MOSSADAMS

FINAL REPORT

FOR

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT

Bond Performance Audit Report for the Fiscal Year Ended June 30, 2017

March 8, 2018

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Board of Education
Governing Board and
Citizens' Bond Oversight Committee
West Contra Costa Unified School District
1400 Marina Way South
Richmond, CA 94804

Subject: Proposition 39 Bond Performance Audit Report for Fiscal Year Ended June 30, 2017

Dear Board and Committee Members:

This report presents the results of our performance audit of the West Contra Costa Unified School District's (WCCUSD or the District) Measure D (2010) and Measure E (2012) Construction Bond Programs (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 the Education Code to add Section 15286, which requires that the annual performance audit is 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. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The performance audit objectives, scope, methodology, conclusions, and a summary of the views of responsible District Officials are included in the report body.

Based on the performance audit procedures performed and the results obtained, we have met our audit objective. We conclude that, for the fiscal year (FY) ended June 30, 2017, Bond proceeds may have been expended on vendor services that were not included within the Listed Projects under Measure D (2010) and Measure E (2012) Bond language. For District labor charges to the Bond Program, we noted that the District was unable to demonstrate that these charges were accurately and completely identified as Bond Program costs with timekeeping records. Additionally, we noted improvement recommendations as reported below regarding the District and Professional Staffing Plan, Design and Construction Schedule Cash Flow Analysis, Design and Construction Budget Management, Bidding and Procurement

Procedures, Procurement Fraud Prevention and Detection Controls, Bond Program Master Planning and Reporting, Claim Avoidance and Control Procedures, Cost Benefit and Value Engineering Analyses, Contractor Billing Compliance, Project Close-out Controls, Timeliness of Payments, Local Participation Requirements, Citizens' Bond Oversight Committee (CBOC) Compliance, and Transparency of Bond Program.

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

- **Bidding and Procurement Procedures:** The District created and utilized a Proposal Approval Checklist Form and Construction Bid Coordination Checklist during bid and procurement to ensure processes were followed and appropriately approved (see Objective No. 4 in the report body).
- **Bond Program Master Planning:** The District's Long Range Facilities Master Plan approved on June 15, 2016, was comprehensive and included a highly integrated process to solicit feedback, prioritize projects, establish evaluation criteria, and estimate the cost of construction needs at the priority school sites identified (see Objective No. 6 in the report body).
- **Claim Avoidance and Control Procedures:** The District had detailed dispute resolution and claims resolution processes documented within flowcharts provided to project managers and construction managers during training and for reference in the resolution of issues and claims (see Objective No. 8 in the report body).
- **Material Specifications:** On April 12, 2017, the District received Board approval for design standards, including educational specifications, technology infrastructure standards, and material and product standards, to be utilized District-wide. The design standards also include procedures and approval requirements for deviations from the specifications if necessary or cost-beneficial to the District (see Objective 9 in the report body).
- **Cost Benefit and Value Engineering Analyses:** As a good practice, the construction management agreement for the Pinole Valley High School included contract terms regarding value engineering and constructability reviews. The District regularly presented to the Facilities Subcommittee regarding cost saving efforts suggested and achieved throughout project design (see Observation No. 10 in the report body).
- **Change Order Management and Controls Application:** The District utilized good practices when reviewing and processing change orders. Appropriate facility planning and construction approvals were applied and all change orders were presented to the Board as an action or consent item (see Objective No. 13 in the report body).
- **CBOC Compliance:** Meeting minutes are uploaded to the District's website and stress the importance of Brown Act compliance with regards to regular CBOC and Audit Subcommittee meetings (see Objective No. 21 in the report body)
- **Communication and Bond Program Transparency:** Approved CBOC meeting minutes were posted on the CBOC website for regularly held meetings (see Objective No. 21 in the report body).

Additionally, we evaluated the effectiveness and efficiency of internal controls to provide an analysis of the School Construction Program so that those charged with District governance and oversight can use

the information to improve Bond 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:** State School Facilities Fund Services were charged to the Bond Program although they were not included within Bond language. School Facility Consultants provided services to the District to maximize the use of State funding and, conversely, minimize unnecessary spending in Bond funds. However, the Bond language does not support these services being billed to the Bond Program.

  Additionally, payroll allocations for District employees responsible for Bond Program activities were not supported with timecards to validate allocations (see Conduct a Performance Audit).

- **District and Professional Services Staffing Plan for the Bond Program:** The District did not have a complete Staffing Plan for FY 2016-17. The current Bond Program Staffing Positions spreadsheet does not account for the number of planned projects, type of projects, and dollar value of planned projects, which are necessary to fully develop and manage a Staffing Plan (see Objective No. 1 in the report body).

- **Design and Construction Schedule Cash Flow Analysis:** Based on the May 2017 version of the report, cash flow information is only provided on the overall Bond Program as opposed to providing cash flow information on a per project basis by funding source basis. Information per project would better align the sources and uses of funds and identify at what point funds are anticipated to be depleted (see Objective No. 2 in the report body).

- **Design and Construction Budget Management: T**he District did not have established policies and procedures for design and construction budget establishment and management for the Bond Program for FY 2016-17. (see Objective No 3 in the report body).

- **Bidding and Procurement Procedures:**
  - The District did not have Board-approved written policies and procedures regarding bidding and procurement, but generated a list of its practices, applicable regulations, and procurement template checklists upon request (see Observation No. 4 in the report body).
  - The District was unable to provide evidence of a competitive solicitation process for architectural services for three vendors procured in previous fiscal years (see Observation No. 4 in the report body).
  - For contracts procured in previous fiscal years, the District was unable to provide contracts and proof of a competitive procurement process for three separate contracts for Mobile Modular Management, who provided portable classrooms and leasing services (see Observation No. 4 in the report body).

- **Procurement and Fraud Detection Controls**
  - The District exceeded contract limitations specified on a California Multiple Award Schedule (CMAS) contract on an historically procured contract (see Observation No. 5 in the report body).

- The District purchased items not specifically identified in the General Services Administration (GSA) contract. No documentation was available to explain the deviation from contracted equipment items and validate compliance with state laws and regulations (see Observation No. 5 in report body).
- The District amended an $8,500 professional service agreement by $134,000; however, evidence of a fair, competitive selection process was unavailable (see Observation 5 in the report body).

- **Bond Program Master Planning and Reporting:** A clear and documented plan for how the District is going to stay within the total estimated budgets available funding while meeting the intended needs of the master plan was unavailable through June 30, 2017. While there may be plans for future bond issuances, additional measures, and state funding, the District should monitor costs according to available funds and be prepared with a contingency plan should anticipated future funding be unavailable (see Objective No. 6 in the report body).
- **Claim Avoidance and Control Procedures:** The District did not have a claims avoidance procedure to prevent or limit claim exposures. Construction-related claims can have many causes and often arise as a result of unresolved change orders, differing site conditions, or disruptions, delays, acceleration, and other time-related issues that require timely monitoring, planning, and effective actions to avoid claims (see Objective No. 8 in the report body).
- **Cost Benefit and Value Engineering Analyses:** The District did not have established policies and procedures for conducting cost benefit analysis and value engineering studies in FY 2016-2017. The District does not have set criteria established for when cost benefit and value engineering analyses are to be performed and the roles and responsibilities to manage and implement recommendations with the exception of material and product substitutions (see Objective No. 10 in the report body).
- **Maintenance of District Assets Funded by Local Bond and Warranty Conditions Compliance:** During FY 2017, the District did not maintain warranty and preventative maintenance logs for all assets incorporated into school site construction and was unable to provide complete and accurate reporting for items under warranty (see Objective No. 11 in the report body).
- **Project Close-out Controls:** The District did not maintain a consolidated close-out log for all projects in the close-out phase to report on compliance of close-out procedures. Specific project close-out documentation was available for specific projects, upon request; however, a consolidated summary report and central file location for projects in the close-out phase evidencing completeness and accuracy was not available (see Objective No. 15 in the report body).
- **Post-Financing Review:** The District did not have established Bond pricing goals or requirements prior to the sale (see Objective No. 16 in the report body).
- **Timeliness of Payments:** Seven out of sixty-nine sampled expenditure invoices and payment applications appeared to be not paid within 30 days as is the policy of the District (see Objective No. 19 in the report body).

- **Local Participation Requirements:** The District was unable to provide documentation to validate outreach efforts and measure results for the Board-approved Local Business Capacity Utilization Program, which aims to assist in generating meaningful work for local qualified businesses on District construction projects (see Objective No. 20 in the report body).

  Transparency of Bond Program: Information on the website is not in a centralized and organized location. Additionally, the District did not have a comprehensive Bond Program policies and procedures manual to outline key functional area requirements and processes to ensure complete coverage of Bond Program activities (see Objective No. 22).

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 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 Citizens' Bond Oversight Committee. 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

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT-APPROVED BOND FUNDS

The District has a goal of completing an approximately $1.63 billion facility improvement program, which includes Measure D (2010) and Measure E (2012) Bond Program funds that were audited for FY 2017. In 2010, the District received approval of the Measure D $380 million authorization to fund the acquisition, construction, reconstruction and modernization of school facilities. Subsequently, in 2012, $360 million was authorized for Measure E projects to fulfill the same purpose. The overall District Bond Program is in its 18th year, dating back to November 2000.

Bond Program accounting records for the fiscal year ending June 30, 2017, showed $55,257,981 in Proposition 39 Bond Program expenditures in FY 2017.

