

Implementation Plan Update

Forensic Accounting Investigation Report dated September 2016

Facilities Subcommittee Meeting
January 17, 2017

Implementation Task Force Members:

Matthew Duffy, Superintendent

Lisa LeBlanc, Associate Superintendent

Jackie Kim, Director of Internal Audit

Melissa Payne, Director of Contracts

Rhem Bell, Solutions Team Member

Auna Harris, Citizens' Bond Oversight Committee Member



Background

- Phase II Forensic Accounting Report was accepted by the Board on September 21, 2016 and provided a 30-day public comment period
- The report contains 112 recommendations to reduce the District's risk, improve overall operational and administrative efficiencies
- The Board approved an Implementation Task Force which met October 21, 2016 and December 16, 2016
- The Draft Implementation Plan was approved by the Task Force on October 21, 2016
- Reporting timeframes for the Facilities Subcommittee and Board were approved by the Task Force

Meeting and Reporting Timeline

Implementation Task Force Meetings:

December, March, June, September

Facilities Subcommittee:

January, April, July, October

Board of Education:

February and November

Focus Areas of Recommendations

- Conflict of Interest
- Compliance with Legal Requirements and Board Policies
- Budgeting Practices
- Vendor Contract Administration
- Billings and Performance of Outside Construction Manager
- Change Order Approval and Accounting Practices
- Project Accounting Systems – Munis
- Project Accounting Systems – Primavera
- Financial Reporting

Major Themes from Public Comments

(Available on District Website <http://www.wccusd.net/audit>)

- Importance of implementing the recommendations, concerns relating to the structure and composition of the task force
- Detailed information regarding the procedure and process undertaken by a district employee to reconcile the project ledger and general ledger which were not recognized or questioned during course of audit
- Architectural fee structure recommendation to utilize an outdated OPSC sliding scale is not industry standard and doesn't consider changes in design requirements
- OPSC sliding scale fee structure was utilized for the State building program funding process and reimbursement methodology
- Auditor does not have a critical understanding of school design and construction beyond the accounting practice issues

Major Themes from Public Comments

(Available on District Website <http://www.wccusd.net/audit>)

- Audit was restricted due to lack of authority to interview
- Comments referred to by auditors were unattributed and unverified
- Target of complaints were not interviewed
- District agreed to implement without review and analysis
- Factual errors in report (dates, names, school names)
- 2014 and 2015 Performance Audit recommendations never implemented
- Did not cite examples of Brown Act violations although recommends training
- Refers to agreement with ILC but there is none in existence; auditors did not interview Board members or other stakeholders regarding allegations

Major Themes from Citizens Bond Oversight Committee “CBOC”

(Available on District Website <http://www.wccusd.net/audit>)

- There is no evidence in the audit that the CBOC has violated limitations in board policy
- They welcome paying more attention to costs related to staff time for the CBOC
- Supports clarity of the board policies regarding CBOC responsibilities
- Supports a more formal budget

Progress to Date on All Recommendations

| Status | Number of Recommendations |
|---------------------------|---------------------------|
| Completed | 36 |
| Under Review / In Process | 71 |
| For Future Implementation | 5 |

Note: Once a recommendation is implemented the status will be labeled “completed”. Many recommendations require ongoing implementation to ensure continuation of best practices.

Progress to Date on Recommendations Assigned Risk

| Status | Number of Recommendations Assigned risk | High Risk | Medium Risk | Low Risk |
|---------------------------|---|-----------|-------------|----------|
| Completed | 20 | 3 | 15 | 2 |
| Under Review / In Process | 54 | 18 | 36 | |
| For Future Implementation | 4 | 0 | 4 | |
| | 78 | | | |

Note: There are a total of 112 recommendations, however, only 78 were assigned a risk score of high, medium, or low.

Draft Phase II Implementation Plan

Executive Summary

- Background
- District's Response to Recommendations

Appendix A: Key Recommendations

- Master list of all 112 recommendations
- All recommendations have been assigned to a Responsible Party
 - Superintendent (M. Duffy)
 - Operations (L. LeBlanc)
 - Bond Fiscal (M. Bonnett)
 - Contracts (M. Payne)
 - Auditor (J. Kim)
 - Engineering Officer (L. Freese)

Appendix B: Matrix of Recommendations

- Responsible Party
- Forensic Audit reference listing & Master List assignment
- Recommendation
- Start Date
- Completion Date (Est.)
- Completion Date (Act.)
- Deliverables
- Status (Completed, Under Review / In Process, Future Implementation)

Superintendent & Operations Update

Recommendation

(FI 1-4)

Legal Counsel guidance to board regarding referral of report to law enforcement agencies

Recommendation

(FI 1-5)

Legal Counsel guidance on SGI's breach of Right to Audit Clause

Deliverables

Legal counsel consulted and provided attorney-client privileged memorandum to District and had closed session discussion with Board resulting in direction on this matter.

Deliverables

Legal counsel consulted and provided attorney-client privileged memorandum to District and had closed session discussion with Board resulting in direction on this matter.

