



MOSSADAMS

FINAL REPORT

FOR

BEVERLY HILLS UNIFIED SCHOOL DISTRICT

Measure E Construction Bond Fund Performance
Audit Report for the Fiscal Year Ended June 30, 2017

March 23, 2018

Moss Adams LLP
10960 Wilshire Boulevard, Suite 110
Los Angeles, CA 90024
(310) 477-0450

March 23, 2018

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

Subject: 2008 Measure E Construction Bond Performance Audit Report for the FY Ended June 30, 2017

Dear Board Members:

This report presents the results of our performance audit of the Beverly Hills Unified School District's (BHUSD or the District) 2008 Measure E Construction Bond (or 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. Finally, 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, which requires the 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 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, audit results, and a summary of the views of responsible district officials are included in the report body.

Performance audit procedures covered the period from July 1, 2016 through June 30, 2017. Based on the performance audit procedures performed and the results obtained, we have met our audit objectives. We conclude that for the fiscal year (FY) ended June 30, 2017, bond proceeds were used only for Listed Projects under the 2008 Measure E, which authorized the sale of the Bond, with the following potential exceptions and clarifications:

- The allowability of the Chief Facilities Officer's contract buyout appeared to be a potential exception. (see Observation No. 3a in the report body).



- District labor charges for security personnel at El Rodeo School totaling \$8,702 were allocated to the Bond Program without direct cost identification to the Bond Program (see Observation No. 3b in the report body).
- We identified legal fees charged to the Bond program where it is unclear whether the scope of work performed was allowable per ballot language. (see Observations No. 3c in the report body).

Based on our assessment, we identified a number of good management practices as described below.

- The District utilizes other revenue sources to maximize the impact of Measure E funds.
- Citizen Oversight Committee (COC) meeting minutes were posted on the District website.
- The Measure E Bond Program website was updated periodically by the District to provide key project information.
- The District has a policy and procedures manual for its construction activities.

Additionally, we 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. We identified the following internal control deficiencies related to compliance with Bond Program requirements, effectiveness, and efficiency of operations:

Expenditure Management and Controls

- District payment procedures lack adequate documentation to validate compliance with District policies and contractual agreements for payment terms on 52 sampled expenditures (see Observation 4a in the report body).
- The District approved a construction pay application without sign-off from the architect (see Observation 4b in the report body).

Program Management

- Policies and procedures were not consolidated and the process for updating the manuals was not documented (see Observation 6 in the report body).
- The District does not have well-defined policies and procedures surrounding in-house and consultant staffing for the Bond Program (see Observation 7 in the report body).
- The District did not maintain a consolidated warranty and preventive maintenance log for all assets incorporated into school site construction and was unable to provide complete and accurate reporting for items under warranty (see Observation 12 in the report body).

Budgetary Management and Change Order Reporting

- Monthly financial reporting lacked adequate details to allow end users to analyze budgets, inclusive of change orders, at the program and project level to actual committed contract values and the associated timing of revenues, expenditures, cash flow, and fund balances as recommended by the GFOA (see Observation 8 in the report body).



Procurement Procedures and Controls

- The District did not have competitive solicitation documentation available for nine active professional service contractors (see Observation 9a in the report body).
- The District was unable to validate a bid summary with adequate proposal documentation for one IT public works project (see Observation 9b in the report body).
- The District entered into multiple vendor agreements utilizing Joint Powers Authority (JPA) through the use of California Multiple Award Schedules (CMAS) and "piggyback" contracts without approved policy or procedures identifying acceptable procurement processes (see Observation 9c in the report body).
- The District did not select the lowest responsible bidder for a formally bid public works project (see Observation 9d in the report body).
- The District was unable to substantiate compliance with the Informal Bidding Requirements Policy for procurement of Public Work projects between \$45,000 and \$175,000 in contract value (see Observation 9e in the report body).
- The District was unable to demonstrate compliant Board approval for change orders in excess of 3.5 percent of the original contract value for a public works and professional services contracts resulting in three deviations from District policies and procedures (see Observation 9f in the report body).
- The District contracted with two separate contractors, duplicating the scope of work (see Observation 9g in the report body).
- The District's policies and procedures for change order work do not address California Public Contract Code (PCC) limitations (see Observation 9h in the report body).
- The District has written policies and procedures in conflict with Board resolution authority (see Observation No. 9i in the report body).
- Formal policies and procedures and monitoring controls to prevent and detect procurement fraud were not available (see Observation 10 in the report body).

Claims Avoidance Procedures and Controls

- The District has a claims avoidance policy; however, it does not have regular reporting or documentation available to identify actions taken to identify or limit claim exposure (see Observation No. 11 in the report body).

We provided improvement recommendations related to our observations for Expenditure Management and Controls, Program Management, Budgetary Management and Change Order Reporting, Procurement Controls and Contract Administration, Claim Avoidance Procedures and Controls, Cost Benefit and Value Engineering Analyses, and Maintenance of District Asset Funded and Warranty Conditions Compliance.

Management remains responsible for the proper implementation and operation of an adequate system of internal control. Due to the inherent limitations of any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.



This report is intended solely for the use of the District's Board of Education, District Administration, and the COC. This report is not intended to be, and should not be, used by anyone other than these specified parties.

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

Moss Adams LLP



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I. BACKGROUND INFORMATION

BEVERLY HILLS UNIFIED SCHOOL DISTRICT APPROVED BOND FUNDS

In 2008, Beverly Hills County voters approved Bond Measure E for \$334 million to provide improvements to BHUSD facilities. The 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, multiuse, gyms, libraries, science, technology, roofing, plumbing, heating, ventilation, and electrical systems; and renovate Beverly Hills Unified School District schools to better protect student/staff from unauthorized entry, security risks, and natural disasters. The Bond Program is in its ninth year of implementation.

Bond Program accounting records for the FY 2017 showed Measure E Bond Program expenditures of \$45,469,087 in the current year.

CALIFORNIA STATE REQUIREMENTS

A Construction Bond Program performance audit is required for BHUSD 2008 Measure E Construction Bonds by Proposition 39, State Constitution Article XIII A, and Education Code Section 15272. These State requirements specify that the proceeds from the sale of school facilities bonds can be expended only on Listed Projects. Both the State Constitution and Education Code require an annual independent performance audit to verify Bond proceeds were used on Listed Projects. Finally, 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 GAGAS issued by the Comptroller General of the United States.

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

1. “To provide an exception to the limitation on ad valorem property taxes and the two-third 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.”



II. OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of the performance audit included verification of BHUSD compliance with Proposition 39, which required that bond proceeds only be used for school facilities projects that were listed with the Bond. The District created the 2008 Measure E 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 \$45,469,087 in FY 2017.

We conducted this Construction Bond Program performance audit in accordance with GAGAS. As required by GAGAS, we planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and audit results based on our audit objectives. The evidence obtained provided a reasonable basis for our findings and audit results based on our audit objectives. 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. Based on the performance audit procedures performed and the results obtained, we have met our audit objective.

Performance audit procedures covered the period July 1, 2016 through June 30, 2017.

Management remains responsible for the 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. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

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) and methodology applied included the following:

1. Conduct a Performance Audit

We conducted the audit in accordance with GAGAS for Performance Audits as codified by the Government Auditing Standards, December 2011 Revision issued by the Comptroller General of the United States.

2. Attend Entrance and Exit Meetings

We attended entrance meetings with both the District and COC members. At the completion of the audit, we attended up to three exit meetings to review our report, observations, and any improvement recommendations. Those meetings included: 1) exit meeting with District Management, 2) meeting with District Audit Committee and full Board of Education as determined by the District, and 3) COC meeting.

3. Compliance with Ballot Language

We reviewed the Bond Program's financial records and expenditures for FY 2017 to verify that funds were used for approved Bond Program purposes as set forth in the ballot language, Bond documents, Board-approved Listed Projects, and Proposition 39 requirements. We reviewed the Bond Program's



financial records and expenditures by obtaining the Comprehensive Annual Financial Report and comparing the balances to the District's detailed accounting records. We analyzed control processes, tested the 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 65 expenditures totaling \$25,955,719.10, or 57%. These transactions included payments to contractors and vendors, and journal entries of inter-fund transfers. Our testing procedures were performed to verify:

- Expenditures were for Listed Projects.
- Approval of payment applications and invoices.
- Expenditure compliance with approved contract and contract types, purchase order, 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 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 2016/17. 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.
- Board of Education 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 (16/17) and Voter Approved Ballot Language.

We analyzed the associated sampled expenditure contracts for a more in-depth review of the 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

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 have been 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 duplicated 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 analyzed to prevent excessive charges and overpayments, and payment applications were reviewed to assess the adequacy of supporting documentation.



5. Salaries of District Employees for the Bond Program

We reviewed the salaries of District employees charged to the Bond Program. We compared the 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

We analyzed District compliance with State laws and regulations regarding school district 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 that are considered at the highest risk 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. We designed the performance audit to provide reasonable assurance that Bond expenditure controls and practices were consistent with District policies and Proposition 39 objectives to ensure that funds were spent on projects indicated in the ballot initiative.

7. District and Professional Service Staffing Plan for the Bond Program

We reviewed the District's Staffing Plan and policies and procedures for an approach to in-house staffing and consultant staffing that includes 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 organizational structure alignment with Bond Program needs. We analyzed the organizational structure alignment between the program management team and contractors by validating and evaluating processes for project reporting, communication, problem resolution, decision support, change order authorization, scope of control, and segregation of duties.

8. Design and Construction Costs Budget Management

We compared design and construction budget management practices to Government Finance Officers Association (GFOA) standards to measure the effectiveness of controls surrounding bond-funded projects. We reviewed the reporting of adopted budget, budget-to-actual, and budget-to-projected expenditures and revenue as a means to track Bond Program progress and financial standing (e.g., narratives, graphs, charts, etc.). 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 funds were expended to projects approved by the Board of Education to projects on the approved facilities master plan.