CALIFORNIA STATE REQUIREMENTS

A Construction Bond Program performance audit is required for WCCUSD Measure D (2010) and Measure E (2012) 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 are expended only on 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, SB 1473, approved by the Governor on September 23, 2010, amended the California Education Code to add Section 15286, which requires that an annual performance audit is conducted in accordance with the GAGAS issued by the Comptroller General of the United States.

Proposition 39, the "Smaller Classes, Safer Schools and Financial Accountability Act," was passed by California voters on November 7, 2000. Proposition 39 amended provisions to the California Constitution and to 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. OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of the performance audit included verification of WCCUSD 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 Measure D (2010) and Measure E (2012) funds under Proposition 39 and, as such, has been required to expend these fund proceeds only on Listed Projects, and not for school operating expenses, for the District FY ending June 30, 2017. The Bond Program expended $55,257,981 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 conclusions based on our audit objectives. The evidence obtained provided a reasonable basis for our findings and conclusions 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.

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 the District's internal controls.

The performance audit methodology applied included the following:

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. We reviewed the Bond Program's financial records and expenditures 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 Bond Program expenditure cycle, and sampled supporting documentation to validate internal controls. Testing procedures included the use of Audit Command Language (ACL) to select a statistical, monetary unit sample to provide a 90 percent level of confidence that expenditure transactions from the Bond Program were compliant with Bond Program and legal requirements. We tested 69 expenditures totaling $42,691,157. 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 was obtained.

- Expenditures complied with approved the contract, purchase order, or other procurement documentation.
- Expenditures were recorded in the proper period, accurately, and in a complete manner in the District's books and records.
- Expenditures met allocability and allowability requirements for allowance and contingency usage per sampled job contract language.

The methodology for each of the performance audit objectives (as specified by the District and agreed upon for this performance audit) was as follows:

1. **District and Professional Services Staffing Plan for the Bond Program:** We reviewed the District's policies and approach to in-house and consultant staffing for managing the measures and the effectiveness of the staffing related to the number of Bond Program projects. We analyzed the organizational structure alignment between the program management team and the contracts, and validated and evaluated processes for project reporting, communication, problem resolution, decision support, change order authorizations, scope of control, and segregation of duties. As part of this analysis, we leveraged our experience with other school construction programs to compare District staffing levels to workload requirements.
2. **Design and Construction Schedules Cash Flow Analysis:** We reviewed the methods utilized by the District and their consultants to track the schedule of available revenue and expenditures for all projects and to plan each building project in accordance with the availability of funds. To accomplish this, we conducted walkthroughs of existing tracking methods as well as Bond fund expenditure schedules and sample supporting documentation for expenditures and cost control performance.
3. **Design and Construction Budget Management:** We reviewed the established District processes for the development and adherence to design and construction budgets on Bond-funded projects in the facilities construction program to gather and test data in order to determine compliance and measure the effectiveness of controls. Selected contracts were reviewed to gain an understanding of payment processes, cycle time, allowable charges, and reimbursable costs. Processes to review and approve contractor charges were analyzed to determine preventative controls for excessive charges and overpayments, and payment applications were reviewed to assess the adequacy of supporting documentation. We also reviewed the field methods used to validate progress and percent complete. Selected cost contracts were sampled and tested for contract billing compliance with contract terms.

   We also reviewed the reconciliation of actual projects for which Bond funds were expended to projects approved by the Board of Trustees, analyzed the reconciliation of projects approved by the Board of Trustees to projects on the approved facilities master plan, reviewed the reconciliation of the facilities master plan on the approved project lists for Proposition 39, and followed up on any unreconciled items and have reported on any expenditures or items in the facilities master plan that do not reconcile to approved Listed Projects.
4. **Bidding and Procurement Procedures:** Bidding and procurement controls and procedures were evaluated for application of competitive and fair general contracting and subcontracting practices that prevent excessive expenditures. We reviewed contractual pricing and change orders for increases to competitively bid projects. We conducted interviews and reviewed relevant policies, examined bid and contractor selection files, and evaluated procurement controls.

   We verified that District bidding and award of Bond-funded construction projects complied with selected requirements of the California school construction State requirements, Public Contracting Code, and State and other relevant laws and regulations. Change order documentation was reviewed for compliance with selected Public Contracting Code, California school construction State requirements, and other regulations. Controls and activities to manage change orders were evaluated. Contracts were reviewed to gain an understanding of allowable charges and reimbursable costs

related to change orders. Policies and procedures covering the review and approval of contractor change orders were analyzed to identify potential exposures. Specific consideration will be given to change order cause, responsibility, and pricing. We reviewed policies and procedures to verify whether documentation exists prior to approval of change orders and that required approvals were applied. Selected change orders were tested for duplicated work scope and compliance with Proposition 39 requirements.

5. **Procurement Fraud Prevention and Detection Controls:** We validated District controls in place to prevent and detect procurement fraud. The following procedures were performed:
    - Assessed the implementation of ethics policy, reporting protocols, staff screening requirements, consequences, training, and escalation procedures to prevent and detect fraud.
    - Assessed 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.
6. **Bond Program Master Planning and Reporting:**
    a. Master Planning – We assessed the design and performance effectiveness of program management processes and controls covering planning, design, and construction projects. Specific emphasis was placed on the implementation of policies, procedures, and practices needed to ensure key deliverables and approvals occur as projects progress.
    b. Bond Program Reporting – We performed an evaluation of the current Bond Program reporting and plan design as well as control processes for specific projects from the start of the design phase to project closeout. This included an assessment of the current facilities master plan, organizational structure, and controls to ensure that there is an integrated plan among stakeholders including but not limited to District Management, the CBOC, and the Board of Trustees.
7. **Cost, Schedule, Budgetary Management, and Reporting Controls Implementation:** We analyzed management of cost, schedule, and budgetary reporting. This included a review of the following processes and control activities:
    - Budget variance analysis/cost reporting by cost code detail and summary, including analysis of budget, changes, spending, commitments, forecast, and variance to budget.
    - Cumulative earned value and funding reconciliation to timing of goods and service delivery.
    - Project schedule with well-defined milestones that match project requirements.
    - Compliance with project funding legal requirements.
    - Comparison of project and District accounting records.
    - Approved project scope document that matches design requirements.
    - Change control guidelines and senior management approval for initial authorization and scope changes.
    - Cost and schedule, budget, and actual analysis.
    - Documentation of test results and quality inspections.
    - Earned hours/earned units' budget and actual analysis.
    - Billing review and spending variance approvals.
    - Spending review and approval for proper coding.

8. **Claim Avoidance and Control Procedures:** We evaluated and reviewed the procedures used to limit the number of claims filed against the District related to construction projects for the period. Specific consideration was given to contractor inquiries and capture of documentation surrounding scope change causes, schedule changes, and cost impact analysis. Steps taken to effectively communicate potential claims and mitigate claims risk were also given specific consideration.
9. **Material Specifications:** We evaluated whether the District has and uses a standardized items list and educational specifications for Bond Program materials procurement to identify facilities material requirements. We assessed whether the District's materials requirements were available to project architects and designers and verified whether materials specifications were used in procurements and provided to all bidders during the procurement process.
10. **Cost Benefit and Value Engineering Analyses:** We reviewed the cost benefit and value engineering analysis procedures and documentation of practices applied. We verified whether the analyses were conducted determine if the requirements of the project or equipment could be obtained at a lower price or for a better value, specifically when weighing cost, time, and function. We assessed whether value was determined by objective criteria that may include price, features, functions, lifecycle costs, and other criteria deemed appropriate by the District. We compared the District's practices to guidelines recommended by SAVE International®. We also assessed whether the District determined a cost threshold for the application of value engineering in a practical matter.
11. **Maintenance of District Assets Funded by the Local Bond and Warranty Conditions Compliance:** We reviewed the District's practices for maintenance of a list for all assets incorporated into school site construction and complete and accurate information regarding warrantied items. We verified the District's implementation of controls surrounding the required maintenance of its assets in accordance with warranty items, application of a formal system of logging this information for inventory purposes, and use of warranties where possible.
12. **Implementation of Schedule Quality, Scope, and Performance Management Controls:** We reviewed Bond Program goals and objectives and assessed how well the goals and objectives were communicated, implemented, and applied by District and contractor personnel. Our analysis verified whether appropriate approvals were required prior to the performance of Bond Program activities and expenditures. We also reviewed the tools and support processes for the design, construction, and close-out project phases and compared them to other efficient projects as well as good practices applied by similar organizations.
13. **Change Order Management and Controls Application:** Change order documentation was reviewed for compliance with Public Contracting Code, school construction State requirements, and other regulations. Controls and activities to manage change orders were evaluated. Contracts were reviewed to gain an understanding of allowable charges and reimbursable costs related to change orders. Policies and procedures covering the review and approval of contractor change orders were analyzed to identify potential exposures. 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 to verify that required approvals were applied. Selected change orders were tested for duplicated work scope and compliance with Proposition 39 requirements.
14. **Contractor Billing Compliance Controls:** We analyzed processes to review and approve contractor charges to prevent excessive charges or overpayments. Interviews were conducted to ensure accurate understanding of events, circumstances surrounding construction, and professional service contract compliance. We covered transaction flow and cost control processes during these interviews. We evaluated whether charges matched with actual performance and work completion, delivery of contracted services, payments were in accordance with compensation terms, billing reconciliation to contract terms, and verified that required lien releases were obtained timely and with each billing.