Bond Fiscal Update

Recommendation (TC 6-2)

Require that the budget verification performed in Munis by the Sr. Facilities Planning Specialist be performed prior to the approval of contracts and change orders by the Board. This will ensure that there is sufficient budget for a contract prior to Board approval. If funds must be transferred to increase the available budget, notify the Board of this transfer or budget revision at the time that the contract is approved for better transparency to the Board and public related to the impact of contract approvals. Additionally, as recommended in TC6-6, ensure that the appropriate Board action is taken to approve budget amendments/transfers. The recommended timing for these actions is as follows:

- a. Transfer between major object codes (no impact on ending fund balance) – at least monthly to satisfy the requirements of California Education Code.
- b. Transfer of fund balance (decrease/increase in ending fund balance) – as a separate agenda item at the same Board meeting at which the contract is presented for approval/ratification.

Deliverable

Developed, presented, and Board ratified resolution for budget revisions, resulting transfers, increases and/or decreases for the 2016-17 budget. The first resolution of this type included budget increases and transfers from fund balance. See attached Board documents. Board approval November 16, 2016.

Engineering Officer Update

| | |
|---------------------------|---|
| Recommendation TC 13-2 | Require the Director of Contract Administration and Chief Engineering Officer to initial and date the change order packet (or a separate, attached form) to document the review that is performed prior to the change order going to the Associate Superintendent of Operations and Bond Program in preparation for Board approval. This will provide the proper audit trail to document that this review took place. |
| Recommendation TC 13-3 | Create updated forms to reflect the approval signatures that are required. Some forms contain signature lines for individuals whose signature is not required nor typically given. For example, the PCO Summary form contains lines for the “Scheduler” and the “Deputy Program Manager,” neither of which seems to be part of the policies/procedures in practice. |
| Recommendation TC 13-4 | Consider including the Board Précis and Change Order Summary in the change order support packet to provide a clean audit trail. |
| Recommendation TC 13-5 | Consider implementing the use of a change order work flow check list that is completed with each change order. The check list would include a list of documents and signatures required at various steps in the process. This could assist District staff in ensuring that all necessary documents and signatures are obtained and document when key dates are entered into Munis. |
| Deliverable | The District implemented a change order checklist to verify that all required signatures and documents are included, prior to submission for the BOE. The change order checklist is signed by the Director of Contract Administration and Chief Engineering Officer to document the review prior to submission for the Board. |

Auditor Update

Recommendation (General 1)

The District should ensure that an effective FRAUD REPORTING MECHANISM is in place for reporting known or potential wrongdoing impacting the District Bond Program. Some key considerations in implementing should include:

There is an anonymous reporting channel available such as a third-party hotline.

The hotline should be available to not only District employees, but also any organization doing business with the District and the general public.

The hotline is advertised and communicated effectively.

Employees trust that they can report suspicious activity anonymously and/or confidentially and without fear of reprisal.

That reports of suspicious activity will be promptly and thoroughly evaluated

Deliverable

Fraud Hotline is available on the District website and brochures and posters will be distributed to each school site and department by January 31, 2017.

Contracts Update

Recommendation

(FI 3-4)

Revise the current right to audit clause included in vendor contracts to include the following: At no additional cost to the District, vendor will provide the District, or its authorized representative(s), reasonable access to the vendor's facilities in order to conduct an audit ...payroll files, copies of checks paid to subcontractors and any other type of documentation necessary in order to conduct an audit...the right to interview all current or former employees to discuss matters pertinent to the performance of the contract...adequate and appropriate work space, in order to conduct the audit as specified in the audit clause.

Vendor to agree that if an audit inspection or examination in accordance with the audit clause discovers overpricing or overcharging to the District by the vendor in excess of \$100,000 or any other reasonable amount, in addition to making the appropriate adjustment for the overcharges, the reasonable actual cost to the District for this audit shall be reimbursed by the vendor.

Recommendation

(FI 4-2)

Ensure that all contracts contain a clause specifying the duration of the contract, which includes a specific start and end date as well as a not-to-exceed contract amount. Under no circumstance should the District enter into a contract that does not clearly state an end date and a contract amount. If a contract includes hourly labor rates, ensure that these rates are clearly specified in the contract and never stated simply as a total amount over a period of time. In addition, prior to paying an invoice, review the invoice to ensure that the hourly billing rates included in the invoice are reflective of the terms stated in the contract, which may include escalation rates.

Recommendation

(FI 7-5)

Request that District legal counsel perform a thorough review of the architect contract template to ensure it contains provisions that are in the best interest of the District and designed to save on architect fees. Update the architect contract template as necessary and incorporate the following: a. Revise provisions that include the terminology "reasonable," "unreasonable," or "significant" and provide specific time periods and/or definitions so that the contract is not subject to interpretation by the parties. b. Revise provisions that allow the District and architect to communicate instructions verbally. All communications and instructions related to the architect's performance of work should be done in writing. c. When titles are included in certain contract provisions, ensure that the person(s) holding those titles are identified.

Deliverable

Legal counsel reviewed the recommendations and provided contractual revisions to strengthen the existing contract and amendment templates.

Next Steps

Update to Board of Education in February

Friday Memos to continue as recommendations are implemented

Online Repository of Records (<http://www.wccusd.net/audit>) :

- Phase II Forensic Accounting Report
- Public Comments & CBOC Comments
- Friday Memos to the Board
- Facilities Subcommittee & Board of Education Meeting presentations including the Draft Implementation Plan