9. Bidding and Procurement Procedures

We verified that District bidding and awarding of Bond-funded construction projects complies with the requirements of the California school construction state requirements, Public Contracting Code, and State 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 the implementation of controls needed to achieve competitive contracting practices that are consistent with school construction program requirements and best practices. Change order documentation was reviewed for compliance with the District's policies and procedures, Public Contracting Code, California school construction state requirements, and other regulations. Controls and activities to manage change orders were evaluated. Specific consideration was given to change order cause, responsibility, and pricing. We reviewed policies and procedures to verify whether documentation existed prior to approval of change orders and verify that required approvals were applied. Selected change orders were tested for duplicated work scope and compliance with Proposition 39 requirements.



10. Procurement Fraud Prevention and Detection Controls

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

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

11. Claim Avoidance Procedures

We reviewed the implementation of procedures designed to prevent claims filed against the District related to construction projects for the period.

12. Maintenance and Warranty of Measure E Assets

We reviewed District processes and procedures for maintenance of District assets funded with Measure E, including compliance with warranty conditions of those assets. We reviewed District practices for maintenance of a list for all assets incorporated into school site construction and complete and accurate information regarding items under warranty. We reviewed the District implementation of controls surrounding the required maintenance of its assets in accordance with warranty terms, application of a formal system of logging this information for inventory purposes, and use of warranties where possible.

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. Job-Site Visits

We visited selected sites and determined the authenticity of the projects in progress and/or project completion.

15. Recommendations Recap

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

INTERVIEWS

We interviewed key personnel responsible for administering the Bond Program, including senior management and staff from the District and Bond Program Management Team responsible for overseeing the work associated with the Bond Program. We also interviewed members of the COC. The individuals interviewed are listed in Appendix A of this report.



III. AUDIT RESULTS

OBJECTIVE NO. 1 – CONDUCT A PERFORMANCE AUDIT

OBSERVATION 1

We conducted the audit in accordance with GAGAS for Performance Audits as codified by the Government Auditing Standards, December 2011 Revision issued by the Comptroller General of the United States.

OBJECTIVE NO. 2 – ATTEND ENTRANCE AND EXIT MEETINGS

OBSERVATION 2

We attended entrance meetings with both the District and COC members. At the completion of the audit, we attended up to three exit meetings to review our report, observations, and any improvement recommendations. Those meetings included: 1) exit meeting with District Management, 2) meeting with District Audit Committee and full Board of Education as determined by the District (scheduled April 2018), and 3) COC meeting (scheduled May 2018).

OBJECTIVE NO. 3 – COMPLIANCE WITH BALLOT LANGUAGE

We reviewed expenditures for compliance with the Bond's requirements for Listed Projects and conformance with not allocating unallowable costs to the Bond Program in accordance with GAGAS for performance audits as codified by the Government Auditing Standards. Our testing resulted in the following exception:

OBSERVATION 3A

The allowability of the Chief Facilities Officer's contract buyout appeared to be a potential exception. We evaluated and reviewed the funds used for administrators' salaries only to the extent they performed administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General. Based on inquiry and the Individual Pay History Report, the Chief Facilities Officer was paid his total employment contract of \$109,481.10 on February 10, 2017. Per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General, "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." A contract buyout was not specifically addressed as allowable per Opinion 04-110 and the payment to the Chief Facilities Officer was not for administrative oversight work on construction projects authorized by the voter-approved bond measure. Absent further documentation, we were unable to determine whether severance pay for the Chief Facilities Officer is an allowable Bond Program expenditure.

Improvement Recommendation: The District should consult with its legal counsel to determine if costs incurred for severance pay are allowable under the terms of Opinion 04-110 and the Bond measure language. Results of this consultation should be reported to the appropriate personnel (i.e., relevant District management, the Board, and CBOC) to ensure transparency and remediation, as necessary.



OBSERVATION 3B

District labor charges for security personnel at El Rodeo School totaling \$8,702 were allocated to the Bond Program without direct cost identification to the Bond Program. **The District has not taken steps to address Compliance with State Laws, District Policies, and Other Regulations Recommendation provided in the prior year's report (Moss Adams 2016 Report Objective No. 5).** The basis for allocation was estimated at 50 percent; however, no supporting documentation was available to substantiate this estimate. The job description provided by the District included general scope of duties such as: oversee and monitor school students in hallways, lunch areas, parking lots, and other areas at the school; assure the safety and security of school, staff, and facilities. No time limitations were imposed by the Human Resource Department's job description to evidence that the job was specific to the construction activity at the school site. Timesheets or other means of directly identifying labor costs to the Bond Program for this employee were not evident.

Improvement Recommendation: The District should implement processes and controls to support and validate the applicability and accuracy of labor charged to the Bond Program. Specifically, a time tracking system should be implemented, or equivalent, for those employees not fully dedicated to the Bond Program, to ensure that all costs incurred are identifiable and have a beneficial relationship to the Bond Program and cost objectives.

OBSERVATION 3C

We also identified legal fees charged to the Bond program where it is unclear whether the scope of work performed was allowable per ballot language. For expenditures sampled in FY 2016/17, the District incurred \$1,106,494.11 in legal fees related to the Los Angeles County Metropolitan Transportation Authority (MTA) and Federal Transit Administration (FTA) regarding MTA's plan to construct part of the Los Angeles subway expansion beneath Beverly Hills High School. The following charges were reviewed:

| VENDOR | INVOICE NUMBER | INVOICE DATE | AMOUNT |
|---|----------------|--------------|-----------------------|
| Kasowitz, Benson, Torres & Friedman LLP | 1702690 | 5/17/2017 | \$368,594.73 |
| Kasowitz, Benson, Torres & Friedman LLP | 12057701 | 10/31/2016 | \$285,167.63 |
| Kasowitz, Benson, Torres & Friedman LLP | 1702821 | 5/23/2017 | \$181,215.55 |
| Murphy & Evertz. LLP | 6339 | 2/28/2017 | \$127,416.78 |
| Murphy & Evertz. LLP | 6300 | 1/31/2017 | \$95,040.22 |
| Murphy & Evertz. LLP | 6570 | 6/30/2017 | \$35,911.64 |
| Horvitz & Levy LLP | 80814 | 11/2/2016 | \$13,147.56 |
| Total: | | | \$1,106,494.11 |

The District obtained legal opinions that authorized the use of Bond proceeds to fund opposition to the location of the MTA Subway Extension and associated costs at Beverly Hills High School. California Constitution and California Education Code provided the following amendment defining our criteria: "To ensure that the proceeds from the sale of school facilities bonds are used for specified school facilities projects only." We did not specifically see legal fees for this purpose addressed in the projects list within



the voter approved bond measure; however, the expenditures reviewed appeared to be related to the authorized purpose based on the legal opinions obtained by the District.

Improvement Recommendation: The District should continue to require itemization of legal expenditures related to the MTA Subway Extension and ensure that the District's position is defensible.

OBJECTIVE NO. 4 – EXPENDITURE AND PAYMENT PROCEDURES

OBSERVATION 4A

The District payment procedures lacked adequate documentation to validate compliance with District policies and contractual agreements for payment terms. **The District has taken steps to address the Compliance with State Laws, District Policies, and Other Regulations Recommendation provided in the prior year's report (Moss Adams 2016 Report Objective No. 4b); however, non-compliant instances were noted in the current year under review.** According to BHUSD Facilities Procedure Manual, Section 2.5 Contractor Payment Policies, "Monthly Pay Application shall be paid directly by the District within 45 days after receipt and acceptance by the Construction Manager in accordance with the California Prompt Payment Act" and per the contractual agreement for the architect/design work, the "District shall, within 30 calendar days of receiving such statement [invoice], review the statement and pay all approved charges thereon." Additionally, according to the BHUSD Facilities Procedure Manual, Section 1.0 Payment Procedures, "as Invoices are received for payment, the Administrative Assistant will review and route for PM/Director review and approval within (3) three days." Time stamps or other means of documentation were not available for 44 of the sampled invoices to validate when the District received the invoice. Without a date of receipt within invoice documentation, we were unable to validate compliance with District policies and procedures and/or contractual obligations as it was unclear when the District received the invoiced amount. In such instances, the invoice date was compared against the check date to determine promptness of payment. Based on this analysis, we noted 52 of 65 (80 percent) sampled expenditures had a payment date occurring past their respective contractual or policy requirement (see Appendix B for further information). Time stamps were available on other sampled documentation; therefore, it appeared this procedure was inconsistently performed. Also, we noted only three instances of this issue after March 31, 2017 (i.e., the date of the issuance of Moss Adam's FY 2016/17 report).

Improvement Recommendation: The District should continue to time/date stamp all invoices when received and evaluate the invoice payment processing procedures to ensure compliance with District policies and procedures and contractual obligations.

OBSERVATION 4B

The District approved a construction pay application without sign-off from the architect. Payment Application #13 from 2H Construction, Inc. for Horace Mann ES dated June 30 2017 was approved by the District without the architect's sign-off. The architect's Certificate for Payment within the Payment Application stated "the Architect certifies to the Owner, that to the best of the Architect's knowledge, information and belief the work has progressed as indicated, the quality of work is in accordance with Contract Documents and the Contractor is entitled to payment of the Amount Certified." As such, the architect interprets construction contract documents, tracks the progress of the work, and reconciles the sometimes conflicting interests of owners and builders. All appropriate sign-offs from contractors,



architects, and managers should be obtained prior to approving a payment application for payment. This appeared to be an isolated event as no other instances were noted within our sampled population.

Improvement Recommendation: The District should review and update the controls surrounding payment application invoice processing to ensure all appropriate sign-offs are obtained to validate work performed, prior to payment processing.

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

OBSERVATION 5 (NO EXCEPTION TAKEN)

We evaluated and reviewed the funds used for administrator salaries only to the extent they performed administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General (see Observation 3b and 3c for further information). Additionally, the District was able to explain the discrepancy between financial reporting and the Individual Pay History Report for FY 2016/17 as noted in our prior year report. Based on District documentation, the \$14,090.26 variance (\$438,402.37 Cost Ledger - \$424,312.11 Individual Pay History Report) was related to timing issues with Earned Salary Advances that Classified Employees are paid every 25th of the month not being reported on the Individual Pay History Report.