15. **Project Close-Out Controls:** We evaluated the District's policies, procedures, and practices to close out projects in accordance with contract requirements. This review included analysis of checklists, procedures, retention policies, and contract terms and conditions. We analyzed procedures implemented to identify the parameters for contractor performance and compare the District's close-out procedures to good practices applied by similar organizations. This included review of criteria for all relevant parties to determine whether the project was complete. These procedures also included processes to verify there were controls to obtain unconditional contractor lien release and ensure unresolved claims are not pending prior to final payment.
16. **Post-Financing Review:** We compared and summarized bond pricing to policies and procedures and goals established prior to sale.
17. **Refunding of Outstanding Bonds:** We analyzed the current bond structure, bond funding requirements, refunding costs, compliance with refunding requirements, and other key factors that impact potential refunding of Bond funds. District funding plans and analysis were summarized and compared to good practices applied by other similar organizations. Consideration was given to current market conditions and public bond refunding requirements applicable to public entities.
18. **Arbitrage and Investments:** We worked to determine if the District has complied with Internal Revenue Service arbitrage requirements for bond sales and if the investment of cash from Bond sales met all legal requirements.
19. **Timeliness of Payments:** We verified that the District pays vendors within 30 days. We also verified whether general contractors are withholding payments to subcontractors, materials suppliers, and other vendors. During our review we assessed whether all contracts include specific language on payment terms and comply with California's prompt payment laws.
20. **Local Participation Requirements:** We determined compliance with specific Board Policies such as local business or Minority/Women Owned Business participation. Reported results will be validated for inclusion of current, accurate, and complete information.
21. **CBOC Compliance:** We assessed the overall compliance of the CBOC with law, the District's Board Policies, and the Committee's bylaws. Specific focus and attention was given to Committee performance, compliance with their Charter, and overall effectiveness of their activities. Evidence of CBOC compliance with its Proposition 39 requirements was assessed. Procedures to ensure the independence of Committee Members were given specific consideration.
22. **Transparency of Bond Program:** We assessed the effectiveness of the Public Outreach and Communication Plan that addresses external and internal communications. We reviewed the District's activities and methods of communication related to the identification of stakeholders as well as their concerns, influence on the project, and information expectations. Use of District means to reach Bond Program stakeholders were compared to good practices at other school districts. We evaluated the overall transparency of the Bond Program, including but not limited to, the evaluation of the Bond website information and Bond Program progress reports, and the availability and access to information regarding Program status and expenditures. Current, accurate, and complete Bond Program reporting was assessed. Project progress, impact to Bond Program stakeholders, and delivery in accordance with Bond Program requirements were given specific consideration.

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 conducted discussions with members of the CBOC The individuals interviewed are listed in Appendix A of this report.

III. AUDIT RESULTS

CONDUCT A PERFORMANCE AUDIT

Observation: We reviewed expenditures for compliance with the Bond's requirements for Listed Projects and to ensure that unallowable costs were not allocated to the Bond Program in accordance with GAGAS for performance audits as codified by the Government Auditing Standards. Our testing resulted in the following potential exceptions:

1. Of the 69 sampled expenditures, one expenditure was sampled for School Facility Consultants in the amount of $4,975 that may be unallowable per the Bond language. School Facility Consultants Invoice No. 0010301 included allocations to the Bond Program for state school facilities fund services, which aids the District in proper allocation of its funding resources. California Constitution and California Education Code provided the following amendment utilized as our criteria in our determination: "To ensure that the proceeds from the sale of school facilities bonds are used for specified school facilities projects only." Per inquiry with the District, the purpose of the service is to maximize state funding so that Bond funds can be maximized where needed. While this certainly benefits the Bond Program, it is not included within the Bond language as an allowable project. A total of $50,208.50 was charged to the Bond Program in FY 2017 for these services.
2. The District could not provide supporting documentation for the allocation of Bond Program personnel's labor charges. A total of $90,577.69 of payroll transactions were sampled and no timecards or other time certification support validating the percentage of time allocation and cost was provided (see additional details under Alternate No. 1, Objective No. 1). Full time employee (FTE) allocations to the Bond Program were based on the percentage of time assigned and not verified against actual timekeeping records or duties performed documentation to ensure that only actual labor and burden costs are being correctly allocated to the Bond Program. Timecards were completed for two District clerical staff for January 2017; however, these were isolated occurrences and there does not appear to be a correlation between these two timecards and cost allocations to the Bond Program. A total of $2.2 million was charged to the Bond Program in FY 2017 for payroll-related costs. While it is understood that labor costs to the Bond Program are necessary, they should be properly supported going forward.

Improvement Recommendations:

1. The District should consult with its legal counsel to determine if costs incurred for School Facility Consultants is allowable under the terms of 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 take place, as necessary.
2. The District should implement processes and controls needed to provide supporting documentation to validate the applicability and accuracy of labor charged to the Bond Program. Specifically, a timekeeping system, or equivalent tracking system, should be implemented so that all costs incurred are identifiable and have a beneficial relationship to the Bond Program and cost objectives.

OBJECTIVE NO.1 – DISTRICT AND PROFESSIONAL SERVICES STAFFING PLAN FOR THE BOND PROGRAM

Observation: The District and Professional Services Staffing Plan (Staffing Plan) was analyzed for its comparison of the number and magnitude of Bond Program projects to staff to determine in-house and

consultant staffing for Bond Program projects. The District provided their Bond Program Staffing Summary for FY 2016-17 and current FY that identified personnel who charge time to the Bond Program based on their allocation percentage and the estimated associated cost. The spreadsheet did not base staffing requirements on Bond Program needs and excluded key metrics such as the number of personnel, the number of planned projects, type of projects, and dollar value of planned projects, which should be analyzed to help determine if the Bond Program organizational structure is aligned with Bond Program needs. Due to the departure of The Seville Group, Inc. (SGI), the prior external Bond Program Manager, in August 2016, it is imperative that the District clearly define staffing needs ensure effective and efficient utilization of internal resources and consultants.

Additionally, the full time employee (FTE) allocations to the Bond Program were based on the percentage of time assigned and not verified against actual timekeeping records or duties performed documentation to ensure that only actual labor and burden costs are being correctly allocated to the Bond Program. Timecards were completed for two District clerical staff for January 2017; however, these were isolated occurrences and there does not appear to be a correlation between these two timecards and cost allocations to the Bond Program. Maintaining timecards is a best practice and can be implemented consistently by District staff to reconcile labor costs with actual time spent working on Bond Program needs.

Improvement Recommendation: The Staffing Plan should be updated to correlate Bond Program projects to Bond Program planning, design, and construction needs. Special consideration should be given to roles, responsibilities, workload, planned projects, project size, project dollar value, and the use of external consultants to support in-house Facility Planning and Construction staff. Additionally, the District should implement a timekeeping system for labor cost control (see Improvement Recommendation No. 2 under Conduct a Performance Audit).

OBJECTIVE NO. 2 – DESIGN AND CONSTRUCTION SCHEDULES CASH FLOW ANALYSIS

Observation: We reviewed methods utilized by the District to track the schedule of available revenues and expenditures for all projects and to plan each building project in accordance with the availability of funds. A report through May 2017 was the last prepared cash flow analysis and was utilized for the basis of our observation. The District's Cash Projection Report provided cash flow information in aggregate instead of on a per project by funding source basis. Detailed cash inflows and outflow information will better align the funding sources and use of funds in addition to identifying at what point a project is anticipated to utilize the funds. Additionally, this allows for better planning for issuances of bonds, new bond measures, or other funding sources. Per the report, the District had an expected negative ending cash balance of $5.69M, meaning the District did not have enough funding to fund the planned projects. This negative cash balance has since been addressed with additional anticipated state funding. Through October 2017, the District provided an updated cash flow report with a positive ending balance and included cash projection information by funding source and specific project cash flow projections by fiscal year; however, funding source timing and project funding source detail was not reported.

Improvement Recommendation: The District should periodically provide a cash flow report to the Board and CBOC, to project the availability of cash on a project-by-project basis, by funding source, in addition to its FY 2016-17 presentation in aggregate.

OBJECTIVE NO. 3 – DESIGN AND CONSTRUCTION BUDGET MANAGEMENT

Observation: We reviewed budget and cost documentation provided by the District and conducted interviews with Bond Finance and Facility Planning and Construction personnel, and identified the following practices:

- During FY 2016-17, the District did not have established policies and procedures for design and construction budget establishment and management for the Bond Program. Budgets are approved by the Board; however, the following roles and responsibilities surrounding design and construction budget management were not well defined: who prepares detailed budgets, when and how (i.e., what level of detail) budgets are developed and reported, who has the authority to approve budgets and budget transfers, and who is responsible for recording budget information in Munis and Primavera Based on inquiry, the District utilizes Primavera as the Construction Management software system. Muni includes only approved change orders, whereas Primavera includes and tracks proposed change orders. Proposed changes are included in the weekly project summary reports. The users of Primavera include Construction Managers, Project Managers, Contractors, and Architects for construction document management. Not having established and written policies and procedures for both Munis and Primavera could lead to inconsistent practices by District staff, resulting in potential inaccurate reporting to the Bond Program stakeholders.

Improvement Recommendation: The District should develop and implement policies and procedures for budget establishment and management activities for the Bond Program. Defined roles and responsibilities information will help provide transparency surrounding how budgets are established and managed.

OBJECTIVE NO. 4 – BIDDING AND PROCUREMENT PROCEDURES

Observation: We evaluated bid and procurement practices, procedures, and controls for the application of competitive and fair general contracting and subcontracting practices that prevent excessive Bond Program expenditures. We reviewed relevant District policies and requirements as required per Public Contract Code (PCC), California Uniform Public Construction Cost Accounting Act (CUPCCAA), and other relevant state laws and regulations. The District did not have Board-approved written policies and procedures regarding bidding and procurement, but generated a list of its practices, applicable regulations, and procurement template checklists upon request. The District implemented the following good practices related to bidding and procurement as evidenced through document review:

- The District maintained prequalification lists for construction and public works contractors for informal solicitation, which have been updated annually.
- The District has a Director of Contracts Administration responsible for compliance with construction and professional services regulations and laws.
- Though not formally adopted as a part of a policies and procedures manual, the District has created document templates including a Proposal Approval Checklist Form and Construction Bid Coordination Checklist to be utilized during bid and procurement.

