> year of implementation in FY 2023.

In 2018, Beverly Hills voters approved Measure BH Construction Bond for \$385 million to provide improvements to District facilities. The 2018 Measure BH Construction Bond funds were intended for local school repair and upgrade projects; school safety, security, and health wellness projects; District-wide instructional technology and infrastructure projects to standardize learning spaces for 21<sup>st</sup> century skills; and specific school site projects.

Bond Program accounting records for FY 2022–2023 indicate Measure E expenditures and Measure BH expenditures totaling \$74,168,899.

### **B. CALIFORNIA STATE REQUIREMENTS**

Proposition 39 was passed by State voters on November 7, 2000 and amended provisions to the State Constitution and 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.” The initiative provided for the following amendments to the State Constitution and Education Code:

1. “To provide an exception to the limitation on ad valorem property taxes and the two-thirds vote requirements to allow school districts, community college districts, and county offices of education to equip our schools for the 21<sup>st</sup> 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.”

In addition, SB 1473, approved by the governor on September 23, 2010, amended the California Education Code to add Section 15286, which requires an annual performance audit to be conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States.

## **C. STATEMENT OF COMPLIANCE WITH GAGAS**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



## II. OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of the performance audit was to verify BHUSD's compliance with Proposition 39, which requires that Bond Program proceeds be used only for school facilities projects that were listed with the Bond Program. The District passed the 2008 Measure E and 2018 Measure BH Bond funds under Proposition 39 and, as such, is required to expend these fund proceeds only on Listed Projects, and not for school operating expenses. The Measure E Bond Program expended \$76,566, and the Measure BH Bond Program expended \$74,092,333 in FY 2022–2023 for Bond Program expenditures totaling \$74,168,899. Measure E expenditures for the fiscal year were adjusted by the District and financial statement auditor by moving a portion of a \$175,728.40 SEWUP insurance credit to the revenue account for financial statement purposes.

Performance audit procedures covered the period of July 1, 2022 through June 30, 2023.

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. 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. 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), observation type (if applicable) and methodology applied included the following:

### **1. Conduct a Performance Audit**

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

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

We attended entrance meetings with both the District and CBOC members. At completion of the audit, we will attend up to three exit meetings to review our report, observations, and any improvement recommendations. Those meetings include:

- Exit meeting with District management on January 9, 2024
- BOE meeting scheduled on January 23, 2024
- CBOC meeting (TBD)

### **3. Compliance with Ballot Language (Compliance Objective)**

We selected a representative sample of expenditures for Measures E and BH and determined that the funds were expended for Bond Program purposes. We reviewed the Bond Program's financial records and expenditures for FY 2023 to verify that funds were used for approved Bond Program purposes as set forth in the ballot language, Bond Program documents, BOE-approved Listed Projects, and Proposition 39 requirements. We reviewed the Bond Program's financial records and expenditures by obtaining the Annual Comprehensive 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 85 expenditures totaling \$63,083,361.55, or 85.1% (\$63,083,361.55 / \$74,168,899.00) of total expenditures. Details for each individual measure are included in the table below:

Measure	Number of Samples	Dollar Amount of Samples	Percent of Total Expenditures Sampled
E	22	\$135,171.02 <sup>1</sup>	85.1%
BH	63	\$62,948,190.53	
<b>Total Bond Program Sample</b>	<b>85</b>	<b>\$63,083,361.55</b>	

*1 – The sample selection is in excess of the total population due to deductive entries reducing the Bond Program expenditure amount.*

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

- Expenditures were for Listed Projects
- Payment applications and invoices were approved
- Expenditures complied with approved contracts and contract types, purchase orders, or other procurement documentation
- Expenditures were recorded in the proper period, accurate, and complete on the District's books and records

We interviewed District and Bond Program personnel and analyzed key documentation to assess the design of controls over Bond Program 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 2023. 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 2023) 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 (Compliance Objective)**

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 reviewed to prevent excessive charges and overpayments, based on contract terms, and payment applications were reviewed to assess the adequacy of supporting documentation.

#### **5. Salaries of District Employees for the Bond Program (Compliance Objective)**

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 (Compliance Objective)**

We analyzed the District's compliance with State laws and regulations regarding BHUSD's 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. Our performance audit was designed to provide reasonable assurance that Bond Program 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 (Performance Improvement Objective)**

We reviewed the District's Staffing Plan and policies and procedures to understand the approach to in-house staffing and consultant staffing. This included review of 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.

