



FINAL REPORT

Beverly Hills Unified School District
MEASURE E AND MEASURE BH CONSTRUCTION BOND PERFORMANCE
AUDIT REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2024

March 31, 2025

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March 31, 2025

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, 2024

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 eight 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 four observations from the prior year, the District has taken steps to address one prior observation, one observation is open, and has closed two prior 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, 2023 through June 30, 2024. 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, 2024, 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

- **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 Project (see Observation No. 4c 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 information 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
- 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.
- **Fraud Awareness Training:** The District and Fonder-Salari should continue to complete fraud awareness training. Per the Association of Certified Fraud Examiners, one to two hours of fraud awareness training on an annual basis is the recommended best practice.

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,



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 16th year of implementation in FY 2024.

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 21st century skills; and specific school site projects.

Bond Program accounting records for FY 2023–2024 indicate Measure E expenditures and Measure BH expenditures totaling \$41,241,367.82.

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 21st Century, to provide our children with smaller classes, and to ensure our children’s safety by repairing, building, furnishing and equipping school facilities;
2. To require school district boards, community college boards, and county offices of education to evaluate safety, class size reduction and information technology needs in developing a list of specific projects to present to the voters;
3. To ensure that before they vote, voters will be given a list of specific projects their bond money will be used for;
4. To require an annual, independent financial audit of the proceeds from the sale of the school facilities bonds until all of the proceeds have been expended for the specified school facilities projects; and
5. To ensure that the proceeds from the sale of school facilities bonds are used for specified school facilities projects only, and not for teacher and administrator salaries and other school operating



expenses, by requiring an annual independent performance audit to ensure that the funds have been expended on specific projects only.”

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 \$11,782,008.22, and the Measure BH Bond Program expended \$29,459,359.60 in FY 2023–2024 for Bond Program expenditures totaling \$41,241,367.82.

Performance audit procedures covered the period of July 1, 2023 through June 30, 2024.

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, but are not limited to:

- BOE meeting scheduled on (April 15, 2025)
- CBOC meeting (March 20, 2025)

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 2024 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 66 expenditures totaling \$33,844,201.69, or 82.1% (\$33,844,201.69 / \$41,241,367.82) 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	11	\$11,558,917.2	82.1%
BH	55	\$22,285,284.49	
Total Bond Program Sample	66	\$33,844,201.69	
Total Bond Program Expenditures		\$41,241,367.82	

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 2024. 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 2024) 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 and Open Audit Log

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 2, 2024 and December 3, 2024 to the Beverly Hills High School B3/B4 project site.

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) CBOC (March 20, 2025), and 3) BOE, as determined by the District (April 15, 2025).

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

Observation 3 (No Exception)

Based on testing a representative sample of expenditures for Measure E and BH, we determined that funds were expended in compliance with the ballot language, resulting in no exception.

D. OBJECTIVE NO. 4 – COMPLIANCE – EXPENDITURE AND PAYMENT PROCEDURES

Observation 4a (No Exception)

The District has addressed the “Compliance with State Laws, District Policies, and Other Regulations” recommendations provided in the prior years’ reports. All 55 Measure BH expenditure samples were compliant with Public Contract Code requirements for contractor payment terms and met the District’s requirements for payment terms. The 11 sampled Measure E expenditures were verified to be journal entries to transfer funds from Measure BH to Measure E to use the remaining balance of Measure E funds; as such, proof of payment was not reviewed as part of the sample. According to the BHUSD Construction & Facilities Department Policies & Procedures Manual approved by the Board on September 26, 2023, Section 9.A, General Invoices: “The District will strive to pay

PRIOR YEAR RELATED FINDINGS

- 2023 Report Observation 4a
- 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



invoices within 30 days of receiving an invoice.” Based on our sampling and review, we concluded the District to be in alignment with all payment term requirements, resulting in no exceptions.

Observation 4b (No Exception)

The District provided compliant documentation for all sampled expenditures, resulting in no exception.

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 prior 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 all sampled expenditures (Measure E – 11 expenditures, which were all journal entries; Measure BH – 55 expenditures), or 100% of the sampled expenditures to validate compliance with District policies for payment approvals, resulting in no exception.



PRIOR YEAR RELATED FINDINGS

- 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

- 2023 Report Observation 4c
- 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 2024 Cumulative Detail Report for Expenditure and Revenue excel sheet provided by the District, ProWest Constructors reported billings to the District in the approximate amount of \$12.7 million for Measure E and 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.

The District conducted a construction audits of the BHHS B1/B2 project and the B3/B4 project, El Rodeo project, and the South Site Oil Wells project in 2021 and 2022, respectively. The completed construction audits 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, in addition to the contractor, to submit conditional and unconditional lien waivers 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)

District labor charges appeared consistent with Opinion 04-110 requirements, resulting in no exception. 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

- 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 Board of Education approved the updated Construction & Facilities Department Policies & Procedures Manual during the fiscal year, resulting in no exception. District staff and Fonder-Salari developed an updated policy and procedure manual during the prior fiscal year and submitted the manual to the Board of Education for approval during the fiscal year under review on September 26, 2023.