Twenty-eight vendor contracts were sampled for detailed review of bid and procurement, contract initiation, invoice/payment application processing, and change order review and processing. The

following bid and procurement items, all procured prior to FY 2016-17, were exceptions to regulations and laws:

- The District was unable to provide evidence of a competitive solicitation process for architectural services for the following three vendors procured in previous fiscal years:

Project Site	Scope	Architect Selected	Contract Number	Contract Executed Date	Original Contract Value
Korematsu Middle School Campus Replacement	Furniture, Fixture, and Equipment Replacement Services	Hibser Yamauchi Architects, Inc.	1000001802	10/13/2015	$111,345
Stege Elementary School	Master Planning Services	Powell and Partners Architects	1000000585	2/3/2011	$205,400
Pinole Valley High School	Modernization Reconstruction	WLC Architects, Inc.	1000000716	2/18/2011	$8,451,539

  The District utilized a list of prequalified architects that was last updated in 2010 to select the three architects noted above. Per the August 16, 2016 Board meeting minutes, to be put on the original 2006 prequalification list, a request for qualifications (RFQ) was produced by the District and sent to over 30 architectural services firms. The District reviewed the qualifications and selected 25 firms to be included within the prequalified list.

  For contracts procured in previous fiscal years, the District could not provide evidence of proposals provided for the project scope or confirm that the prequalified architects list was utilized to obtain proposals from multiple architects to ensure fair and competitive selection. An RFQ process allows for qualifications to be assessed; however, a request for proposal (RFP) takes into account qualifications, pricing, and staffing and allows for a determination of the best value for District needs for a particular project. Additionally, California Government Code Section 4529.12 requires that "all architectural and engineering services shall be procured pursuant to a fair, competitive selection process." For contracts procured in previous fiscal years, the District did not provide proof of this competitive procurement process for the projects listed above.

- Additionally, for contracts procured in previous fiscal years, the District was unable to provide contracts and proof of a competitive procurement process for three separate contracts for Mobile Modular Management who provided portable classrooms and leasing services as detailed below:

Project Site	Board Approval Date	Contract Number	Original Contract Value
Nystrom	4/4/2012	1000000959	Unknown
Pinole Valley High School	9/25/2013	1000000943	$4,945,113.27
Valley View	9/17/2014	1000001720	Unknown

  Per the District's Director of Contracts Administration, services provided by Mobile Modular Management would qualify as public works and be subject to formal bidding requirements per Public Contract Code and CUPCCAA regulations, which state that all public works projects over $45,000 should be competitively bid and awarded in the form of a written contract to solidify terms of the agreement and to reduce risk. Evidence of competitive bid was not provided by the District. Historical

procurement practices applied by the District for these contracts were incomplete and inconsistent at each of the three project sites.

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 procurement should be added to the comprehensive Bond Program policies and procedures manual for transparency and accountability and approved by the Board. (See Objective No. 22's improvement recommendation for more detail.)

OBJECTIVE NO. 5 – PROCUREMENT FRAUD PREVENTION AND DETECTION CONTROLS

Observation: We validated the controls in place to prevent and detect procurement fraud. Through our vendor testing, we determined that the District had limited controls in place to reduce the risk of fraudulent activity or a means to bypass policies and regulations for California Multiple Award Schedule (CMAS) contracts and select professional services contracts. Details for issues related to each contract type are below:

- The District exceeded contract limitations specified on a CMAS contract. The District utilized a CMAS JPA to procure technology devices from D&D Security Enterprises. The Purchase Orders in question are specified in the table below. This type of agreement allows the District to purchase bulk materials, systems, or equipment at a reduced flat rate. The following items were purchased under the CMAS JPA:

Purchase Order No.	Purchase Order Date	Item Procured	Purchase Order Amount
20171291	9/22/2016	Tablet security systems and tablet docking carts	$2,151,115.63
20170020	6/29/2016	Purchase of laptop and other various devices and services	$226,695.14

  D&D Security Systems CMAS Contract#4-04-74-0033B is subject to CMAS regulations regarding maximum dollar amounts for procurement under this type of contract. The CMAS Award Schedule established a $100,000 maximum for orders under the agreement. This limitation can be found on the State of California Multiple Award Schedule, D&D Security Resources, Inc. Contract Number 4-04-74-0033B Top Sheet. The District was unable to provide documentation stating that the contract limitation could be exceeded. Therefore, the Award Schedule maximum of $100,000 appeared to be the default limitation, which was exceeded with the purchase of the above items for a total purchase order value of $2,378,272.46.

- Furthermore, the District purchased items not specifically identified in the General Services Administration (GSA) contract. No documentation was available to explain the deviation from contracted equipment items and validate compliance with state laws and regulations. The CMAS JPA references GSA items and pricing to ensure fair and reasonable pricing. The GSA Contract attached to this CMAS JPA is Contract #GS- 25F-0002M. This contract did not include the same equipment as that procured under the CMAS JPA. For example, tablet security carts and secure laptop packages were listed under the GSA contract; however, the actual item number, description, and unit price were different from those that the District procured. Other items, such as Acer laptops, custom digital workstations, and HD Doc cameras, were completely excluded from the GSA contract. Documentation

provided by the District (PO #20170020-00) confirmed these items absence from GSA/CMAS and PEPPM-CA Contracts (Pennsylvania Education Purchasing Program for Microcomputers – California) item listing.

- Finally, the District amended an $8,500 professional service agreement by $134,000; however, evidence of a fair, competitive selection process was unavailable. On June 19, 2014, the District entered into an $8,500 agreement with Cornerstone Structural Engineering Group (Cornerstone) to provide structural engineering support services (phase 1) at King Elementary School. On August 16, 2015, the District amended the agreement to expand the scope of services (i.e., phase 2) to be performed for an additional $134,000, for a total contract value of $142,500. Per California Government Code Section 4529.12 "All architectural and engineering services shall be procured pursuant to a fair, competitive selection process." Proof of a competitive bid process was not provided for the initial (phase 1) work or the additional work (phase 2).

These instances appeared to be isolated; however, due to the fact that information was reviewed on a sample basis, other errors or irregularities may have occurred and not been detected.

Improvement Recommendation: The District should continue to review all relevant contracting laws and guidelines and ensure that systems and controls are in place to work within the confines specified. Competitive bidding and procurement practices should continue to include RFQ/RFP and a full evaluation of bidders on a comparative basis as required by District policies and procedures and/or state law and regulations. RFQs submitted for prequalification of vendors is the initial step to onboarding architects, engineers, etc., but does not constitute the only step in a competitive bid process, and practices implemented by the District should reflect this.

OBJECTIVE NO. 6 – BOND PROGRAM MASTER PLANNING AND REPORTING

Observation: We reviewed Bond Program master planning objectives and assessed the design and performance of program management processing and controls to develop the master plan. Bond Program reporting was assessed to determine the level of integration amongst stakeholders. See specific items noted for master planning and Bond Program reporting identified below.

A. BOND PROGRAM MASTER PLANNING

Darden Architects and Integrated Educational Planning and Programming created a comprehensive Long Range Facilities Master Plan (master plan) that was Board-approved on June 15, 2016. The master plan was a highly integrated process that included several community meetings, focus groups, surveys, and school site and steering committee meetings, which included a prioritization committee. Facilities needs assessments were conducted to understand the age and condition of each school site and criteria was established including facility safety and structural integrity, age of school/number of years since last improvement, capacity/utilization, completion of master plan or drawings, Americans with Disabilities Act compliance, technological needs, functionality, eligibility for State funding, and economically disadvantaged area/low income needs. The criteria were ranked in a reasonable manner, assigned a weight, and systematically applied to the priority school sites identified.

The prioritization of projects is clearly defined and an integral part of the master plan. Rough Order of Magnitude estimates based on a per square foot analysis (excluding cost escalation or cost for temporary

housing) were developed. However, a clear and documented plan for how the District is going to stay within the total estimated available funding while meeting the intended needs of the master plan was unavailable through June 30, 2017. While there may be plans for future bond issuances, additional measures, and state funding, the District should ensure adequate reporting surrounding a contingency plan should the anticipated future funding be unavailable.

B. BOND PROGRAM REPORTING

Bond Program reporting to the CBOC, Facilities Subcommittee, and the Board is done on a regular basis. Financial reports produced by the District project progress according to the planned $181.8 million estimate as opposed to the current funding available. While there are plans for future bond issuances or additional measures (Proposition 51) and additional state funding, the District must document and report actions to be taken to secure additional funding to complete master plan projects anticipated and to communicate appropriately with stakeholders.

Improvement Recommendation: The District should ensure that adequate controls and budget management practices are applied to manage to the estimated project budgets identified within the master plan, especially as the dollar value of planned projects currently outweighs available Bond funding. The District should also ensure that adequate contingency planning and reporting is in place and properly communicated in the event that potential funding shortfalls cannot be covered by additional measures, future bond issuances, or additional state funding.

OBJECTIVE NO. 7 – COST, SCHEDULE, BUDGETARY MANAGEMENT, AND REPORTING CONTROLS IMPLEMENTATION

Observation: See the following specific areas of review for control-related deficiencies for this objective:

1. Conduct a Performance Audit
2. Objective No. 2 – Design and Construction Schedules Cash Flow Analysis
3. Objective No. 3 –Design and Construction Budget Management
4. Objective No. 6 – Bond Program Master Planning and Reporting
5. Objective No. 10 – Cost Benefit and Value Engineering Analysis.