## **8. Design and Construction Costs Budget Management (Performance Improvement Objective)**

We compared design and construction budget management practices to the 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 to track Bond Program progress and financial standing (e.g., narratives, graphs, and 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 Program funds were expended to projects approved by the BOE and projects on the approved Facilities Master Plan.

## **9. Bidding and Procurement Procedures (Compliance Objective)**

We verified that District bidding and awarding of Bond Program-funded construction projects complied with the requirements of the State's school construction requirements, Public Contract Code, 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, State school construction requirements, and other regulations. Controls and activities to manage change orders were evaluated. We also reviewed policies and procedures to verify whether documentation existed prior to approval of change orders and amendments and verified that required approvals were applied.

## **10. Procurement Fraud Prevention and Detection Controls (Performance Improvement Objective)**

We validated that District controls are in place to prevent and detect procurement fraud. The following procedures were performed:

- Reviewed implementation of ethics policies, reporting protocols, staffing screening requirements, consequences, and training and escalation procedures to prevent and detect fraud
- Reviewed segregation of duties controls that are designed and implemented to prevent unauthorized obligations and payments
- Reviewed the completeness of monitoring controls implemented to identify, report, and address significant procurement anomalies



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

### **11. Master Planning (Performance Improvement Objective)**

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

### **12. Bond Program Transparency (Performance Improvement Objective)**

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

### **13. Review of Prior Year Audit**

We evaluated whether the District has taken appropriate corrective actions to address findings and recommendations from previous engagements that are significant within the context of the audit objectives.

### **14. Jobsite Visits**

We conducted on-site visits on December 6, 2023 and December 7, 2023 to the Beverly Hills High School B3/B4 project and the El Rodeo Elementary School Project sites.

### **15. Recommendations Recap**

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

### **16. Interviews**

We interviewed key personnel responsible for administering the Bond Program, including senior management and staff from the District and 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

##### Observation 1 (No Exception)

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

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

##### Observation 2 (No Exception)

We attended entrance meetings with both the District and CBOC members. At the 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) BOE, as determined by the District (anticipated January 2024), and 3) CBOC (anticipated February 2024).

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

##### Observation 3 (No Exception)

The District has addressed the Los Angeles County Metropolitan Transportation Authority (MTA) and Federal Transit Administration (FTA) legal fees charged to the Bond Program observation from the prior years' reports. We did not identify MTA and FTA legal fees relating to MTA's plan to construct part of the Los Angeles subway expansion beneath Beverly Hills High School in sampled expenditures for FY 2023. Based on inquiry with the District, no further MTA or FTA legal fees will be charged to the Bond Program.



##### PRIOR YEAR RELATED FINDINGS

- 2022 Report Observation 3
- 2021 Report Observation 3
- 2020 Report Observation 3
- 2019 Report Objective 3



## D. OBJECTIVE NO. 4 – COMPLIANCE – 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 years’ report. While compliant with Public Contract Code requirements for contractor payment terms, two of 85 (2.35% of Measure E and BH samples) sampled expenditures did not meet the District’s requirements for payment terms. According to the BHUSD Construction & Facilities Department Policies & Procedures Manual, Section 9.A, General Invoices: “The District will strive to pay invoices within 30 days of receiving an invoice.” This also appears to be consistent with the updated Construction and Facilities Policies & Procedures approved by the Board on September 26, 2023. Based on our sampling and review, we noted the following instances that did not meet this requirement:

### PRIOR YEAR RELATED FINDINGS

- 2022 Report Observation 4a
- 2021 Report Observation 4a
- 2020 Report Observation 4a
- 2019 Report Objective 4a
- 2018 Report Objective No. 4a
- 2017 Report Objective 4a

Measure	Vendor Name	Document ID	Invoice Date	Invoice Amount	Received Stamp Date	Check Date	Payment Issuance Duration	Payment Terms Requirement
E	Christy White, Inc.	PRC,230000003884,1.00,3	11/10/2022	\$2,684.01	No Stamp	2/9/2023	92-days	30-days
E	Christy White, Inc.	PRC,230000003883,1.00,3	11/10/2022	\$1,342.01	No Stamp	2/9/2023	92-days	30-days

**Improvement Recommendation:** The District should continue to evaluate the invoice payment processes to ensure compliance with District policies and procedures.