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

OBSERVATION 6

Policies and procedures were not consolidated and the process for updating manuals was not documented. **The District had not taken steps to address the Compliance with State Laws, District Policies, and Other Regulations Recommendation provided in the prior year's report (Moss Adams 2016 Report Objective No. 6). However, based on inquiry with District Management, the District anticipates providing updated and consolidated policies and procedures to the Board by the end of FY 2017/18.** District policies and procedures are documented within, but not limited to, the following documents:

- Beverly Hills Unified Facilities and Planning Procedures Manual
- CUPCCAA Process and Procedures Final Draft
- Various Resolutions (e.g., 2015-2016-039, 2015-2016-040, 2015-2016-041, and 2015-2016-043)

The BHUSD Facilities Procedures Manual was submitted to the Board of Education on June 10, 2015. The CUPCCAA procedures were adopted and implemented with Resolution No. 2015-2016-013, dated January 26, 2016.

We compared the District's Facilities Procedure Manual to District, State, and Bond Program requirements as determined by our risk assessment of applicable laws and regulations. Our analysis considered laws, policies, and regulations that the District is subject to. Below is a summary of areas and objectives where we noted exceptions:



- Compliance with Ballot Language – See Objective No. 3
- Compliance of Salaries of District Employees for the Bond Program – See Objective 5
- Bidding and Procurement Procedures – See Objective No. 9

Improvement Recommendation: As a best practice, the District should consolidate all policies, procedures, and resolutions into one document to ensure effective controls and communication of the policies and procedures. The GFOA recommends, within their article “Documenting Accounting Policies and Procedures,” that the documentation of accounting policies and procedures should be evaluated annually and updated periodically, no less than once every three years. Any changes in policies and procedures should be updated in the documentation promptly as they occur and a specific employee should be assigned the duty of overseeing this process. The resulting documentation can also serve as a useful training tool for staff.

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

OBSERVATION 7

The District does not have well-defined policies and procedures surrounding in-house and consultant staffing for the Bond Program. **The District has not taken steps to address District’s Professional Service Staffing Plan for the Bond Program Recommendation provided in the prior year’s report (Moss Adams 2016 Report Objective No. 7).** The District and Professional Services Staffing Plan (Staffing Plan) and District policies were analyzed to compare the number and magnitude of Bond Program projects to determine in-house and consultant staffing for Bond Program projects. The Totum Project Management, or Construction Management, Staffing Plan for FY 2016/17, was submitted to the District and allocated total personnel to program management and/or the project site, but did not specifically include analysis surrounding staffing needs based on project needs of the Bond Program. That is, it did not base staffing requirements on Bond Program project needs; instead, it excluded key metrics such as the number of personnel, number of planned projects, and dollar value of planned projects, which could be analyzed to help determine if the Bond Program organizational structure is aligned with its needs.

Monthly invoices were approved by the District; however, no documentation of policies or procedures were available to validate the District's periodic review of the various projects progress to ensure staffing requirements remained consistent with the Staffing Plan and/or invoice submissions. Roles and responsibilities were defined for the Construction Manager at a summary level within the BHUSD Facilities and Planning Procedures Manual, Section 1.1; however, roles by personnel or job description were not available. The Construction Manager provided an organization chart dated May 26, 2015, with specific job sites identified and assigned personnel; however, it did not appear to be updated on a regular basis. The District did not have an in-house staffing plan to align with Bond Program needs or have well defined roles and responsibilities documented within the BHUSD Facilities and Planning Procedures Manual. Totum Project Management’s services were discontinued on June 30, 2017.

Improvement Recommendation: The District should develop and implement a Staffing Plan for both the District and consultants to correlate Bond Program projects to Bond Program staffing needs. The new Construction Management team’s organization chart, or equivalent reporting, should be updated based on



current Bond Program activity by project so District Management can validate adequate staffing levels and identify and prevent potential staffing redundancies. Additionally, the Facilities Procedure Manual should define roles and responsibilities by personnel, for both in-house and contractor staff, to allow management to ensure that duties are performed consistently. Per the GFOA's article "Documenting Accounting Policies and Procedures," the documentation of accounting policies and procedures should indicate which employees are to perform which procedures and should delineate the authority and responsibility for each employee. This will also allow District management to identify staffing requirement gaps and/or redundancies and/or identify skill or training requirement gaps.

OBJECTIVE NO. 8 – DESIGN AND CONSTRUCTION COSTS BUDGET MANAGEMENT

OBSERVATION 8

Monthly financial reporting lacked adequate details to allow end users to analyze budgets, inclusive of change orders, at the program and project level to actual committed contract values and the associated timing of revenues, expenditures, cash flow, and fund balances as recommended by the GFOA. Design and construction budget management practices were compared to GFOA standards to measure the effectiveness of controls surrounding bond-funded projects. **The District has not taken steps to address the Design and Construction Cost Budget Management Recommendation provided in the prior year's report (Moss Adams 2016 Report Objective No. 8).**

The Cash Flow Report within Section III of the monthly report presents a program summary and does not provide adequate information surrounding the timing of revenues, expenditures, and cash flows at the program and project level for the issued bond proceeds. The Change Order Summary Status Report within Section III of the monthly report did not include detailed change order information reported within Project Level Reporting in Section II of the monthly report for all active projects. Although detailed change order reporting by project was available within Totum Project Management's Balance Left Unused (BLU) report, which included change amount, percentages, descriptions, change responsibility, and totals for easy end user reference, not all this information has not been made available as part of monthly reporting.

Improvement Recommendation: The GFOA "Budget Practices" article recommends budget-to-actual comparisons of revenues, expenditures, cash flow, and fund balances be periodically reviewed during the budget period. BOE-approved master plan budgets at the program and project level should be available for the total bond issuance amounts. Detailed budget-level information for current bond issuances allows the District to monitor budgetary performance against committed contract values and can serve as an early warning indicator for potential problems. This information provides decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident. The GFOA comments that this information is essential input for demonstrating accountability. Additionally, cash flow reporting should include revenues, cash, and expenditures by timeframe to document that sufficient funding is available to meet financial requirements for Measure E. This documentation will also serve as a useful tool for District management and stakeholders to understand the timing of project schedules.

Finally, detailed change order reporting, should be available for all projects within monthly reporting. The reporting should be consistent, as defined by the District, and include information such as change



amount, percentages, descriptions, change responsibility, date of Board of Education approval, and totals for easy end user reference. Change order and contingency reporting should be available at both the project and program level, with both detailed and summary level information, to allow end users to understand deviations from original budget amounts. Summary and detailed change order and contingency reporting is necessary to understand change order cause, responsibility, pricing, compliance, and identify potential duplicated work scopes and/or redundancies caused by unclear scope objectives and/or expectations within the master plan.

OBJECTIVE NO. 9 – BIDDING AND PROCUREMENT PROCEDURES

District bidding and procurement practices were compared to District policies and procedures, the California State School Requirements, and California's Public Contracting Code. We assessed the bidding and procurement practices for sampled vendors that utilized bond fund money and noted the following instances of noncompliance with District policies, Public Contracting Code, and improvement opportunities.

OBSERVATION 9A

The District did not have competitive solicitation documentation available for nine active professional service contractors. All instances noted below were from the prior fiscal periods; therefore, **the District has not taken steps to address the Bidding and Procurement Procedures Recommendation provided in the prior year's report (Moss Adams 2016 Report Objective No. 9a)**. According to the District's Facilities & Planning Procedures Manual, Section 1.5 Professional Services Selection Process, any agreement over \$83,400 requires a formal competitive solicitation process, including a Request for Qualification (RFQ) and a minimum of three Statements of Qualifications for consideration. However, upon request, the District was unable to support a competitive solicitation process for the following nine vendors:

| VENDOR NAME | PROJECT NAME | ORIGINAL CONTRACT DATE | ORIGINAL CONTRACT AMOUNT |
|---|---|------------------------|--------------------------|
| Knowland Construction Services | Horace Mann Building A; Horace Mann Building B | 6/1/2016; 3/12/2014 | \$196,480; \$460,416 |
| Environmental Audit, Inc. | El Rodeo Asbestos and Lead Abatement Monitoring | 7/1/2015 | \$141,900 |
| Kasowitz, Benson, Torres & Friedman LLP | Legal Services - FTA | 9/18/2013 | \$300,000 |
| Horvitz & Levy LLP | Legal Services - MTA | Not Provided | Not Provided |
| DLR Group, Inc. | Hawthorne School Campus Redevelopment | 4/18/2011 | \$2,533,911 |
| HMC Architects | El Rodeo K-8 School Modernization/Addition | 4/18/2011 | \$2,582,200 |
| Murphy & Evertz. LLP | Legal Services - MTA Board Approved | 1/2/2014 | \$500,000 |
| Totum Corp. | Program Management | 6/30/2014 | \$3,460,500 |



| VENDOR NAME | PROJECT NAME | ORIGINAL CONTRACT DATE | ORIGINAL CONTRACT AMOUNT |
|----------------|---|------------------------|--------------------------|
| WLC Architects | Horace Mann New Building with Underground Parking (Bldg B) and Interim Housing (Bldg A) | 4/18/2011 | \$2,538,320 |

Five of the nine firms were included in the FY 2015-16 Report (DLR Group, HMC, Murphy & Evertz, Totum, and WLC) and were still active and sampled in FY 2016-17. Without documentation supporting a formal competitive solicitation process, it is unclear whether these vendor selections were compliant with policies and procedures.

Improvement Recommendation: The District should continue to select professional service firms through a competitive solicitation process as required by District policy. Additionally, as specified in Objective 10, and as a best practice, the District should maintain a consolidated bid and procurement activity report that will allow District Senior Management to identify, prevent, or detect noncompliance with District policies and procedures, state laws, and regulations. Supporting documentation to this consolidated report should be readily available in a central location, either physically or electronically. A checklist or equivalent mechanism, with appropriate sign-offs on procurement requirements, can serve as a good tool for all relevant parties (Accounting, as well as Planning and Construction and Procurement) to validate compliance with policy and procedure requirements.