Improvement Recommendation: See individual improvement recommendations for each objective identified.

OBJECTIVE NO. 8 – CLAIM AVOIDANCE AND CONTROL PROCEDURES

Observation: 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 District has detailed flowcharts for the dispute resolution process and claims resolution process. These processes, in conjunction with contractual language, define the steps for the contractor, architect, and District to address disputes and claims in a methodical and systematic way. However, the processes that the District currently has are reactive as opposed to proactive in avoiding claims. The current processes do not identify action to be 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 disruptions, delays, acceleration, and other time-related issues that require timely monitoring, planning, and effective actions in place to avoid claims.

Improvement Recommendations: Written policies and procedures for proactive claims avoidance practices should be created and added to a comprehensive Bond Program policy and procedure manual (see Objective No. 22 improvement recommendation for additional details).

OBJECTIVE NO. 9 – MATERIALS SPECIFICATIONS

Observation: We reviewed the District's design standards for standardized items and educational specifications to meet District needs and provide uniformity amongst facilities and school sites. In 2017, the District had the following six items for design standards documentation:

a. *Material and Product Standards* – Detailed allowable materials and products that the District has deemed adequate to meet educational specifications according to the Construction Specifications Institute codes to provide equitable learning environments.
b. *Material and Product Standards Sole Source Resolution* – Specified which materials and products included within the established standards are not subject to substitution for similar or like products.
c. *Technology Infrastructure Standards* – Infrastructure standards and requirements to ensure information technology specifications can be met and that technological advances can be incorporated into new and existing facilities throughout the District.
d. *Elementary School Educational Specifications* – Provided a general framework of requirements that can be applied to meet teaching and learning needs throughout District elementary schools. Specific areas of focus for these specifications included school environment, safety, and general requirements for educational spaces within elementary schools (i.e., classrooms, flexible learning suite, etc.).
e. *Middle School Educational Specifications* – Provided a general framework of requirements that can be applied to meet teaching and learning needs throughout District middle schools. Specific areas of focus included school environment, safety, and general requirements for educational spaces (i.e., classrooms, arts, physical education and athletics, etc.).
f. *High School Educational Specifications* – Provided a general framework of requirements that can be applied to meet teaching and learning needs throughout District high schools. Specific areas of focus included school environment, safety, and general requirements for educational spaces (i.e., classrooms, arts, physical education and athletics, etc.).

The items listed above clearly identify critical products and systems, allowable alternative items, needs for each type of school (elementary, middle, and high school), and processes for material and product substitutions. The design standards are to be provided to architects and consultants during the bid or RFP process to ensure compliance; however, evidence of this was not witnessed as the design standards were not Board-approved until April 12, 2017 (at the end of the fiscal year, prior to new bids or RFPs).

No exceptions taken.

OBJECTIVE NO. 10 – COST BENEFIT AND VALUE ENGINEERING ANALYSES

Observation: We reviewed procedures and documentation for cost benefit and value engineering analyses to determine if the District's specified requirements for products, materials, and systems could be obtained at a lower price or for a better value, specifically when weighing cost, time, and function. The District did not have established policies and procedures for conducting cost benefit analysis and value engineering studies in FY 2016-17. The District does not have set criteria established for when cost benefit and value engineering analyses are to be performed and the roles and responsibilities to manage and implement recommendations with the exception of material and product substitutions. Per the May 4, 2017, version of the Material and Product Standards, items that are not agreed to via the Board-approved sole source material and product standards resolution (Resolution No. 69-1617) are subject to substitution provided that the architect or consultant provides proof that the alternative item(s) is approved by the District in advance of being incorporated into the design. As part of this process, the architect or consultant must include a cost benefit analysis. However, no guidelines for the cost benefit analysis were outlined by the District's policies and procedures. Establishing set criteria for when cost benefit analysis and value engineering studies will be applied, what documentation is required, and the required approval authority limitations will provide a more structured environment to apply these cost saving measures to align cost, useful life, and function with project and District needs.

As a good practice, the construction management agreement for the Pinole Valley High School, executed May 17, 2016, included contract terms regarding value engineering and constructability reviews. The contract outlines the expectations of the construction manager and design team and reporting/approval requirements. However, policies and procedures were not available to explain why this project was selected for these analyses and to define District personnel roles and responsibilities surrounding management and implementation of recommendations from the reviews.

Improvement Recommendation: As a best practice, the District should ensure defined and documented policies and procedures and roles and responsibilities are in place for cost benefit analysis and value engineering for its projects, including when to utilize these tools, who is responsible for each activity, and procedures for final approval. The District's current methodology of when to utilize these tools on projects is unclear; however, value engineering and cost benefit analyses can be utilized as a tool on any project. SAVE International specifies that the following six phases be conducted to analyze cost and value:

1. *Information Phase*: Review and define the current conditions of the project and identify the goal of the value engineering study and cost benefit analysis.
2. *Function Analysis Phase*: Review and analyze the project to determine what needs improvement, elimination, or creation to meet the project's goals.
3. *Creative Phase*: Generate ideas on all the possible ways to accomplish the requirements, with an emphasis on cost and functional needs.
4. *Evaluation Phase*: Develop and execute an evaluation to select those ideas that offer the potential for value improvement while delivering the project's function(s) and considering performance requirements and resource limits.
5. *Development Phase*: Develop the selected ideas into alternatives with sufficient documentation to allow decision makers to determine if the alternative should be implemented.

6. *Presentation Phase*: Present a presentation and/or report to key stakeholders that convey the adequacy of the alternative(s) and the associated value improvement.

Specific areas of focus and attention that should be considered when conducting these types of analyses have been incorporated in Appendix B of this report.

OBJECTIVE NO. 11 – MAINTENANCE OF DISTRICT ASSETS FUNDED BY LOCAL BOND AND WARRANTY CONDITIONS COMPLIANCE

Observation: We assessed the District's practices for maintenance of assets incorporated into school site construction and reviewed the accuracy and completion of maintenance schedules to warrantied assets. The District was unable to provide requested documentation supporting District assets, preventative maintenance schedules, and warranty conditions of assets incorporated into each school site. The District utilized SchoolDude, a maintenance and work order management system, as a scheduling and reporting tool for facilities throughout the District. Evidence of documentation contained within SchoolDude was not provided by the District; however, based on inquiry, there was limited, if any, interaction between maintenance records contained within SchoolDude and the warranty conditions required for products, equipment, and systems incorporated within facilities at the District.

Based on inquiry, as construction projects are completed, training is conducted by contractors with the District's maintenance team on the products, systems, and equipment of each facility, and the contractor provides all warranties and operation and maintenance manuals to the District so that sufficient preventative maintenance can be performed by the District. The maintenance performed at the District is scheduled in SchoolDude and conducted accordingly. No documentation was available to support that the preventative maintenance schedules incorporate warranty condition requirements. Therefore, if a product or system that is under warranty should fail, the District may not be able to provide documented proof of maintenance performed in accordance with the warranty conditions, which would effectively void the warranty.

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 close-out report with warranty and preventive maintenance log details, which include major assets, applicable items under warranty, dates of installation, required periodic maintenance, and actual maintenance conducted should be kept for all school sites and reported to stakeholders on a regular basis. Warranty information is required as part of the construction close-out process; therefore, it is recommended that an owner warranty log be created by the Facility Planning and Construction Department and provided to the maintenance team for proper follow-up.

OBJECTIVE NO. 12 – IMPLEMENTATION OF SCHEDULE QUALITY, SCOPE, AND PERFORMANCE MANAGEMENT CONTROLS

Observation: We reviewed Bond Program goals and objectives to assess how well they were communicated, are being implemented and applied by District and contractor personnel. Overall, the District's recently approved master plan has provided an excellent resource to facilitate the Bond Program. It provides clear goals and objectives and was communicated with a wide audience to educate

stakeholders. However, prior to 2016 there was no established master plan for Bond funds spent. See the following specific areas of review for control-related issues for this objective:

1. Objective No. 2 – District and Professional Services Staffing Plan for the Bond Program
2. Objective No. 6 – Bond Program Master Planning and Reporting
3. Objective No. 10 – Cost Benefit and Value Engineering Analysis
4. Objective No. 15 – Project Close-Out Controls
5. Objective No. 22 – Transparency of Bond Program

Improvement Recommendation: See individual improvement recommendations for each objective identified.

OBJECTIVE NO. 13 – CHANGE ORDER MANAGEMENT AND CONTROLS APPLICATION

Observation: Change order documentation was reviewed for compliance with PCC, school construction State requirements, and other relevant regulations. Controls and activities to manage change orders and approval were evaluated. Change order documentation was reviewed to understand the allowability of sampled change orders, specifically assessing change order cause, responsible party, pricing, and compliance with Bond Program projects. Based on sampled change orders for 28 separate vendor contracts, we determined that while the District did not have established policies and procedures for change order management, the District employed good practices with regard to change order management and controls. The following practices were noted during the audit:

1. All change orders were reviewed and approved by appropriate Facility Planning and Construction Department personnel prior to presentation to the Board using a Change Order Checklist.
2. All change orders and amendments, regardless of dollar value, are sent to the Board upon approval by Facility Planning and Construction. The following two levels of approval are provided by the Board:
    a. Consent Item approval: Any cumulative change order under 10 percent of the original contract value is presented to the Board for approval as a consent item, which is reviewed and approved in the aggregate in conjunction with other Board meeting agenda items.
    b. Action Item approval: Any cumulative change order over 10 percent of the original contract value or in excess of $250,000 is presented to the Board as an action item, which requires that the change orders be assessed and approved on an individual basis as its own separate agenda item.