## Observation 4b

**The District has addressed the “Compliance with State Laws, District Policies, and Other Regulations” recommendation provided in the prior years’ reports.**

According to BHUSD Construction & Facilities Department Policies & Procedures Manual, Section 9 Payment Procedures, “invoices are...counter-signed and dated by two members of the bond management team.” However, additionally, per BOE Policy 3314, “The Superintendent or designee shall sign all warrants and shall ensure that warrants have appropriate documentary support verifying that all goods and services to be paid for have been delivered or rendered in accordance with the purchase agreement.” During the audit period, District staff and Fonder-Salari developed updated Payment Approval Procedures as part of the policy and procedure manual update that was submitted to the Board of Education for approval on September 26, 2023. This update aligned the Construction & Facilities Department Policies & Procedures Manual with BOE Policy 3314. The District provided compliant documentation for 85 of the 85 sampled expenditures (100%; 22 of 22 of Measure E samples and 63 of 63 of Measure BH samples) to validate compliance with District policies for payment approvals, resulting in no exception.



### PRIOR YEAR RELATED FINDINGS

- 2022 Report Observation 4b
- 2021 Report Observation 4b
- 2020 Report Observation 4b
- 2019 Report Objective 4b
- 2018 Report Objective No. 4b



## Observation 4c

**The District has taken steps to ensure billings to the District are compliant with contract terms, which would address the “Compliance with State Laws, District Policies, and Other Regulations” recommendation provided in prior years’ reports.**



### PRIOR YEAR RELATED FINDINGS

- 2022 Report Observation 4c
- 2021 Report Observation 4c
- 2019 Report Objective 4c
- 2018 Report Objective No. 4c

Article 6.1 of the contract between ProWest and the District 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 submissions to the District to substantiate the cost of work incurred by the contractor. In the FY 2023 Expenditure Population report provide by the District, ProWest Constructors reported billings to the District in the approximate amount of \$61.47 million for Measure BH. 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 and are available upon request.

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.

**Improvement 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. 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. 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.



## E. OBJECTIVE NO. 5 – COMPLIANCE – SALARIES OF DISTRICT EMPLOYEES FOR THE BOND PROGRAM

### Observation 5 (No Exception)

The District has addressed the “Time Tracking System for Employees Not Fully Dedicated to the Bond Program” recommendation provided in the prior years’ reports. We reviewed the funds used for administrator salaries to determine whether the costs were allowable per Opinion 04-110 issued on November 9, 2004 by the State of California’s Office of the Attorney General. Opinion No. 04-110 states that, “a school district may use Proposition 39 school bond proceeds to pay the salaries of district employees to the extent they perform administrative oversight work on construction projects authorized by a voter approved bond measure.” Upon review of the labor expended from Measure E and BH, labor charges appeared consistent with Opinion 04-110 requirements, resulting in no exception.

#### PRIOR YEAR RELATED FINDINGS

- 2022 Report Observation 5
- 2021 Report Observation 5
- 2020 Report Observation 5
- 2019 Report Objective 5
- 2018 Report Objective No. 45

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

### Observation 6 (No Exception)

The District updated its Construction & Facilities Department Policies & Procedures Manual and therefore addressed the “Compliance with State Laws, District Policies, and Other Regulations” recommendation provided in prior reports. District staff and Fonder-Salari developed an updated policy and procedure manual during the fiscal year and submitted the manual to the Board of Education for approval on September 26, 2023. Per inquiry with the District and the Fonder-Salari team, the District started using the draft policies and procedures during the fiscal year while Board approval was pending (see Observation No. 11 for additional information).

#### PRIOR YEAR RELATED FINDINGS

- 2022 Report Observation 6
- 2021 Report Observation 6
- 2020 Report Observation 6
- 2019 Report Objective 6
- 2018 Report Objective No. 6
- 2017 Report Objective 6



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

### Observation 7 (No Exception)

**The District has addressed the “District’s Professional Service Staffing Plan for the Bond Program” recommendation provided in prior reports.** On June 28, 2022, the BOE approved the awarding of Bond Program Construction Management Services to Fonder-Salari, Inc., and approved the contract during the July 12, 2022 BOE meeting.