OBSERVATION 9B

The District was unable to validate a bid summary with adequate proposal documentation for one IT public works project. Horace Mann Building B AV System work was awarded to Digital Networks Group, Inc. for \$1,000,442 with a contract execution date of 6/8/2016. Per the District's Bid Summary, four bids were considered for the work; however, the District's Bid Summary omitted proposed contract values and the District was unable to provide complete proposal documentation for all vendors. District policies and procedures do not specifically address IT public work projects; however, per PCC Section 20118.1, "the governing board of any school district may contract with an acceptable party who is one of the three lowest responsible bidders for the procurement or maintenance, or both, of electronic data-processing systems and supporting software in any manner the board deems appropriate." Absent proposal documentation, we were unable to validate proposals received and proposed amounts to confirm Digital Networks Group, Inc. was one of three lowest bidders.

Improvement Recommendation: The District should ensure that adequate documentation, as evidence of a competitive solicitation and procurement process, is maintained to comply with District policies and procedures and/or PCC, CUPCCAA, and other laws and regulations. Detailed processes and procedures for IT public works procurement should be added to the comprehensive Bond Program policies and procedures manual for transparency and accountability and approved by the Board.

OBSERVATION 9C

The District entered into multiple vendor agreements utilizing a JPA through the use of CMAS and "piggyback" contracts without approved policy and procedures identifying acceptable procurement processes. Per California PCC 20118, the District is able to purchase and lease certain goods utilizing another Public Agency's competitively priced and procured contract. No policies, procedures, or defined



roles and responsibilities regarding piggyback, JPA, CMAS were available. Based on information provided by the District, it is unclear how contract values presented to the Board are determined and whether current review procedures are adequate (e.g., competitiveness of pricing and invoice review procedures). The following sampled projects utilized JPA contracts:

| PROJECT NAME | VENDOR | PO NUMBER(S) | TOTAL PO AMOUNTS |
|---------------------------------------|-------------------------|--|------------------------|
| Horace Mann - Furniture | Tangram | 10648V, 10649V, 10926V, 11467V, 11890V | \$650,159 |
| Horace Mann - Building B IT Equipment | CDW Government | 11326V, 11276V, 10958V, 10959V | \$327,712 |
| BHHS - Interim Housing | Williams Scotsman, Inc. | 9995V | \$895,000 |
| El Rodeo - Interim Housing | Williams Scotsman, Inc. | Unknown (Not Provided) | Unknown (Not Provided) |
| Horace Mann - Interim Housing | Williams Scotsman, Inc. | 11432V | \$216,008 |

Improvement Recommendation: As a best practice, the District should establish and obtain Board approval for policies and procedures regarding procurements utilizing "piggyback" contracts (JPA), including the retention of all documentation utilized in compliance with PCC Section 20118. District policies and procedures should specify minimum documentation requirements for Board approval and dollar limitations for such contracts to better protect the District from excessive charges.

OBSERVATION 9D

The District did not select the lowest responsible bidder for a formally bid public works project. The District advertised for installation of a new artificial turf field at Beverly Vista School. Three bids were received in response to the bid advertisement and, on April 12, 2016, the Board gave its approval to "enter into a Contract with the Low Bidder for Bid No. 15-16/018 Beverly Vista Soccer Field Project for the amount of \$993,139." On May 24, 2016, the District entered into a contract with Asphalt, Fabric, & Engineering, Inc. for \$993,139. However, review of bid forms evidenced the following:

| FIRM | BASE BID | ALTERNATE ADDITION | TOTAL |
|------------------------------------|-------------|--------------------|-------------|
| Asphalt, Fabric, Engineering, Inc. | \$969,139 | \$24,000 | \$993,139 |
| Byrom-Davey, Inc. | \$968,000 | \$15,000 | \$983,000 |
| PCN3, Inc. | \$1,372,000 | \$7,000 | \$1,379,000 |

The District's Bid Review Checklist documented Byrom-Davey's Base bid amount as "\$986,000" as opposed to the actual amount of "\$968,000." This apparent error may have been the cause for the misinformation presented to the Board, and, therefore, selection of the second lowest bidder of a formally solicited public works project.

Improvement Recommendation: The District should comply with District policies and procedures for contract administration to ensure competitive pricing for the Bond Program. Additionally, as specified in Objective 10, as a best practice, the District should maintain a consolidated bid and procurement activity report that will allow District Senior Management to identify, prevent, or detect noncompliance



with District policies and procedures, state laws, and regulations. Supporting documentation to this consolidated report should be readily available in a central location, either physically or electronically. A checklist or equivalent mechanism, with appropriate sign-offs on procurement requirements, can serve as a good tool for all relevant parties (Accounting, as well as Planning, Construction, and Procurement) to validate compliance with policy and procedure requirements.

OBSERVATION 9E

The District was unable to substantiate compliance with the Informal Bidding Requirements Policy for procurement of Public Work projects between \$45,000 and \$175,000 in contract value. Per the District policies and procedures and Uniform Public Construction Cost Accounting Act (Pub. Contract Code 22000), the District's informal bidding procedures are required to include notification to specific trade journals each year in November. The District is also required to generate a list of interested contractors from contractor responses received from the trade journal notifications. Upon request, the District provided a 2016 Contractor Short List; however, the District was unable to provide documentation supporting the required annual maintenance of the qualified contractor short list. Finally, the District was unable support the Notice of Invitation to Bid being sent to all contractors on the short list, specifically for one sampled informal public works project: El Rodeo - Playground. Without supporting documentation, it is unclear whether informally bid projects were procured according to CUPCAA and District Policy.

Improvement Recommendation: The District should comply with District Informal Bidding Requirements Policies to ensure competitive pricing for the Bond Program. Additionally, as specified in Objective 10, as a best practice, the District should maintain a consolidated bid and procurement checklist and activity report that will allow District Senior Management to identify, prevent, or detect noncompliance with District policies and procedures, state laws, and regulations. Supporting documentation to this consolidated report should be readily available in a central location, either physically or electronically. A checklist or equivalent mechanism, with appropriate sign-offs on procurement requirements, can serve as a good tool for all relevant parties (Accounting, as well as Planning, Construction, and Procurement) to validate compliance with policy and procedure requirements.

OBSERVATION 9F

The District was unable to demonstrate prior Board approval for a \$33,228 amendment with professional service provider Knowland Construction Services, resulting in noncompliance with policies and procedures. On April 8, 2014, the District entered into a contract with Knowland Construction Services to provide Inspector of Record services for Horace Mann School New Classroom Building with Underground Parking Project. The original contract value was estimated at \$460,416, to be charged at an hourly rate. On June 22, 2016, the District executed a contract amendment for continued inspection services for \$33,228, increasing the total contract value to \$493,644. On August 9, 2016, the Board ratified the amendment for continued services. Per District policy, the Superintendent and Chief Administrative Officer have authority to approve amended contracts not to exceed \$15,000 with ratification from the Board. Additionally, Board Resolution 2015-2016-040 authorizes the Superintendent to negotiate, execute, and deliver change orders and amendments for less than 3.5 percent of the original contract price. The Resolution also states any change order or amendment in excess of 3.5 percent of the original contract price must be approved by the Board. Therefore, the District executed a contract amendment outside of their authority without prior Board approval, resulting in noncompliance with policies and procedures.



Improvement Recommendation: The District should implement processes and controls needed to comply with established Board approval change order policies and procedures for both public works and professional service agreements.

OBSERVATION 9G

The District contracted with two separate contractors for the same scope of work. Per the February 28, 2017 Board meeting minutes, the District ratified the executed agreement with G2K Construction with the following description: "After the notice to proceed was issued, the scope was reduced to only the installation of the two ADA ramps. The utility hookups were covered under a separate agreement with an electrical contractor for \$34,5000. The negotiated costs of the reduced scope were \$8,165.72." The District was able to correct the scope of work duplication; however, there are no clear controls to prevent instances such as these.

Improvement Recommendation: The District should implement procedures and controls to prevent duplicate procurement scopes of work.

OBSERVATION 9H

The District's policies and procedures for change order work do not address California PCC limitations. California Public Contract Code Section 20118.4 specifies limitations to changes of work without the formality of securing bids. The District's Measure E Bond Program Policy and Procedures (Revision 2, dated 5/11/15) does not address or establish control procedures for change orders in excess of the limitation established by PCC. Absent a Board-approved policy, we were unable to validate that the change order was compliant with Board expectations.

Improvement Recommendation: As a best practice, the District should establish policies and procedures to address PCC Section 20118.4 change order limitations.

OBSERVATION 9I

The District has written policies and procedures that conflict with Board resolution authority. Per Measure E Bond Program Policy and Procedures (Revision 2, dated 5/11/15), Section 1.10 Delegation of Authority, "the Superintendent and the Chief Administrative Officer have been delegated authority to approve amended contracts based on change in scope and/or change orders (not to exceed 10% of contract) up to the amount not to exceed \$15,000 with ratification approval by the Board of Education to follow at the next regular board meeting. (Source: Resolution 2012- 2013-016, Exhibit J)." However, Board Resolution No. 2015-2016-040 dated May 20, 2016 states the Superintendent has the authority to negotiate, execute, and deliver construction change orders and amendments to consultant agreements under 3.5 percent of the original contract price.

Improvement Recommendation: As a best practice, the District should update policy and procedures to be consistent with current authorities and intended controls.