We found no exceptions to change order management and controls. The lack of policies and procedures in this area has been captured within Objective No. 22 – Transparency of Bond Program.

OBJECTIVE NO. 14 – CONTRACTOR BILLING COMPLIANCE CONTROLS

Observation: We analyzed processes to review and approve contract charges to prevent overcharges and to understand the work flow and cost control processes implemented by the District. We reviewed invoices to determine allowability of charges according to Bond requirements, work performed, and adequacy of cost support provided, including lien releases. The invoice and payment application process provided by the District included step-by-step tasks to be performed by the District to verify invoice

compliance and readiness for processing and payment. Payment Approval Forms, detailing vital information such as Munis contract number, vendor number, invoice date, date received, payment amount requested, current balance in Munis, and an accounting summary, were attached to each payment application/invoice and utilized in conjunction with review of the payment application/invoice to document current project status and include approvals of appropriate District staff including Finance Coordinator, District Engineering Officer, and Executive Director of Bonds and Finance. These forms have been updated for FY 2017-2018 to customize according to District needs such as multi-year, multi-funded, retention, reimbursables, etc.

No exception taken.

OBJECTIVE NO. 15 – PROJECT CLOSE-OUT CONTROLS

Observation: We evaluated the District's policies, procedures, and practices to close out projects in accordance with contract requirements. This evaluation included review of contract terms as well as supplemental documentation (i.e., close-out checklists, retention policies, etc.) produced by the District to standardize and streamline close-out activities. The District provided the Bond Program Close Out Procedures with a date of October 2015, which included sections such as Notice of Completion, Change Orders, As-Built Drawings, Manuals and Warranties, Certified Payroll, Stop Notices, Final Agreement & Release, Warranty & Guarantee, Material and Equipment, and Facility Keys.

However, through June 30, 2017, the District did not maintain a consolidated close-out log for all projects in the close-out phase to report on compliance of close-out procedures. Specific project close-out documentation was available for specific projects upon request; however, a consolidated summary report and central fie location for projects in the close-out phase, evidencing completeness and accuracy, was not available.

Improvement Recommendation: The District should compile a consolidated project-close out checklist to ensure turnover of documentation by contractors and completion of all critical tasks prior to release of final payment. As of January 2018, the District is currently working to develop this consolidated close-out checklist to strengthen the control environment and streamline close-out processes.

OBJECTIVE NO. 16 – POST-FINANCING REVIEW

Observation: Based on inquiry, the District did not have established Bond pricing goals or requirements prior to the sale.

Improvement Recommendation: As a best practice, the District should have established pricing goals and requirements included within their policies and procedures.

OBJECTIVE NO. 17 – REFUNDING OF OUTSTANDING BONDS

Observation: The District's current bond structure, bond funding requirements, refunding costs, and compliance with refunding requirements per Board policy and regulation were assessed. The District did not have refunding bonds in FY 2017. However, the District has refinanced its bonds five times during September 2009 through March 2016 and was approved by the Board on August 9, 2017, to refinance bond principles not to exceed $64 million. The District strictly enforced Board Policy (B.P.) 7214.3,

adopted on April 24, 2013, which clearly identifies the purpose of refunding/restructuring and the objectives of providing net present value debt service savings, providing assistance with tax rate management, and/or adjusting the debt service structure. The District has consulted with its municipal advisor (KNN Public Finance), Bond counsel (Nixon Peabody LLP), and underwriters (J.P. Morgan Securities LLC and Piper Jaffray & Co.) to determine the most beneficial options for taxpayers and ways to achieve the refunding objectives while complying with Board policy guidelines and legal requirements.

No exception taken.

OBJECTIVE NO. 18 – ARBITRAGE AND INVESTMENTS

Observation: Official Bond language and legal limitations regarding the issuance of the Bond were analyzed including the terms of voter approved measures regarding investments and arbitrage regulations. Funds were invested within the Contra Costa County Investment Pool at the discretion of the Contra Costa County Treasurer-Tax Collector Investment Officers, and the District is not part of that decision making process. Per Education Code Section 41001, the District is required to deposit all receipts and collections of monies (including Bond proceeds) with the County Treasurer. The Contra Costa County's Quarterly Investment Report through June 30, 2017, provided a report detailing the investment allocations. The investment categories include the following: U.S Treasuries (1.39%), U.S. Agencies (home loan banks, credit banks, mortgage corporations, municipal bonds) (20.65%), Supranationals (2.53%), Money Market Instruments (56.15%), Asset/Mortgage Backed Securities (0.21%), Corporate Notes (3.90%), Local Agency Investment Fund (5.53%), Cash (4.64%), and other (5.00%).

No exception taken.

OBJECTIVE NO. 19 – TIMELINESS OF PAYMENTS

Observation: We reviewed sampled invoices and payment applications for compliance with the District's 30-day payment process. We also reviewed lien releases and other cost support to ensure timely payments to contractors and subcontractors in compliance with contract terms. The District has a step-by-step payment process, included within the unofficial policies and procedures, which aims at providing payment to contractors who have been compliant with billing requirements within 30 days of the District's receipt of invoices and payment applications. Of the 69 expenditures sampled, there were seven instances where payment processing took longer than 30 days and was not supported by a payment application/invoice rejection letter justifying the delay. These seven instances of non-compliance are broken down into two areas:

1. The following four invoices were stamped as received by Facility Planning and Construction and the warrant (payment) date was greater than 30 days from the date the invoice was stamped as received:

Vendor No.	Vendor Name	Invoice Number	Invoice Date	Comment	Amount	Check No.	Check Date
16733	Roebbelen Construction Management Services	3	09/07/2016	Pinole Valley High – Construction	$63,982.50	143985	10/18/2016

Vendor No.	Vendor Name	Invoice Number	Invoice Date	Comment	Amount	Check No.	Check Date
16733	Roebbelen Construction Management Services	10	04/11/2017	Pinole Valley High – Construction	$99,965.00	151744	5/16/2017
12829	Arntz Builders Inc.	36	08/31/2016	Korematsu Modernization/ Construction	$172,694.98	145596	12/6/2016
14073	Roebbelen Contracting Inc.	144-26	10/28/2016	Nystrom Modernization – Classroom	$523,158.01	147349	1/24/2017

2. The following three invoices were not stamped as received by the Facility Planning and Construction Department as required per their process. The invoice date was utilized to compare against the warrant date, which exceeded the 30-day allotment. A total of nine of the 69 expenditures sampled were not stamped as received by Facility Planning and Construction; however, only the following three invoices were not paid within 30 days:

Vendor No.	Vendor Name	Invoice Number	Invoice Date	Comment	Amount	Check No.	Check Date
10873	Mobile Modular Management	1066505	07/02/2016	Pinole Valley Modular Lease	$68,999.40	142714	09/07/2016
10873	Mobile Modular Management	1066901	07/02/2016	Pinole Valley Modular Lease	$80,848.92	142714	09/07/2016
10873	Mobile Modular Management	1066617	07/02/2016	Pinole Valley Modular Lease	$245,477.04	142714	09/07/2016

Improvement Recommendation: The District's Facility Planning and Construction Department should ensure that each invoice, whether obtained in hard or electronic copy, is signed/stamped as received to indicate the initialization of the payment process. For any instances where payment has been delayed due to contractor inaccuracies within invoices/payment applications, disagreements between work billed and performed, or other discrepancies, the District should provide rejection letters to contractors detailing why payment is being delayed. This document should be maintained within files or attached to the invoice/payment application.

OBJECTIVE NO. 20 – LOCAL PARTICIPATION REQUIREMENTS

Observation: We reviewed District and Board policies to determine any local or socioeconomic participation goals or requirements for Bond Program projects. In September 2010, the District provided a draft of the Mandatory Local Business Capacity Utilization Program for the District's Bond Construction projects to the Board for adoption, which was subsequently approved. The program established a mandatory Local Capacity Building Program (LCBP), which ensures that local hiring and utilization of local businesses is prevalent for Bond Program projects. The LCBP requires that local capacity to perform work on a project be determined on a project-by-project basis. Once the capacity is determined, the

mandatory local business goal for the project is set and a best effort is put forth to reach project goals. Reference to the LCBP is included within requests for proposals, requests for qualifications, and construction contracts. The District has contracted Davillier-Sloan, Inc. to provide monitoring and compliance services for participation; however, no documentation was provided by the District to validate outreach efforts and measure results as an outcome of the LCBP participation program.

Improvement Recommendation: The District should maintain and report on local capacity for its Bond Program projects and review reports on a periodic basis to determine if the intention of the LCBP is being fulfilled. Documentation regarding outreach efforts, qualified local businesses, etc., should be maintained by the District to demonstrate compliance with the Board-approved program and objectives.

OBJECTIVE NO. 21 – CBOC COMPLIANCE

Observation: We assessed the CBOC's compliance with Board Policy 7214.2, CBOC bylaws, and related Education Code sections. We evaluated the effectiveness of the CBOC's activities and reviewed the committee composition for potential independence violations. The CBOC includes at least seven active subcommittees providing specialized focus in the following areas: Audit, Annual Report, Pinole Valley High School, Site Tours, Bylaws, Website, and Executive. The members of the Committee have proven to be very committed to the established objectives per Board Policy 7214.2, CBOC bylaws, and the Education Code. The CBOC meets monthly to discuss Bond Program expenditures and reporting though legally required to be done on an annual basis, at a minimum. Meeting minutes are uploaded via the District's website and stress the importance of Brown Act compliance with regards to regular CBOC and CBOC Audit Subcommittee meetings.