PRIOR YEAR RELATED FINDINGS

- 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 IMPROVEMENT – DISTRICT AND



PROFESSIONAL SERVICES STAFFING PLAN FOR THE BOND PROGRAM

Observation 7 (No Exception)

The District and Fonder-Salari have established a clear NTE fee structure with approved hourly rates and reporting with best practices components, resulting in no exception. 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. Exhibit “D,” Fee Schedule, of the contract between the District and Fonder-Salari states:



- 2023 Report Observation 7
- 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

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. On May 21, 2024, the Board of Education approved Amendment No. 3, adding an additional \$250,000 to the contract. However, as noted in the Amendment, the added costs are for non-Bond funded projects, and will be paid for by Developer Fees, resulting in no impact to the current Bond Program. The detailed breakdown of the NTE 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



Project	Duration of Services	BOE Approved Not To Exceed (NTE) Costs
Beverly Hills HS – Building C	36 Months	\$2,821,000
Beverly Hills HS – Retaining Walls	15 Months	\$775,000
Beverly Hills HS – South Side	36 Months	\$1,250,000
Program Management and Support (including Needs Assessment)	36 Months	\$3,850,000
Not-to-Exceed Total		\$12,739,000

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



Position	Hourly Rate
Project Coordinator	\$99

During our review of the invoices submitted to the District by Fonder-Salari, we noted they continued to include 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 and Fonder-Salari continued to include best practice budget reporting components within reporting to the CBOC, resulting in no exception.

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 continued to present 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

- 2023 Report Observation 8
- 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



Best Practice Budget Reporting Component	Included in Reporting to CBOC
Fiscal Year Expenditures	Yes
Project Progress Update	Yes
Change Order/Amendment Log	Yes ¹

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 four 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 (No Exception)

The District has addressed 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. Fonder-Salari and the District maintained a Consolidated Bid and Procurement Activity Report during the fiscal year including the vendor, project, project code, and project dollar value totals. The District and Fonder-Salari staff completed fraud awareness training during the fiscal year ending June 30, 2023. Per inquiry, Fonder-Salari confirmed that the training is valid for two years, covering the fiscal year under audit (2023-2024). Bond Program staff will need to complete another round of training for the 2024-2025 fiscal year.



- 2023 Report Observation 10
- 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

The following best practice components were included within the Board of Education approved policies and procedures dated September 26, 2023:

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	Yes
Bid and Procurement Activity Report (Form)	Yes
Procurement and Fraud Detection Checklist	Yes



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 Bond Program management team has a plan to further reduce the program budget shortfall of roughly \$14 million. The District continues to evaluate its financial options to cover the program shortfall through future modernization funding from the State, developer fees, and value engineering.



PRIOR YEAR RELATED FINDINGS

- 2023 Report Observation 11
- 2022 Report Observation 11
- 2021 Report Observation 11

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
Program Financials	
Total Program Cost	Yes
Cash Flow Modeling and Timing of Expenditure based on Project Schedule/Timeline	Yes ¹
Funding Source (Including Outside Prop 39 Funding Sources)	Yes ¹
Project Components (Non-Financial)	
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 with the Bond Program Master Budget or Master Schedule, but as a separate accounting report, or on a summary level with a separate report.

Per inquiry with the District and Fonder-Salari, and according to the Bond Program Update presented to both the Board of Education and CBOC, the Facilities Needs Assessment was completed, and the District’s future Facilities Master Planning is upcoming, but no date or timeline was assigned to this milestone.

Improvement Recommendation: As a best practice, the master plan should incorporate information about the program’s cash flow modeling and funding source information. Consolidating key



information in one package can reduce friction and barriers of access and promote transparency, compliance, and accountability to key stakeholders among the various program and funding sources.

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

Observation 12 (No Exception)

We reviewed BHUSD's Facilities & Construction Department website and the CBOC website for items identified as a communication and transparency best practice by the San Diego Taxpayers Educational Foundation (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 2023 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 one prior observation, one observation is open, and has closed two prior observations. 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 2017–2024 Reports (Objective No. 4b from Moss Adams FY 2016 Report)	Expenditure and Payment Procedures	Closed	Closed	Closed	Closed
Observation 4c from Moss Adams FY 2019–2024 Reports	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.	Ongoing	Open – The District has taken steps
Observation 10 from Moss Adams FY 2016–2024 Reports	Procurement Fraud Prevention and Detection Controls	Closed	Closed	Closed	Closed



			BHUSD Responses		
Source	Category	Recommendation	Management Response	Planned Resolution Date	Status of Resolution
Observation 11 from Moss Adams FY 2020–2024 Reports	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 among 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.	Ongoing	Open – The District has taken steps



N. OBJECTIVE NO. 14 – JOBSITE VISITS

Observation 14 (No Exception)

We conducted a jobsite visit on December 2, 2024, and December 3, 2024, to the Beverly Hills High School B3 and B4 project site. Progress at the site 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
- Director of Fiscal Services
- CBOC Members, Vice-Chair, and Chair
- District Bond Management Firm – President
- District Bond Management Firm – Executive Vice President, Operations
- 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 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.