OBJECTIVE NO. 10 – PROCUREMENT FRAUD PREVENTION AND DETECTION CONTROLS

OBSERVATION 10

Formal policies and procedures and monitoring controls to prevent and detect procurement fraud were not available. **The District has not taken steps to address the Procurement Fraud Prevention and Detection Recommendation provided in the prior year's report (Moss Adams 2016 Report Objective No. 10).** The following information was included within our assessment:

- Reporting protocols, training, and escalation procedures specific to prevent and detect fraud were not available. The District was able to provide documentation surrounding employee ethics policies, consequences, reporting protocols, and staff screening requirements. Additionally, the District has a WeTip School Safety Program on their website, which offers an anonymous hotline to students and families; however, the hotline does not appear to be procurement related as reports are conveyed to "the appropriate police, fire, and sheriff's agencies" instead of Bond Program's District personnel.
- Segregation of duties controls designed and implemented to prevent unauthorized obligations and payments were documented within BHUSD's June 2015 Facilities Procedure Manual, Section 1.9, Payment Procedures. See Objective No. 3 and Objective No. 9 (Expenditures and Procurement) for further information regarding segregation of duties controls designed and implemented to prevent unauthorized obligations and payments.
- Monitoring controls and reporting to identify and address significant procurement anomalies were not available. The District was unable to provide evidence of complete, accurate, and regular reporting of bid and procurement activity that would allow District senior management to identify, prevent, and/or detect fraud. Certain bid and procurement documentation was available upon request (see Observation 9 for further information); however, a consolidated summary report and a central file location, including required bid and procurement documentation for all active projects, was not available.

The GFOA's article, "Encouraging and Facilitating the Reporting of Fraud and Questionable Accounting and Auditing Practices," states, as a best practice, that every government establish policies and procedures to encourage and facilitate the reporting of fraud or abuse and questionable accounting practices. Absent formalized procurement fraud policies and procedures including the reporting protocols, training, escalation procedures, and monitoring controls, it is unclear whether the District has adequate controls in place to identify, prevent, and detect procurement fraud.

Improvement Recommendation: The District should implement policies and procedures regarding procurement fraud to assist in identifying, preventing, and detecting procurement fraud. The policies should include reporting protocols, training requirements, and escalation procedures specific to procurement fraud. This resulting documentation can also serve as a useful training tool for staff. 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 noncompliance 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. Additionally, per the GFOA, potential instances of fraud or abuse and questionable accounting practices come to the attention of responsible parties thanks to employees or citizens who become aware of such practices. The GFOA provides the following relevant recommendations:



- Formally approve and widely distribute and publicize an ethics policy that can serve as a practical basis for identifying potential instances of fraud or abuse and questionable accounting practices.
- Establish practical mechanisms (e.g., a hotline) to permit the confidential, anonymous reporting of concerns about fraud or abuse and questionable accounting practices to the appropriate responsible parties.
- Make internal auditors (or their equivalent) responsible for the mechanisms used to report instances of potential fraud or abuse and questionable accounting practices. Emphasize that they should take whatever steps are necessary to satisfy themselves that a given complaint is without merit before disposing of it. Further, they also should document the disposition of each complaint received so it can be reviewed by the audit committee.
- Have the audit committee, as part of its evaluation of the government's internal control framework, examine the documentation of how complaints were handled to satisfy itself that the mechanisms for reporting instances of potential fraud or abuse, and questionable accounting or auditing practices are in place and working satisfactorily.

OBJECTIVE NO. 11 – CLAIM AVOIDANCE PROCEDURES

OBSERVATION 11

The District has a claims avoidance policy; however, it does not have regular reporting or documentation available to identify actions taken to identify or limit claim exposure. **The District has not taken steps to address the Claims Avoidance Recommendation provided in the prior year's report (Moss Adams 2016 Report Objective No. 11).** We evaluated and reviewed the procedures used to limit the number of claims filed against the District related to construction projects for the period. The Facilities & Planning Procedures Manual, dated May 11, 2015, Addressing Claims, Liens, and Stop Notices, Section 1.11, has the following key information:

- **Policy:** Except as otherwise provided in the Construction Contract, Section 20104.2 of the California Public Contract Code requires the District to respond to submitted construction claims by the contractor within 45 calendar days for claims of \$50,000 or less, and 60 days for claims over \$50,000. It is the District's policy that such claims are required to be reviewed and a response to each claim be sent to the contractor within the required time. Prior to a formal claim process, the mandatory dispute resolution process is required to be in accordance with the General Conditions of the construction contract of Beverly Hills Unified School.
- **Purpose:** This procedure describes the process for analysis, evaluation, and resolution of construction disputes and claims submitted by a contractor.
- **Resolution of Issues Prior to Claim:** In a directive to resolve issues that could result in the filing of a claim, the contractor may request that the construction manager (CM) have the disputed amounts or other demand reviewed by senior management. The contractor request must be made within ten days of the date of the rejection of proposed adjustments in the Change Order Request to the responsible CM or the Director of CM (DCM) as per General Condition's provision of the bid contract.

However, there was no documentation of regular reporting available to identify actions taken to prevent or limit claim exposures. Construction-related claims have many causes and often arise as a result of unresolved change orders, differing site conditions, or as a result of disruptions, delays, acceleration, and other time-related issues that require timely monitoring, planning, and effective actions to avoid claims.



Improvement Recommendation: The District should document and make available for review procedures to avoid claims in order to validate compliance with the implemented claims avoidance policy. The Construction and Planning Department should utilize monthly accounting report narrative sections to address in detail potential differences with the contractor, such as responsibility for performing specific work. Particular care should be taken to record and preserve all possible data and/or evidence with respect to any matter that may become a basis for a contractor claim. As there may be many root causes for claims, the claims avoidance policy should include a detailed process that the District follows to identify the areas of exposure that may lead to a claim and steps to be taken to prevent claims such as document control requirements, identification of appropriate communication channels, and proactive cost, schedule, and quality control procedures to avoid claims where possible.

OBJECTIVE NO. 12 – MAINTENANCE AND WARRANTY OF MEASURE E ASSETS

OBSERVATION 12

The District did not maintain a consolidated warranty and preventive maintenance log for all assets incorporated into school site construction and was unable to provide complete and accurate reporting for items under warranty. The District had limited controls, or documentation, surrounding the required maintenance of its assets and no formal system of logging this information for inventory purposes for the period under review. Criteria had not been established to determine which assets have warranty conditions and which do not, impacting the District's ability to evidence consistent satisfaction of warranty requirements.

Improvement Recommendation: As a best practice, the District should ensure compliance with all warranty conditions to sustain a level of protection against breach of warranty and proper maintenance of District facilities in accordance with warranty conditions. A consolidated summary project closeout report with warranty and preventive maintenance log details, which includes major assets, applicable items under warranty, dates of installation, required periodic maintenance, and actual maintenance conducted should be maintained for all school sites and reported to stakeholders on a regular basis.

OBJECTIVE NO. 13 – REVIEW OF PRIOR YEAR AUDIT

OBSERVATION 13

We reviewed the prior year's performance findings and recommendations within the Measure E FY 2015-2016 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 that 8 out of 12 of the prior year recommendations were not fully addressed in a documented action plan. Additionally, based on the Measure E FY 2016-17 audit, 12 additional improvement opportunities were identified. Management responses from the Chief Administrative Officer and District Facility Staff are reported below for each open recommendation.



| SOURCE | CATEGORY | OBSERVATION | RECOMMENDATION | MANAGEMENT RESPONSE | STATUS OF RESOLUTION | PLANNED RESOLUTION DATE |
|---|-------------------------------------|---|--|--|--|-------------------------|
| Objective 3a | Compliance with the Ballot Language | The allowability of the Chief Facilities Officer's contract buyout appeared to be a potential exception. | The District should consult with its legal counsel to determine if costs incurred for severance pay are allowable under the terms of Opinion 04-110 and the Bond measure language. Results of this consultation should be reported to the appropriate personnel (i.e., relevant District management, the Board, and CBOC) to ensure transparency and remediation, as necessary. | The District will consult legal counsel to determine if costs incurred for a contract buy out are allowable under the terms of Opinion 04-110 and the Bond measure language. Results of this consultation will be reported to the appropriate personnel, the Board and the COC to ensure transparency and remediation, as necessary. | Open | June 2018 |
| Objective 3b (Objective No. 5 from Moss Adams 2016 Report) | Compliance with the Ballot Language | Certain labor charges totaling \$96,770 were allocated between the Bond Program and other District activities without direct cost identification to the Bond Program. | The District should implement processes and controls to support and validate the applicability and accuracy of labor charged to the Bond Program. Specifically, a time tracking system should be implemented for those employees not fully dedicated to the Bond Program, so all costs incurred are identifiable and have a beneficial relationship to the Bond Program and cost objectives. | A time tracking system will be implemented for those employees not fully dedicated to the Bond Program or they will not continue to be funded from Measure E.. | Open – The District has not taken steps to address this Observation. | June 2018 |
| Objective 3c | Compliance with the Ballot Language | We identified legal fees charged to the Bond program where it is unclear whether the scope of work performed was allowable per ballot language. | The District should continue to require itemization of legal expenditures related to the MTA Subway Extension and ensure that the District's position is defensible. | The District will continue to require itemization of legal expenditures related to the MTA Subway Extension and ensure that the District's position is defensible. | Open – Ongoing | Ongoing |
| Objective No. 4a from Moss Adams 2016 Report | Expenditure and Payment Procedures | The District processed and paid a vendor invoice prior to receiving invoice approval required by policy. | The District should comply with policies and procedures and ensure that all invoices receive signature approval prior to payment processing. The District should review and update the controls surrounding invoice submission to LACOE to prevent noncompliance with policies and procedures. | Closed – No instances observed in the current period under review. | Closed | Closed |