No exception taken.

OBJECTIVE NO. 22 – TRANSPARENCY OF BOND PROGRAM

Observation: We reviewed the District's means to reach Bond Program stakeholders with useful and meaningful communications. We also assessed the communication channels made available to stakeholders to voice concerns, influence projects, etc., to the District. We evaluated the overall transparency of the Bond Program including the District's website, Bond Program Progress Reports, and the availability and access to information regarding Bond expenditures. We determined that the District's primary means of communication with stakeholders is the District's website, which was recently revamped and includes meeting minutes, recordings of meetings, presentations, master plan details, etc. In addition, the District provides a monthly project status newsletter for select projects in addition to updates on Pinole TV. Staff provide construction product updates at the Facilities Subcommittee and CBOC meetings, which are all posted on the District website. The organization of these resources are most easily accessed by using the search engine function, which some stakeholders may not utilize. The information contained on the website is useful for parents, students, community members, etc., but when documentation for the Bond Program is not readily available in one location, it may be assumed that the information is not posted. Additionally, the District has an abundance of information from prior years (more than 5 years old) on its website. The current organization of this may impact stakeholders' accessibility to current year information as it can be difficult to find what is of interest.

With SGI no longer providing Bond Program management services to the District, transparency by the District is of the utmost importance as there has been a shift in resources and responsibilities. One of the

main ways other school districts improve their transparency is by creating a comprehensive Bond Program policies and procedures manual. Policies and procedures for District Bond Program activities were requested as part of the performance audit; however, the District did not have a formal procedures manual and compiled the practices implemented for invoice review and processing, change order review and processing, and bidding and procurement requirements upon request.

Improvement Recommendation: 1) The District should consider providing all relevant Bond Program information on the website in a consistent location and in an organized manner. The District should also promote other means of communicating with stakeholders such as additions to school or District newsletters on Bond Program progress, social media, periodic email updates, etc., to reach a wider audience directly. 2) The District should create a comprehensive Bond Program policies and procedures manual for presentation to the Board. This manual should highlight all the functional areas related to Bond Program activities such as, but not limited to, staffing, procurement, financial controls, document control, budgeting practices, master planning, scheduling, invoice/payment application review and processing, change order review and processing, and claims avoidance and management.

IV. REPORTING VIEWS OF RESPONSIBLE OFFICIALS

Below is a schedule of the audit observations and management's responses for exceptions and improvement opportunities noted as a result of the performance audit completed for the FY ended June 30, 2017.

OBJECTIVE NO.	OBJECTIVE TITLE	ISSUE	AUDITOR'S RECOMMENDATION	MANAGEMENT RESPONSE	PLANNED RESOLUTION DATE
Conduct a Performance Audit	Conduct a Performance Audit	School Facility Consultants charged cost to the Bond Program that was not expressly allowable per the Bond language.	The District should consult with its legal counsel to determine if costs incurred for School Facility Consultants are allowable under the terms of 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 take place, as necessary.	The District accepts the recommendation and will consult legal counsel regarding the project management functions that School Facility Consultant provides to the District related to Bond projects.	May 2018
Conduct a Performance Audit	Conduct a Performance Audit	The District did not have timekeeping records to substantiate labor charges to the Bond Program.	The District should implement processes and controls needed to provide supporting documentation to validate the applicability and accuracy of labor charged to the Bond Program. Specifically, a timekeeping system, or equivalent tracking system, should be implemented so that all costs incurred are identifiable and have a beneficial relationship to the Bond Program and cost objectives.	The District will perform annual time study and develop processes to document the District staff labor charges to the Bond Program.	June 2018
1	District and Professional Services Staffing Plan for the Bond Program	The District's Staffing Plan does not include key metrics such as number of personnel, number of planned projects, and type and dollar value of planned projects to better align Bond Program needs and staffing.	The Staffing Plan should be updated to correlate Bond Program projects to Bond Program planning, design, and construction needs, specifically focusing on roles, responsibilities, workload, planned projects, project size, project dollar value, and the use of external consultants.	The District agrees with the recommendation. The District will continue to align the staffing plan with the Bond Program. During fiscal year 2016, the staffing cost represented 9% of the total expenditures for the year. During fiscal year 2017, the staffing cost represented only 7% of the total expenditures for the year. District staff will continue to identify cost-saving efficiency measure to properly align staffing resources with Bond program and project management.	May 2018
2	Design and Construction Schedules Cash Flow Analysis	Cash flow information is only provided on the overall Bond Program as opposed to providing cash flow information on a per project basis by funding source.	The District should periodically provide a cash flow report to the Board and CBOC, to project the availability of cash on a project-by-project basis, by funding source, in addition to its FY 2016-17 presentation in aggregate.	The District agrees with the recommendation. The District's current practice aligns with the recommendation. The District will consider the appropriate format and reasonable timeframes for reporting.	June 2018
3	Design and Construction Budget Management	The District did not have established policies and procedures for design and construction budget establishment and management for the Bond Program for FY 2016-17.	The District should develop and implement policies and procedures for budget establishment and management activities for the Bond Program. Defined roles and responsibilities information will help provide transparency surrounding how budgets are established and managed.	The District agrees with the recommendation. The District will draft procedures that define roles and responsibilities to align with current practices.	May 2018
4	Bidding and Procurement Procedures	The District did not have Board-approved written policies and procedures regarding bidding and procurement, but generated a list of its practices, applicable regulations, and procurement template checklists upon request.	Detailed processes and procedures for procurement should be added to the comprehensive Bond Program policies and procedures manual for transparency and accountability and should be approved by the Board.	The District agrees with the recommendation. The District will compile a comprehensive Bond Program Management Plan that sets forth District's procurement practices and that contains processes and procedures for the administration of consistent best practices. The District will also review all current Board policies and recommend any necessary updates.	June 2018

OBJECTIVE NO.	OBJECTIVE TITLE	ISSUE	AUDITOR'S RECOMMENDATION	MANAGEMENT RESPONSE	PLANNED RESOLUTION DATE
4	Bidding and Procurement Procedures	The District was unable to provide evidence of a competitive solicitation process for architectural services for three vendors procured in previous fiscal years.	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.	The District agrees with the recommendation. This recommendation is based on the review of contracts procured in previous fiscal years and pre-date the District's current practices. The District now maintains and will continue to maintain adequate documentation that comply with procurement requirements. Further, the District will draft comprehensive procedures that align with current practices that are compliant with all procurement regulations.	June 2018
4	Bidding and Procurement Procedures	For contracts procured in previous fiscal years, the District was unable to provide contracts and proof of a competitive procurement process for three separate contracts for Mobile Modular Management, who provided portable classrooms and leasing services.	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.	The District agrees with this recommendation. This recommendation is based on the review of contracts procured in previous fiscal years and pre-date the District's current practices. The District now maintains and will continue to maintain adequate documentation that comply with procurement requirements. Further, the District will draft comprehensive procedures that align with current practices that are compliant with all procurement regulations.	June 2018
5	Procurement Fraud Prevention and Detection Controls	The District exceeded contract limitations specified on a California Multiple Award Schedule (CMAS) contract on an historically procured contract.	The District should continue to review all relevant contracting laws and guidelines and ensure that systems and controls are in place to work within the confines specified. Competitive bidding and procurement practices should continue to include an RFQ/RFP and a full evaluation of bidders on a comparative basis as required by District policies and procedures and/or state law and regulations. RFQs submitted for prequalification of vendors is the initial step to onboarding architects, engineers, etc., but does not constitute the only step in a competitive bid process, and practices implemented by the District should reflect this.	The District is not subject to the maximum order limit set forth on the State's Multiple Award Schedule. The order limit referenced on the Schedule is only applicable to State entities. The District is authorized pursuant to Public Contract Code sections 10298 et seq., to use CMAS as an alternative procurement which has been assessed to be fair, reasonable and competitive. The statutory authority does not include order limits nor require that the District set such limits in order to utilize CMAS. The District has used CMAS for procurement in those instances where staff has assessed the procurement to be prudent and cost effective. Additionally, the District's contracts under CMAS and the contract value are approved by the District's governing board.	N/A
5	Procurement Fraud Prevention and Detection Controls	The District purchased items not specifically identified in the General Services Administration (GSA) contract. No documentation was available to explain the deviation from contracted equipment items and validate compliance with state laws and regulations.	The District should continue to review all relevant contracting laws and guidelines and ensure that systems and controls are in place to work within the confines specified. Competitive bidding and procurement practices should continue to include an RFQ/RFP and a full evaluation of bidders on a comparative basis as required by District policies and procedures and/or state law and regulations.	The District agrees with the recommendation. The District will draft comprehensive procedures that align with current practices that are compliant with all procurement regulations.	June 2018
5	Procurement Fraud Prevention and Detection Controls	The District amended an $8,500 professional service agreement by $134,000; however, evidence of a fair, competitive selection process was unavailable.	The District should continue to review all relevant contracting laws and guidelines and ensure that systems and controls are in place to work within the confines specified. Competitive bidding and procurement practices should continue to include an RFQ/RFP and a full evaluation of bidders on a comparative basis as required by District policies and procedures and/or state law and regulations.	The services procured pursuant to this contract were special services and were procured pursuant to the procurement process set forth in Government Code §53060 which does not require a competitive selection process. Notwithstanding the foregoing, the District will draft comprehensive procedures that align with current practices that are compliant with all procurement regulations.	June 2018