As part of the approved Fonder-Salari, Inc. contract approved on July 12, 2022, the District established not to exceed (NTE) amounts for Fonder-Salari for each project. Per Exhibit “D”, Fee Schedule, of the contract between the District and Fonder-Salari states:

“1. The Bond Program-Construction Manager’s fee set forth in this Agreement shall be full compensation for all of Bond Program-Construction Manager’s Services incurred in its performance, including, without limitation, all costs for personnel, travel... offices, per diem expenses, printing, providing, or shipping of deliverables...

2. The Project includes multiple components and the Fee for each Project component shall be based upon the total, Not To Exceed (NTE) cost as indicated in the table below for each Project component. Bond Program-Construction Manager will charge against the Not To Exceed value based on actual hours spent by the assigned staff and in accordance with the Hourly Rates Listed, under section 3 below. If the agreed upon duration for each Project is adjusted or drastically changes, Extra Services may be calculated based on the hourly rates, listed in section 3. Herein. Once approved, The Not to Exceed (NTE) may be adjusted only by written Amendment signed by the District’s authorized representative... The total fee under this Agreement shall not exceed the sum of all Project Component Fees.”

On November 9, 2022, the Board of Education approved Amendment No. 1 to the Fonder-Salari contract establishing not-to-exceed budget amounts totaling \$12,739,000, broken out by project. The detailed breakdown of the not-to-exceed project amounts per the Amendment is outlined below:

Project	Duration of Services	BOE Approved Not To Exceed (NTE) Costs
Beverly Hill HS, B3-B4	36 Months	\$2,348,000
El Rodeo Elementary School	20 Months	\$1,100,000
Beverly Hills HS – Oil Wells	14 Months	\$595,000
Beverly Hills HS – Building C	36 Months	\$2,821,000
Beverly Hills HS – Retaining Walls	15 Months	\$775,000

### PRIOR YEAR RELATED FINDINGS

- 2022 Report Observation 7
- 2021 Report Observation 7
- 2020 Report Observation 7
- 2019 Report Objective 7
- 2018 Report Objective No. 7
- 2017 Report Objective 7



Project	Duration of Services	BOE Approved Not To Exceed (NTE) Costs
Beverly Hills HS – South Side	36 Months	\$1,250,000
Program Management and Support (including Needs Assessment)	36 Months	\$3,850,000
<b>Not-to-exceed Total</b>		<b>\$12,739,000</b>

As noted above, the contract included hourly labor rates by position. These approved hourly labor rates included the following components as noted in section 3 of Exhibit D, “overhead, administrative cost and profit, shall be utilized in arriving at actual monthly costs and Extra Services, if any. The hourly rates are subject to a 4% market adjustment annually, otherwise the rates shall not be changed for the term of the agreement. Bond Program-Construction Manager shall bill in quarter-hour increments for all time under this Agreement.” Additionally, Amendment No. 1 added the position of “Program Director” to the approved hourly labor rates. The following labor rates by position have been approved by the BOE:

Position	Hourly Rate
Program Director	\$173
Project Director	\$148
Program Manager/Support	\$146
Preconstruction Director	\$147
Senior Project Manager	\$147
Funding Specialist	\$141
Project Manager	\$140
Construction Manager	\$137
Superintendent	\$137
Constructability Reviewer	\$134
Senior Scheduler	\$143
Senior Estimator	\$147
Assistant Project Manager	\$134
Project Engineer	\$111
Project Coordinator	\$99



During our review of the invoices submitted to the District by Fonder-Salari, we noted they contained essential reporting components to allow the District to track the current Bond Program-construction manager expenditures. The following components were included within the invoices:

Reporting Component	Included within Monthly Invoice Submission
Amount billed against current PO	Yes
Balance of current PO	Yes
Total contract/fee amount	Yes
Percent complete	Yes
Total billed	Yes
Remaining contract/fee	Yes
Breakdown of hours and cost by project, employee name, and employee title	Yes

Based on our review of the available Bond Program-construction manager staffing plan and fee documentation, the District and Fonder-Salari have established a clear NTE fee structure with approved hourly rates. Additionally, Fonder-Salari includes detailed reporting on the current status of the approved NTE amounts within their invoice submissions to the District, with detailed breakdowns of the hourly labor being billed for the applicable invoice period. We noted no exceptions to the District's professional service staffing plan for the Bond Program.