| SOURCE | CATEGORY | OBSERVATION | RECOMMENDATION | MANAGEMENT RESPONSE | STATUS OF RESOLUTION | PLANNED RESOLUTION DATE |
|--|--|---|---|--|--|-------------------------|
| Objective 4a (Objective No. 4b from Moss Adams 2016 Report) | Expenditure and Payment Procedures | Of 52 sampled invoices, the District payment procedures lack adequate documentation to validate compliance with District policies and contractual agreements regarding payment terms on sampled expenditures. | The District should continue to time/date stamp all invoices when received and evaluate the invoice payment processing procedure to ensure compliance with District policies and procedures and contractual obligations. | The District will continue to time/date stamp all invoices when received and evaluate the invoice payment processing procedure to ensure compliance with District policies and procedures and contractual obligations. | Open – The District has taken steps to address this Observation. See Observation No. 4a for the current period under review. | April 2018 |
| Objective 4b | Expenditure and Payment Procedures | The District approved a construction pay application without sign-off from the architect. | The District should review and update the controls surrounding payment application invoice processing to ensure all appropriate sign-offs are obtained to validate work performed, prior to payment processing. | The District will review and update the controls surrounding payment application invoice processing to ensure all appropriate sign-offs are obtained to validate work performed, prior to payment processing. | Open | April 2018 |
| Objective 6 (Objective No. 6 from Moss Adams 2016 Report) | Compliance with State Laws, District Policies, and Other Regulations | Policies and procedures were not consolidated and the means for updating the manuals were not documented. | As a best practice, the District should consolidate all policies, procedures, and resolutions into one document to ensure effective controls and communication of the policies and procedures. The GFOA recommends, within their article "Documenting Accounting Policies and Procedures" that the documentation of accounting policies and procedures should be evaluated annually and updated periodically, no less than once every three years. Any changes in policies and procedures should be updated in the documentation promptly as they occur and a specific employee should be assigned the duty of overseeing this process. The resulting documentation can also serve as a useful training tool for staff. | The contract for program/construction management (TOTUM) for FY 2016-17 ended June 30, 2017. The Board of Education contracted with Team Concept Development Services (TCDS) as bond manager on July 17, 2017. TCDS is in the process of revising the Policies and Procedures Manual to include the Best Practices in this recommendation. | Open – The District has not taken steps to address this Observation. See Observation No. 6 for the exception noted in the current period under review. | June 2018 |



| SOURCE | CATEGORY | OBSERVATION | RECOMMENDATION | MANAGEMENT RESPONSE | STATUS OF RESOLUTION | PLANNED RESOLUTION DATE |
|--|---|---|--|--|--|-------------------------|
| Objective 7 (Objective No. 7 from Moss Adams 2016 Report) | District and Professional Services Staffing Plan for the Bond Program | The District does not have well-defined policies and procedures surrounding in-house and consultant staffing for the Bond Program. | A Staffing Plan for both the District and consultants should be implemented to correlate Bond Program projects to Bond Program staffing needs. The Construction Manager's organization chart, or equivalent reporting, should be updated based on current Bond Program activity by project so District management can validate adequate staffing levels and identify and prevent potential staffing redundancies. Additionally, the Facilities Procedure Manual should define roles and responsibilities by personnel, for both in-house and contractor staff, to allow management to ensure that duties are performed consistently. Per the GFOA's article "Documenting Accounting Policies and Procedures" the documentation of accounting policies and procedures should indicate which employees are to perform which procedures and should delineate the authority and responsibility for each employee. This will also allow District management to identify staffing requirement gaps and/or redundancies and/or identify skill or training requirement gaps. | The District's contract with TOTUM ended June 30, 2017. On July 17, 2017, the Board of Education entered into a contract with TEAM CONCEPT DEVELOPMENT SERVICES (TCDS) for bond management services. TCDS will report its services in compliance with this Recommendation for FY 2017-18 and will revise the Policies and Procedures Manual to include documentation to implement this recommendation. | Open – The District has not taken steps to address this Observation. See Observation No. 7 for the exception noted in the current period under review. | June 2018 |
| Objective 8 (Objective No. 8 from Moss Adams 2016 Report) | Design and Construction Costs Budget Management | Monthly District reporting lacked adequate details to allow end users to analyze available bond issuance budgets at the program and project level to actual committed contract values and the associated timing of revenues, expenditures, cash flow, and fund balances as recommended by the GFOA. | The GFOA's article "Budget Practices" recommends budget-to-actual comparisons of revenues, expenditures, cash flow, and fund balances should be periodically reviewed during the budget period. BOE-approved master plan budgets at the program and project level should be available for the total bond issuance amounts. Detailed budget-level information for current bond issuances allows the District to monitor budgetary performance against committed contract values and can serve as an early warning indicator for potential problems. This provides decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident. The GFOA also comments that input is essential for demonstrating accountability. Additionally, cash flow reporting should include revenues, cash, and expenditures by timeframe to document that | TCDS is revising the Policies and Procedures Manual to reference the GFOA. Budget Practices article and is working with the District and the COC to delineate the minimum standards required for reporting to the COC. | Open – The District has not taken steps to address this Observation. See Observation No. 8 for the exception noted in the current period under review. | June 2018 |



| SOURCE | CATEGORY | OBSERVATION | RECOMMENDATION | MANAGEMENT RESPONSE | STATUS OF RESOLUTION | PLANNED RESOLUTION DATE |
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| | | | <p>sufficient funding is available to meet financial requirements for Measure E. This documentation will also serve as a useful tool for District management and stakeholders to understand the timing of project schedules.</p> <p>Finally, detailed change order reporting, should be available for all projects within monthly reporting. The reporting should be consistent, as defined by the District, and include information such as change amount, percentages, descriptions, change responsibility, date of Board of Education approval, and totals for easy end user reference. Change order and contingency reporting should be available at both the project and program level with both detailed and summary level information to allow end users to understand deviations from original budget amounts. Summary and detailed change order and contingency reporting is necessary to understand change order cause, responsibility, pricing, compliance, and identify potential duplicated work scopes and or redundancies caused by unclear scope objectives and/or expectations within the master plan.</p> | | | |
| Objective 9a (Objective No. 9a from Moss Adams 2016 Report) | Bidding and Procurement Procedures | The District did not have competitive solicitation documentation available for professional service contractors. | The District should select professional service firms through competitive solicitation process as required by District policy. Additionally, as specified in Objective 10, as a best practice, the District should maintain a consolidated bid and procurement activity report that will allow District Senior Management to identify, prevent, or detect noncompliance 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. A checklist or equivalent mechanism, with appropriate sign-offs on procurement requirements, can serve as a good tool for all relevant parties (Accounting, as well as Planning, Construction, and Procurement) to validate | This recommendation will be addressed in the Revised Policies and Procedures Manual. | Open – The District has not taken steps to address this Observation. See Observation No. 9a for the exception noted in the current period under review. | April 2018 |



| SOURCE | CATEGORY | OBSERVATION | RECOMMENDATION | MANAGEMENT RESPONSE | STATUS OF RESOLUTION | PLANNED RESOLUTION DATE |
|--------------|------------------------------------|---|--|--|----------------------|-------------------------|
| | | | compliance with policy and procedure requirements. | | | |
| Objective 9b | Bidding and Procurement Procedures | The District was unable to validate a bid summary with adequate proposal documentation for one IT public works project. | The District should ensure that adequate documentation, as evidence of a competitive solicitation and procurement process is maintained to comply with District policies and procedures and/or PCC, CUPCCAA, and other laws and regulations. Detailed processes and procedures for IT public works procurement should be added to the comprehensive Bond Program policies and procedures manual for transparency and accountability and approved by the Board. | This Recommendation will be implemented for FY 2017-18. | Open | June 2018 |
| Objective 9c | Bidding and Procurement Procedures | The District entered into multiple vendor agreements utilizing JPA through the use of CMAS and "piggyback" contracts without approved policy and procedures identifying acceptable procurement processes. | As a best practice, the District should establish and obtain Board approval for policies and procedures regarding procurement utilizing "piggyback" contracts (JPA) including the retention of all documentation utilized in compliance with PCC Section 20118. District policies and procedures should consider minimum documentation requirements for Board approval and dollar limitations for such contracts to better protect the District from risk due to solidified contract terms or changes in market environment. | This Recommendation will be addressed in the Revised Policies and Procedures Manual. | Open | June 2018 |
| Objective 9d | Bidding and Procurement Procedures | The District did not select the lowest responsible bidder for a formally bid public works project. The District advertised for installation of a new artificial turf field at Beverly Vista School. | The District should comply with District policies and procedures for contract administration to ensure competitive pricing for the Bond Program. | Although the error resulting in award of this project to the second lowest bidder is an isolated case, it is necessary that procedures be established to ensure compliance with the Public Contract Code in all cases. This recommendation will be implemented for FY 2017-18. | Open | June 2018 |



| SOURCE | CATEGORY | OBSERVATION | RECOMMENDATION | MANAGEMENT RESPONSE | STATUS OF RESOLUTION | PLANNED RESOLUTION DATE |
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| Objective 9e | Bidding and Procurement Procedures | The District was unable to substantiate compliance with the Informal Bidding Requirements Policy for procurement of Public Work projects between \$45,000 and \$175,000 in contract value. | The District should comply with District Informal Bidding Requirements Policies to ensure competitive pricing for the Bond Program. Additionally, as specified in Objective 10, as a best practice, the District should maintain a consolidated bid and procurement activity report that will allow District Senior Management to identify, prevent, or detect noncompliance with District policies and procedures, state laws, and regulations. Supporting documentation to this consolidated report should be readily available in a central location, either physically or electronically. A checklist or equivalent mechanism, with appropriate sign-offs on procurement requirements, can serve as a good tool for all relevant parties (Accounting, as well as Planning, Construction, and Procurement) to validate compliance with policy and procedure requirements. | This Recommendation will be implemented for 2017-18. | Open | June 2018 |
| Objective 9f | Bidding and Procurement Procedures | The District was unable to demonstrate prior Board approval for a \$33,228 amendment with professional service provider Knowland Construction resulting in noncompliance with policies and procedures. | The District should implement processes and controls needed to comply with established Board approval change order policies and procedures for both public works and professional service agreements. | This Recommendation will be addressed in the Revised Policies and Procedures Manual. | Open | June 2018 |
| Objective 9g | Bidding and Procurement Procedures | The District contracted with two separate contractors for the same scope of work. | The District should implement procedures and controls to prevent duplicate procurement scopes of work. | This Recommendation will be implemented in FY 2017-18. | Open | June 2018 |
| Objective 9h | Bidding and Procurement Procedures | The District's policies and procedures for change order work do not address California PCC limitations. | The District should establish policies and procedures to address PCC Section 20118.4 change order limitations. | This recommendation will be addressed in the Revised Policies and Procedures Manual. | Open | June 2018 |