OBJECTIVE NO.	OBJECTIVE TITLE	ISSUE	AUDITOR'S RECOMMENDATION	MANAGEMENT RESPONSE	PLANNED RESOLUTION DATE
6	Bond Program Master Planning and Reporting	A clear and documented plan for how the District is going to stay within the total estimated budget's available funding while meeting the intended needs of the master plan was unavailable through June 30, 2017.	The District should ensure that adequate controls and budget management practices are applied to manage to the estimated project budgets identified within the master plan, especially as the dollar value of planned projects currently outweighs available Bond funding. The District should also ensure that adequate contingency planning and reporting is in place and properly communicated in the event that potential funding shortfalls cannot be covered by additional measures, future bond issuances, or additional state funding.	The District agrees with the recommendation. The District will prepare comprehensive processes and procedures that align with current practice.	May 2018
8	Claim Avoidance and Control Procedures	The District does not have a policy in place to proactively mitigate the risk of claims.	Written policies and procedures for proactive claims avoidance practices should be created and added to a comprehensive Bond Program policy and procedures manual.	The District agrees with the recommendation. The District will draft processes and procedures consistent with the claims avoidance process and controls already set forth in the District's contracts so that current practices are documented.	June 2018
10	Cost Benefit and Value Engineering Analyses	The District did not have established policies and procedures for conducting cost benefit analysis and value engineering studies in FY 2016-2017. The District does not have set criteria established for when cost benefit and value engineering analyses are to be performed and the roles and responsibilities to manage and implement recommendations with the exception of material and product substitutions.	As a best practice, the District should ensure defined and documented policies and procedures and roles and responsibilities are in place for cost benefit analysis and value engineering for its projects, including when to utilize these tools, who is responsible for each activity, and procedures for final approval. The District's current methodology of when to utilize these tools on projects is unclear; however, value engineering and cost benefit analyses can be utilized as a tool on any project.	The District agrees with the recommendation. The District will draft processes and procedures consistent with the cost benefit and value engineering practices already followed so that current practices are documented.	June 2018
11	Maintenance of District Assets Funded by Local Bond and Warranty Conditions Compliance	During FY 2017, the District did not maintain warranty and preventative maintenance logs 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 close-out 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 kept for all school sites and reported to stakeholders on a regular basis. Warranty information is required as part of the construction close-out process; therefore, it is recommended that an owner warranty log be created by the Facility Planning and Construction Department and provided to the maintenance team for proper follow-up.	The District agrees with the recommendation.	June 2018
15	Project Close-Out Controls	The District did not maintain a consolidated close-out log for all projects in the close-out phase to report on compliance of close-out procedures. Specific project close-out documentation was available for specific projects upon request; however, a consolidated summary report and central file location for projects in the close-out phase, evidencing completeness and accuracy, was not available.	The District should compile a consolidated project-close out checklist to ensure turnover of documentation by contractors and completion of all critical tasks prior to release of final payment. As of January 2018, the District is currently working to develop this consolidated close-out checklist to strengthen the control environment and streamline close-out processes.	The District agrees with the recommendation. The District will draft processes and procedures consistent with the project close-out controls and practices already set forth in District's contracts and the procedures followed so that current practices are documented.	June 2018

OBJECTIVE NO.	OBJECTIVE TITLE	ISSUE	AUDITOR'S RECOMMENDATION	MANAGEMENT RESPONSE	PLANNED RESOLUTION DATE
16	Post-Financing Review	The District did not have established Bond pricing goals or requirements prior to the sale.	As a best practice, the District should have established pricing goals and requirements included within their policies and procedures.	District will consult with its financial advisors with regard to the pricing goals and requirements recommendation	June 2018
19	Timeliness of Payments	Seven out of sixty-nine sampled expenditure invoices and payment applications appeared to be not paid within 30 days as is the policy of the District.	The District's Facility Planning and Construction Department should ensure that each invoice, whether obtained in hard or electronic copy, is signed/stamped as received to indicate the initialization of the payment process. For any instances where payment has been delayed due to contractor inaccuracies within invoices/payment applications, disagreements between work billed and performed, or other discrepancies, the District should provide rejection letters to contractors detailing why payment is being delayed. This document should be maintained within files or attached to the invoice/payment application.	The District agrees with the recommendation.	May 2018
20	Local Participation Requirements	The District was unable to provide documentation to validate outreach efforts and measure results for the Board-approved Local Business Capacity Utilization Program, which aims to assist in generating meaningful work for local qualified businesses on District construction projects.	The District should maintain and report on established local capacity for its Bond Program projects and review reports on a periodic basis to determine if the intention of the LCBP is being fulfilled. Documentation regarding outreach efforts, qualified local businesses, etc., should be maintained by the District to demonstrate compliance with the Board-approved program and objectives.	The District will develop and maintain processes and procedures to report on utilization of local capacity for its Bond Program projects.	June 2018
22	Transparency of Bond Program	Information on the website is not in a centralized and organized location.	The District should consider providing all relevant Bond Program information on the website in a consistent location and for a reasonable timeframe. The District should also promote other means of communicating with stakeholders such as additions to school or District newsletters, social media, periodic email updates, etc., to reach a wider audience.	The District agrees with the recommendation.	June 2018
22	Transparency of Bond Program	The District does not have a written, Board-approved policies and procedures manual for the Bond Program.	The District should create a comprehensive Bond Program policies and procedures manual for presentation to the Board. This manual should highlight all the functional areas related to Bond Program activities such as, but not limited to, staffing, procurement, financial controls, document control, budgeting practices, master planning, scheduling, invoice/payment application review and processing, change order review and processing, and claims avoidance and management.	The District agrees with the recommendation. The District will compile a comprehensive Bond Program Management Plan that contains the processes and procedures for the administration of consistent best practices currently being implemented and followed by the District. The District will also review all current Board policies and recommend any necessary updates.	October 2018

APPENDIX A – LIST OF INTERVIEWEES

The following key WCCUSD personnel were interviewed:

- Executive Director of Bonds and Finance
- Associate Superintendent Operations
- Director of Contracts Administration
- Director of Internal Audit
- Engineering Officer
- Finance Coordinator

APPENDIX B – COST BENEFIT AND VALUE ENGINEERING ANALYSES

The following guidelines and recommendations can be utilized by the District to maximize value engineering (VE) studies and cost benefit analyses.

VE SCOPING

- Identify whether or not a VE study should be conducted for each project (or a component) prior to finalization of the contract.
- Prepare a revised scope of work template that is consistent with SAVE International® guidelines.
- Set a delivery date within a short period of time following the last day of the VE workshop (three days is suggested by SAVE International).
- Include scope for VE team leader to attend the District's decision meeting regarding acceptance or rejection of the VE team recommendations to ensure that decision makers have a full and complete understanding of the recommendations.
- Provide the details of the VE process to all construction contractors as part of the bidding process information.

VE STUDY PERFORMANCE

The District should conduct VE studies to determine the goals and needs of the District. This can be conducted in three phases: pre-workshop, workshop, and post-workshop.

PRE-WORKSHOP

- Define the District's expectations for conducting a VE study workshop and provide it to all VE team leaders in advance of conducting each workshop.
- Ensure that sufficient time is available to the VE team leader and team members to accomplish all pre-workshop activities.
- Require pre-workshop preparation of matrix or graphical models of capital cost, operations and maintenance (O&M) cost, lifecycle cost, energy, space, time, or other project characteristics as needed to provide the VE team with appropriate insights into the distribution of these critical elements through the project components.
- Distribute presentation outlines to the District project managers and the design project manager to provide guidance about the information they need to present during the information phase on the first day of the VE workshop.
- Have the VE team cost estimator(s) conduct a validation of the project construction cost estimate in advance of the VE workshop to identify any areas of concern in the estimate.
- Ensure involvement by at least two VE team members (one planning and construction design/project management staff member who is not part of the design team for the project and one staff member from operations and maintenance) appropriate to the type of project for the duration of at least half of the workshop.

WORKSHOP

- Provide the VE team with a list of clear and well-defined true constraints on the VE team to help them stay focused.
- Ensure that a function analysis of the specific project is conducted with the VE team during the workshop. It must be specific to the project rather than borrowing functions identified in previous VE studies.
- Ensure that the creative process is truly creative and is not limited to proven ideas.
- Attend a mid-workshop review of the "shortlist" of VE ideas with representatives of operations and maintenance as well as the design team and identify any ideas with "fatal flaws" and any ideas not on the shortlist that should be added.
- Ensure attendance at the VE team presentation by representatives of all of the internal stakeholder groups (i.e., Facility Planning and Construction, Finance) within the District that are relevant to the VE study.
- Require that the VE team leader, assistant, or another team leader review each recommendation for completeness and correctness before the end of the workshop.

POST-WORKSHOP

- Require the design team to respond to each VE recommendation and design suggestion with the same level of detail as is contained in the VE recommendation. Require detailed documentation if the design team disagrees with the VE team's estimated cost impacts of the recommendation. Require detailed justification for recommendations to reject any VE recommendation.
- Ensure that all key stakeholders respond to the VE recommendations and are represented at the post-workshop decision meeting, including the VE team leader.
- Ensure that the results of each VE study are entered in the various tracking systems that are part of the Bond Program.

VE BUDGETING

- Incorporate a line item in the budget for the VE that includes funds for VE program associated expenses, training for VE program staff and design project manager, and consultant services for VE studies. Make the head of the VE program responsible for meeting that budget. Include a contingency allowance in the budget for VE studies that may be identified at a later date.
- Set a VE study budget for each project in the District's Master Plan.
- Check the VE budget for each project to confirm that it falls between 0.5 percent and 2 percent of the project construction cost.