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

### Observation 8 (No Exception)

**The District has addressed the “Design and Construction Cost Budget Management”**

**recommendation provided in prior reports.** 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 and Fonder-Salari team presented a Bond Program update at each of the quarterly CBOC meetings. Additionally, they uploaded a monthly Bond Program report to the Bond Program website. During our review, and per inquiry with the District and Fonder-Salari team, we noted change orders are reported to the Board, CBOC, and the public at a summary level. While change orders are not regularly reported in detail, a detailed change order log is available upon request based on inquiry. Bond Program updates at each of the quarterly CBOC meetings, and monthly bond program reporting included the following best practice components:



### PRIOR YEAR RELATED FINDINGS

- 2022 Report Observation 8
- 2021 Report Observation 8
- 2020 Report Observation 8
- 2019 Report Objective 8
- 2018 Report Objective No. 7
- 2017 Report Objective 7
- 2016 Report Objective No. 7

Best Practice Budget Reporting Component	Included in Reporting to CBOC
Bond Authorization Amount	Yes
Bond Revenue and Investment Earnings	Yes
Expenditures to Date	Yes
Balance to Date	Yes
Project Summary	Yes
Project Budget	Yes
Project Commitments	Yes
Project Expenditures	Yes
Project Substantial Completion	Yes
Project Duration	Yes
Contract Value	Yes
Project Percentage (%) Complete	Yes
Fiscal Year Expenditures	Yes



Best Practice Budget Reporting Component	Included in Reporting to CBOC
Project Progress Update	Yes
Change Order/Amendment Log	Yes

1 – Change orders are reported to the Board, CBOC, and public at a summary level, a detailed change order log is available upon request and was provided during our audit procedures.

## I. OBJECTIVE NO. 9 – COMPLIANCE – BIDDING AND PROCUREMENT PROCEDURES

### Observation 9 (No Exception)

We sampled five Bond Program procurements and reviewed the District's bidding and awarding of Bond Program-funded construction projects and professional services to evaluate compliance with the State's school construction requirements, Public Contract Code, other relevant laws and regulations, and District policies and procedures. We noted no exceptions to the District's "Bidding and Procurement Procedures" during our review of the sampled procurements.





## J. OBJECTIVE NO. 10 – PERFORMANCE IMPROVEMENT – 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. The Construction & Facilities Policies & Procedures Manual dated April 26, 2022 contained a Statement of Ethical Values, description of procurement fraud, provisions for maintaining a Consolidated Procurement Activity Report, and procurement and fraud detection checklists. However, during our review, the District developed, but did not maintain a Consolidated Bid and Procurement Activity Report during the fiscal year as outlined in the Consolidated Procurement Activity Report provisions of the policies and procedures. The District and Fonder-Salari staff did complete fraud awareness training during the fiscal year.



#### PRIOR YEAR RELATED FINDINGS

- 2022 Report Observation 10
- 2021 Report Observation 10
- 2020 Report Observation 10
- 2019 Report Objective 10
- 2018 Report Objective No. 10
- 2017 Report Objective 10

Per inquiry with the District and Fonder-Salari, an updated procurement fraud prevention and detection controls Construction and Facilities Department Policies and Procedures Manual was under development throughout the fiscal year and was approved by the Board of Education on September 26, 2023, after our audit period. The following best practice components were included within the approved policies and procedures:

Best Practice Fraud and Prevention Components per GFOA	Fraud and Prevention Component Included within Updated Policies and Procedures
Statement of Ethical Values	Yes
Training Policy	Yes
Description of Procurement Fraud	Yes
Reporting Protocols	Yes
Escalation Procedures	Yes
Completed Activity Report	No
Bid and Procurement Activity Report (Form)	Yes
Procurement and Fraud Detection Checklist	Yes

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.



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, or escalation procedures, it is unclear whether the District has adequate controls in place to identify, prevent, and detect procurement fraud.

**Improvement Recommendation:** 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 other issues of 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. 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.

## K. OBJECTIVE NO. 11 – PERFORMANCE IMPROVEMENT – MASTER PLANNING

### Observation 11

**The District has taken steps to address the “Master Planning” recommendation provided in the prior year reports by developing a Program Master Budget and Master Schedule.**

Per inquiry with the District and Fonder-Salari, the updated master budget and schedule resulted in a reduced program budget shortfall of \$13,741,672 as presented to the Board on June 27, 2023. As presented, and per the District and Fonder-Salari, the reduction in the shortfall year-over-year is due to updated project estimating value engineering, and prioritization of project scopes. Additionally, the District is currently evaluating its financial options to cover the program shortfall through future modernization funding from the State.