| SOURCE | CATEGORY | OBSERVATION | RECOMMENDATION | MANAGEMENT RESPONSE | STATUS OF RESOLUTION | PLANNED RESOLUTION DATE |
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| Objective 9i | Bidding and Procurement Procedures | The District has written policies and procedures that conflict with Board resolution authority. | The District should update policy and procedures to be consistent with current authorities and intended controls. | This recommendation will be addressed in the Revised Policies and Procedures Manual. | Open | June 2018 |
| <i>Objective No. 9b from Moss Adams 2016 Report</i> | Bidding and Procurement Procedures | The District's professional service contracts included change orders for new scope for amounts in excess of stated policy requiring competitive solicitation for new services. | As a best practice, the District should evaluate the current District policy and procedure surrounding change orders and competitive solicitation for new scopes of work on existing contracts to ensure competitive pricing for the Bond Program. Please see Recommendation No. 8 addressing monthly change order reporting. | Closed – No instances observed in the current period under review. | Closed | Closed |
| <i>Objective No. 9c from Moss Adams 2016 Report</i> | Bidding and Procurement Procedures | A professional service consultant subcontracted out specialty contractor related work under a consulting agreement, resulting in noncompliance with District policies and procedures. | The District should comply with District policies and procedures for contract administration to ensure competitive pricing for the Bond Program. The District should review and update the controls for change order approvals to prevent noncompliance with policy and procedures. | Closed – No instances observed in the current period under review. | Closed | Closed |
| <i>Objective No. 9d from Moss Adams 2016 Report</i> | Bidding and Procurement Procedures | The District was unable to provide a contract for a contracted professional service firm providing consulting services, as an outsourced Chief Facilities Officer, resulting in noncompliance with policies and procedures. | The District should comply with District policies and procedures for written and executed agreements. A checklist or equivalent tracking mechanism, with appropriate sign-offs on procurement related items, can serve as a good tool for all relevant parties (Fiscal Affairs, as well as Facilities) to validate compliance with policy and procedure requirements. | Closed – No instances observed in the current period under review. | Closed | Closed |
| Objective 10 (<i>Objective No. 10 from Moss Adams 2016 Report</i>) | Procurement Fraud Prevention and Detection Controls | Formal policies and procedures and monitoring controls to prevent and detect procurement fraud were not available. | District policies and procedures should be implemented to assist in identifying, preventing, and detecting procurement fraud. The policies should include reporting protocols, training requirements, and escalation procedures specific to procurement fraud. This resulting documentation can also serve as a useful training tool for staff. 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 noncompliance with District policies | This recommendation will be addressed in the Revised Policies and Procedures Manual. | Open – The District has not taken steps to address this Observation. See Observation No. 10 for the exception noted in the current period under review. | June 2018 |



| SOURCE | CATEGORY | OBSERVATION | RECOMMENDATION | MANAGEMENT RESPONSE | STATUS OF RESOLUTION | PLANNED RESOLUTION DATE |
|--------|----------|-------------|--|---------------------|----------------------|-------------------------|
| | | | <p>and procedures, state laws, and regulations. Supporting documentation for this consolidated report should be readily available in a central location, either physically or electronically. Additionally, per the GFOA, potential instances of fraud or abuse and questionable accounting practices come to the attention of responsible parties thanks to employees or citizens who become aware of such practices. As such, the GFOA provides the following relevant recommendations:</p> <ul style="list-style-type: none">• Formally approve and widely distribute and publicize an ethics policy that can serve as a practical basis for identifying potential instances of fraud or abuse and questionable accounting practices.• Establish practical mechanisms (e.g., a hotline) to permit the confidential, anonymous reporting of concerns about fraud or abuse and questionable accounting practices to the appropriate responsible parties.• Make internal auditors (or their equivalent) responsible for the mechanisms used to report instances of potential fraud or abuse and questionable accounting practices. Emphasize that they should take whatever steps are necessary to satisfy themselves that a given complaint is without merit before disposing of it. Further, they also should document the disposition of each complaint received so it can be reviewed by the audit committee.• Have the audit committee, as part of its evaluation of the government's internal control framework, examine the documentation of how complaints were handled to satisfy itself that the mechanisms for reporting instances of potential fraud or abuse, and questionable accounting or auditing practices are in place and working satisfactorily. | | | |



| SOURCE | CATEGORY | OBSERVATION | RECOMMENDATION | MANAGEMENT RESPONSE | STATUS OF RESOLUTION | PLANNED RESOLUTION DATE |
|--|--|--|---|---|---|-------------------------|
| Objective 11 (Objective No. 11 from Moss Adams 2016 Report) | Claim Avoidance Procedures | The District has a claims avoidance policy; however, it does not have regular reporting or documentation available to identify actions taken to identify or limit claim exposure. | Procedures taken to avoid claims should be documented and available for review to validate compliance with the implemented claims avoidance policy. The Construction and Planning Department should utilize monthly accounting report narrative sections to address in detail potential differences with the contractor, such as the responsibility for performing specific work. Particular care should be taken to record and preserve all possible data and/or evidence with respect to any matter that may become a basis for a contractor claim. As there may be many root causes for claims, the claims avoidance policy should include a detailed process that the District follows to identify the areas of exposure that may lead to a claim and steps to be taken to prevent claims such as document control requirements, identification of appropriate communication channels, and proactive cost, schedule, and quality control procedures to avoid claims where possible. | <p>TCDS is in the process of implementing a comprehensive Change Order Process and Claims Management Policy for all capital projects, from design through bidding and completion of construction using document, database and schedule control. All documents, data, and schedule related communication and changes will be reviewed by this Owner. Managed process prior to approval/implementation.</p> <p>The District is also implementing an online management information system, ProCore, to track all project related documents and communications. Utilizing ProCore is contractually mandated for architects and all contractors on projects. These policies and procedures will be included in the Revised Policies and Procedures Manual.</p> | Open – The District has not taken steps to address this Observation. See Observation No. 11 for the exception noted in the current period under review. | June 2018 |
| Objective 12 | Maintenance and Warranty of Measure E Assets | The District did not maintain a consolidated warranty and preventive maintenance log for all assets incorporated into school site construction and was unable to provide complete and accurate reporting for items under warranty. | As a best practice, the District should ensure compliance with all warranty conditions to sustain a level of protection against breach of warranty and proper maintenance of District facilities in accordance with warranty conditions. A consolidated summary project closeout report with warranty and preventive maintenance log details, which includes major assets, applicable items under warranty, dates of installation, required periodic maintenance, and actual maintenance conducted should be maintained for all school sites and reported to stakeholders on a regular basis. | This Recommendation will be implemented in FY 2017-18 and 2018-19. | Open | June 2019 |



OBJECTIVE NO. 14 – JOB-SITE VISITS

OBSERVATION 14 (NO EXCEPTION)

We visited selected sites to determine the authenticity of projects in progress and/or project completion in February 2018. For the sites visited, projects are covered by fixed price lump sum contracts, and percent complete was determined based on construction progress as approved by the Construction Manager and District.

OBJECTIVE NO. 15 – RECOMMENDATIONS RECAP

OBSERVATION 15

We will provide the District with a recap of all recommendations in an Excel spreadsheet for the District's review at the completion of the audit.



IV. REPORTING VIEWS OF RESPONSIBLE OFFICIALS

We have instituted specific procedures and other internal controls to ensure accurate and compliant approval, recording and reporting of Bond-related expenditures, and to implement recommendations from audit. We are committed to strong internal controls in order to deliver the required facilities and infrastructure to support the educational needs of our community, now and in the future, as defined in our current Master Plan. Management agrees that we will develop an action plan to address the recommendations identified in this report. Please see Objective 13 in the report body for detailed responses for each open recommendation.



APPENDIX A – INTERVIEWS PERFORMED

The following key BHUSD personnel were interviewed:

- Chief Administrative Officer
- Director of Fiscal Services
- Facilities Administrative Assistants
- Maintenance Personnel
- Citizen Oversight Committee Members
- Construction Manager
- Consultants



APPENDIX B – INADEQUATE DOCUMENTATION SURROUNDING COMPLIANCE WITH PAYMENT TERMS

In the table below, we report the instances where the District payment procedures lacked adequate documentation to validate compliance with District policies and contractual agreements regarding payment terms for 52 sampled invoices. Time stamps or other means of documentation were not available within 44 of the sampled invoices to validate when the District received the invoice. Without a date of receipt within invoice documentation, we were unable to validate compliance with District policies and procedures and/or contractual obligations as it was unclear when the District received the invoiced amount. In such instances, the invoice date was compared against the check date to determine promptness of payment. Based on this analysis, we noted 52 of 65 (80 percent) sampled expenditures had a payment date occurring past their respective contractual or policy requirement (see Observation 4a for further information). Time stamps were available on other sampled documentation; therefore, it appeared this procedure was inconsistently performed. Also, we noted only three instances of this issue after March 31, 2017 (i.e., the date of the issuance of Moss Adam's FY 2016/17 report).



| JOURNAL ID | TRANSACTION REFERENCE | VENDOR NAME | JOURNAL DATE | AMOUNT (\$) | INVOICE DATE | RECEIVED STAMP DATE | CHECK DATE | DAYS BETWEEN INVOICE/STAMP DATE AND CHECK DATE |
|------------|-----------------------|---------------------------------------|--------------|----------------|--------------|---------------------|------------|--|
| APA0743552 | 9995V-48 | Williams Scotsman Inc. | 6/26/2017 | \$4,491.89 | 3/31/2016 | ⊘ | 7/5/2017 | 461 |
| APA9800647 | 11050V-1 | SEWUP JPA c/o Keenan & Associates | 8/8/2016 | \$635,792.94 | 6/28/2016 | ⊘ | 8/11/2016 | 44 |
| APA9948550 | 9952V-13 | Williams Scotsman Inc. | 1/19/2017 | \$23,423.00 | 6/30/2016 | ⊘ | 1/23/2017 | 207 |
| APA9824848 | 10959V-1 | CDW Government Inc. | 8/17/2016 | \$72,074.07 | 7/6/2016 | ⊘ | 9/1/2016 | 57 |
| APA9857825 | 10937V-1 | 2H Construction, Inc. | 9/26/2016 | \$851,841.25 | 7/26/2016 | 7/29/2016 | 10/4/2016 | 67 |
| APA9800646 | 10939V-1 | Jamik Construction & Management, Inc. | 8/4/2016 | \$186,833.51 | 7/28/2016 | ⊘ | 8/11/2016 | 14 |
| APA9834026 | 9995V-7 | Williams Scotsman Inc. | 9/1/2016 | \$64,310.20 | 7/28/2016 | ⊘ | 9/12/2016 | 46 |
| APA9834026 | 9995V-6 | Williams Scotsman Inc. | 9/1/2016 | \$40,351.56 | 7/28/2016 | ⊘ | 9/12/2016 | 46 |
| APA9853437 | 6792V-1 | ProWest Constructors | 9/26/2016 | \$1,153,456.00 | 7/31/2016 | 8/9/2016 | 9/29/2016 | 51 |
| APA9831029 | 10946V-1 | G2K | 8/17/2016 | \$153,007.00 | 8/2/2016 | ⊘ | 9/8/2016 | 37 |
| APA9949917 | 10954V-2 | Digital Networks Group, Inc. | 1/5/2017 | \$902,899.20 | 8/16/2016 | 9/16/2016 | 1/24/2017 | 130 |
| APA9834026 | 10941V-2 | Asphalt, Fabric & Engineering, Inc. | 9/1/2016 | \$585,865.00 | 8/16/2016 | ⊘ | 9/12/2016 | 27 |
| APA9857825 | 10955V-1 | American Integrated Resources | 9/26/2016 | \$514,678.89 | 8/17/2016 | ⊘ | 10/4/2016 | 48 |
| APA9929662 | 10649V-1 | Tangram | 12/1/2016 | \$318,495.19 | 8/24/2016 | ⊘ | 12/21/2016 | 119 |
| APA9857825 | 10944V-2 | AMPCO Contracting, Inc. | 9/26/2016 | \$534,375.00 | 9/1/2016 | ⊘ | 10/4/2016 | 33 |
| APA9894969 | 15767V-6 | HMC Architects | 11/2/2016 | \$26,600.00 | 9/1/2016 | ⊘ | 11/9/2016 | 69 |
| APA9887413 | 10937V-2 | 2H Construction, Inc. | 10/14/2016 | \$617,690.00 | 9/7/2016 | ⊘ | 11/2/2016 | 56 |
| APA9857825 | 6204V-2 | Totum Corp. | 9/26/2016 | \$80,753.24 | 9/10/2016 | ⊘ | 10/4/2016 | 24 |
| APA9879004 | 10955V-2 | American Integrated Resources | 10/17/2016 | \$540,906.25 | 9/22/2016 | ⊘ | 10/25/2016 | 33 |



| JOURNAL ID | TRANSACTION REFERENCE | VENDOR NAME | JOURNAL DATE | AMOUNT (\$) | INVOICE DATE | RECEIVED STAMP DATE | CHECK DATE | DAYS BETWEEN INVOICE/STAMP DATE AND CHECK DATE |
|------------|-----------------------|-------------------------------------|--------------|----------------|--------------|---------------------|------------|--|
| APA9920556 | 8833V-3 | Environmental Audit Inc. | 11/14/2016 | \$20,060.00 | 9/28/2016 | ⊘ | 12/12/2016 | 75 |
| APA9894969 | 10937V-3 | 2H Construction, Inc. | 11/2/2016 | \$863,075.00 | 9/30/2016 | ⊘ | 11/9/2016 | 40 |
| APA9888763 | 10944V-3 | AMPCO Contracting, Inc. | 10/24/2016 | \$705,124.20 | 9/30/2016 | ⊘ | 11/3/2016 | 34 |
| APA9879004 | 10941V-3 | Asphalt, Fabric & Engineering, Inc. | 10/17/2016 | \$156,816.03 | 10/6/2016 | ⊘ | 10/25/2016 | 19 |
| APA9888763 | 10955V-3 | American Integrated Resources | 10/24/2016 | \$297,365.87 | 10/12/2016 | ⊘ | 11/3/2016 | 22 |
| APA9920560 | 10955V-4 | American Integrated Resources | 12/6/2016 | \$400,774.88 | 10/21/2016 | 10/26/2016 | 12/12/2016 | 47 |
| APA9927006 | 35203-6 | Horvitz & Levy LLP | 12/14/2016 | \$13,147.56 | 11/2/2016 | ⊘ | 12/19/2016 | 47 |
| APA9907119 | 6201V-4 | Totum Corp. | 11/15/2016 | \$167,647.60 | 11/7/2016 | ⊘ | 11/28/2016 | 21 |
| APA9943652 | 4820V-25 | DLR Group, Inc. | 1/12/2017 | \$45,987.19 | 11/11/2016 | ⊘ | 1/17/2017 | 67 |
| APA0008438 | 12415V-5 | Knowland Construction Services | 3/28/2017 | \$10,168.00 | 11/14/2016 | ⊘ | 3/31/2017 | 137 |
| APA9920561 | 10937V-5 | 2H Construction, Inc. | 12/7/2016 | \$1,476,537.50 | 11/30/2016 | ⊘ | 12/12/2016 | 12 |
| APA9964156 | 7310V-8 | DLR Group, Inc. | 2/2/2017 | \$170,357.90 | 12/12/2016 | ⊘ | 2/8/2017 | 58 |
| APA9891575 | 437V-1 | WLC Architects | 10/24/2016 | \$15,228.00 | 12/23/2016 | ⊘ | 3/3/2017 | 70 |
| APA9981959 | 12201V-3 | CDW Government Inc. | 3/1/2017 | \$30,006.60 | 12/28/2016 | ⊘ | 3/2/2017 | 64 |
| APA9973007 | 10937V-6 | 2H Construction, Inc. | 2/15/2017 | \$1,079,200.00 | 1/4/2017 | 12/28/2016 | 2/21/2017 | 55 |
| APA9999934 | 12200V-2 | CDW Government Inc. | 3/1/2017 | \$57,833.52 | 1/4/2017 | ⊘ | 3/22/2017 | 77 |
| APA9973005 | 10944V-6 | AMPCO Contracting, Inc. | 2/10/2017 | \$165,537.50 | 1/13/2017 | ⊘ | 2/21/2017 | 39 |
| APA0272751 | 12213V-2 | CDW Government Inc. | 5/31/2017 | \$116,305.87 | 1/13/2017 | ⊘ | 6/7/2017 | 145 |
| APA0009662 | 437V-13 | WLC Architects | 3/28/2017 | \$17,500.00 | 1/25/2017 | ⊘ | 4/3/2017 | 68 |



| JOURNAL ID | TRANSACTION REFERENCE | VENDOR NAME | JOURNAL DATE | AMOUNT (\$) | INVOICE DATE | RECEIVED STAMP DATE | CHECK DATE | DAYS BETWEEN INVOICE/STAMP DATE AND CHECK DATE |
|------------|-----------------------|-------------------------------|--------------|----------------|--------------|---------------------|------------|--|
| APA9988612 | 12207V-1 | CDW Government Inc. | 3/1/2017 | \$36,249.52 | 1/28/2017 | ⊘ | 3/9/2017 | 40 |
| APA0003400 | 11432-11 | Williams Scotsman Inc. | 3/22/2017 | \$7,187.69 | 1/28/2017 | ⊘ | 3/27/2017 | 58 |
| APA9996114 | 10937V-7 | 2H Construction, Inc. | 3/13/2017 | \$1,459,569.55 | 1/31/2017 | ⊘ | 3/17/2017 | 45 |
| APA9977967 | 10955V-7 | American Integrated Resources | 2/22/2017 | \$261,492.73 | 1/31/2017 | ⊘ | 2/27/2017 | 27 |
| APA9999936 | 11320V-8 | Murphy & Evertz. LLP | 3/17/2017 | \$95,040.22 | 1/31/2017 | ⊘ | 3/22/2017 | 50 |
| APA9983259 | 6201V-7 | Totum Corp. | 2/28/2017 | \$213,231.45 | 2/3/2017 | ⊘ | 3/3/2017 | 28 |
| APA0151363 | 6792V-7 | ProWest Constructors | 5/16/2017 | \$104,864.00 | 2/3/2017 | 2/3/2017 | 5/22/2017 | 108 |
| APA0070066 | 7310V-12 | DLR Group, Inc. | 4/26/2017 | \$255,536.85 | 2/13/2017 | ⊘ | 5/2/2017 | 78 |
| APA0067562 | 12203V-1 | CDW Government Inc. | 4/25/2017 | \$1,402,011.14 | 2/14/2017 | ⊘ | 5/22/2017 | 97 |
| APA0009660 | 6201V-8 | Totum Corp. | 3/22/2017 | \$140,155.82 | 3/3/2017 | ⊘ | 4/3/2017 | 31 |
| APA0743552 | 9995V-55 | Williams Scotsman Inc. | 6/26/2017 | \$1,304.38 | 3/12/2017 | ⊘ | 7/5/2017 | 115 |
| APA0151363 | 6201V-10 | Totum Corp. | 5/16/2017 | \$132,898.78 | 5/5/2017 | ⊘ | 5/22/2017 | 17 |
| APA0717228 | 4820V40 | DLR Group, Inc. | 6/26/2017 | \$180,363.45 | 5/12/2017 | 4/22/2017 | 7/3/2017 | 72 |
| JE106AV | | | 6/30/2017 | \$1,050,648.89 | 6/29/2017 | 6/13/2017 | 8/10/2017 | 58 |