During our review of the updated Program Master Budget and Master Schedule, we noted the following components were included within the master plan. However, we noted 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:

Best Practice Master Planning Components per GFOA	Included in the Program Master Budget and Master Schedule
<b>Program Financials</b>	
Total Program Cost	Yes
Cash Flow Modeling and Timing of Expenditure based on Project Schedule/Timeline	Partial <sup>1</sup>
Funding Source (Including Outside Prop 39 Funding Sources)	Partial <sup>1</sup>



Best Practice Master Planning Components per GFOA	Included in the Program Master Budget and Master Schedule
<b>Project Components (Non-Financial)</b>	
Project Scope Aligning to Ballot Language and Program Costs	Yes
Project Schedule/Timeline	Yes
Master Planning Policies and Procedures	Yes

1 – This component was not included within the Program Master Budget or Master Schedule, but within the monthly reporting to the District.

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 our audit period.

**Improvement 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.

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

### Observation 12 (No Exception)

The District has addressed the “Bond Program Transparency” recommendation provided in a prior report. We reviewed BHUSD’s Facilities & Construction Department website and the CBOC website for items identified as a communication and transparency best practice by the SDTEF. BHUSD continues to practice all of the 16 best practices as defined by SDTEF, resulting in no exception.

See Appendix B for a comprehensive list of SDTEF benchmark website criteria for School Bond Transparency.





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

### **Observation 13**

We reviewed the prior year's performance findings and recommendations within the Measure E and BH FY 2022 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 the District has taken steps to address four prior observations, and has addressed two prior observation. Please see the following summary table for further information.



Source	Category	Recommendation	BHUSD Responses		
			Management Response	Planned Resolution Date	Status of Resolution
Observation 4a from Moss Adams FY 2017–2023 Reports (Objective No. 4b from Moss Adams FY 2016 Report)	Expenditure and Payment Procedures	The District should continue to evaluate the invoice payment processing procedures to ensure compliance with the California Prompt Payment Act.	BHUSD will continue to monitor and evaluate our payment processing procedures.	Resolved	Open – The District has taken steps
Observation 4c from Moss Adams FY 2019–2023 Report	Expenditure and Payment Procedures	As provided by the lease-leaseback agreements, the District should continue to conduct construction audits and/or review procedures to ensure any potential non-compliant charges are not billed to the District and to support transparency of the project. As a best practice, the District’s billing controls and policies should be evaluated to prevent potential excessive and non-compliant charges to the District, as required by the contract. 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.	BHUSD 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.	Resolved	Open – The District has taken steps
Observation 7 from Moss Adams FY 2016–2023 Reports	District and Professional Services Staffing Plan for the Bond Program	Closed	Closed	Closed	Closed
Observation 8 from Moss Adams FY 2016–2023 Reports	Design and Construction Costs Budget Management	Closed	Closed	Closed	Closed
Observation 10 from Moss Adams FY 2016–2023 Reports	Procurement Fraud Prevention and Detection Controls	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 other issues of 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. 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.	BHUSD and Fonder-Salari will create and maintain a Consolidated Bid and Procurement Activity Report/Log and will make it readily available electronically on our BHUSD website. We will continue to hold Procurement Fraud & Prevention training on an annual basis.	Ongoing. Log will be populated and uploaded by end of March 2024.	Open – The District has taken steps
Observation 11 from Moss Adams FY 2020–2023 Report	Master Planning	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.	BHUSD and Fonder-Salari will expand on our Master Budget and Master Schedule documentation to ensure that cash flow timing and funding source information is clear and transparent.	March 2024	Open – The District has taken steps



## **N. OBJECTIVE NO. 14 – JOBSITE VISITS**

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

**We conducted two jobsite visits on December 6, 2023, and December 7, 2023 to the Beverly Hills High School B3 and B4 project site, and the El Rodeo project site.** Progress at both sites was notable since our prior walkthrough.

## **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
- Executive Director, Construction Services
- Administrative Assistant for Facilities
- CBOC Members
- District Bond Management Firm – President
- District Bond Management Firm – Executive Vice President, Operation
- District Bond Management Firm – CEO, Executive Vice President, Project Development



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

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

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



