



Oakland Unified School District

School Bond Measure B
Fiscal and Performance Audit
For the year ended
June 30, 2007

TCBA

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April 30, 2008

Mr. Timothy E. White, Assistant Superintendent
Oakland Unified School District
Division of Facilities Planning and Management
1025 2nd Avenue
Oakland, CA 94606

**Re: Measure B Bond Fiscal and Performance Audit Final Report for the
Period Ending FY07**

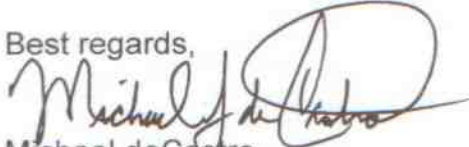
Dear Mr. White,

Thompson, Cobb, Bazilio & Associates, PC (TCBA) is pleased to present the attached final report on our fiscal and performance audit of the Oakland Unified School District's (OUSD) use of Measure B Bond funds for the period ending June 30, 2007.

We are pleased to report that we found Measure B Bond funds for FY07 were used in compliance with the stated purpose of the bond measure and that the District's contracting policies and procedures were consistent with California State law. We have also made some recommendations for the District to consider that we believe will improve contract file documentation and the contract change order review process.

Please feel free to call me anytime at 310 792-4640 (ext. 110) if you should have any questions.

Best regards,



Michael deCastro
Principal

TABLE OF CONTENTS

	<u>Page</u>
Cover Letter	i
Executive Summary	1
Background	2
Objectives, Scope and Methodology	2
Results of Review	
Expenditure Compliance Testing	3
Compliance with Procurement Laws	4
Invoice Processing Procedures	5
Change Order Processing.....	5
 Attachment I – Measure B Expenditures by Project FY07	

**OAKLAND UNIFIED SCHOOL DISTRICT
SCHOOL BOND MEASURE B
FISCAL AND PERFORMANCE AUDIT**

EXECUTIVE SUMMARY

At the request of the Oakland Unified School District's (OUSD) Assistant Superintendent for the Division of Facilities Planning and Management, Thompson, Cobb, Bazilio & Associates, PC was engaged to conduct a fiscal and performance audit on the use of Measure B Bond funds for the fiscal year ending June 30, 2007. In 2006 the voters of Oakland, California passed School Facilities Bond Measure B pursuant to Article 13A, section (b) (3) and Article 16 (b) of the California Constitution and Education Code Section 15278, authorizing the issuance of \$435,000,000 of Measure B bonds for school renovation, modernization and new construction.

The primary objectives of our audit were to (1) determine whether Measure B funds were expended only for purposes described in the bond measure, (2) assess OUSD's Measure B procurement procedures for compliance with State law, (3) assess the adequacy of internal controls over Measure B invoice review and approval processes, and (4) identify alternatives that could achieve Bond Program goals and objectives more effectively and efficiently.

Overall, our audit found that 1) Measure B Bond funds were expended only for the purposes described in the bond measure, 2) OUSD procurement policies and procedures were consistent with California State procurement laws, 3) internal controls over the review and approval processes for Measure B invoices were adequate, and 4) improvements could be made to contract file documentation and the contract change order review process. We believe implementation of our recommendations for improvement could assist the District in achieving Bond program goals and objectives more efficiently and effectively. Our recommendations for improvement include:

- Requiring all contractors with Time & Material type contracts to submit timesheets in support of its invoices.
- Establishing procurement document retention policies and procedures identifying key procurement documentation that should be maintained in the contract files, and
- Establishing a dollar threshold for requiring a cost analysis or price review of contractor change order proposals, establishing procedures for documenting negotiated change order prices, and negotiating change order labor and equipment rates at the onset of a contract to facilitate the review and approval of contract change orders.

**OAKLAND UNIFIED SCHOOL DISTRICT
SCHOOL BOND MEASURE B
FISCAL AND PERFORMANCE AUDIT**

Details of our audit results and recommendations are contained in the body of this report.

BACKGROUND

In 2006 the voters of Oakland, California passed School Facilities Bond Measure B pursuant to Article 13A, section (b) (3) and Article 16 (b) of the California Constitution and Education Code Section 15278, authorizing the issuance of \$435,000,000 of Measure B bonds for school renovation, modernization and new construction.

According to Measure B requirements, bond proceeds are to be used for projects identified in the District's Facilities Master Plan adopted by the State Administrator in February 2006. Projects include repair, rehabilitation and modernization of existing early Childhood Development Centers (CDC), construction of new classrooms at CDCs, and installation of new information technology infrastructure, and renovation and major repairs at all District sites.

As of June 30, 2007 the District had issued bonds totaling \$130,000,000, with interest earned on bond proceeds totaling \$3,191,804. In addition, OUSD received a bond premium of \$2,453,230 at the onset of the bond issuance. During this same period, OUSD had expended \$4,194,601 of those bond proceeds on 34 different school renovation, modernization and new construction projects. The total approved budget for the 34 projects was \$175,187,129. (See Attachment I)

OBJECTIVE, SCOPE AND METHODOLOGY

The primary objectives of our fiscal and performance audit of the Measure B school bond renovation, modernization, and building program were to (1) determine whether Measure B funds were expended only for purposes described in the bond measure, (2) assess OUSD's Measure B procurement procedures for compliance with State law, (3) assess the adequacy of internal controls over Measure B invoice review and approval processes, and (4) identify alternatives that could achieve Bond Program goals and objectives more effectively and efficiently. To accomplish this objective we performed the following procedures:

1. Reviewed the Measure B school bond provision regarding the authorized uses of bond revenues.
2. Met with OUSD Measure B Program officials to obtain an understanding of the Measure B renovation, modernization and construction program, including policies and procedures for project management, procurement, prevailing wage compliance monitoring, invoice processing and change order management.

**OAKLAND UNIFIED SCHOOL DISTRICT
SCHOOL BOND MEASURE B
FISCAL AND PERFORMANCE AUDIT**

3. Reviewed a statistical sample of Measure B expenditures for the year ended June 30, 2007 to determine whether those expenditures were made only for purposes described in the bond, for valid obligations, and in accordance with contract provisions.
4. Verified that OUSD had a program to monitor contractor compliance with State prevailing wage requirements.
5. Reviewed OUSD invoice review policies and procedures to determine whether those procedures provided adequate controls to ensure reliable and accurate payment of bond obligations.
6. Assessed OUSD procurement procedures for Measure B projects for compliance with State law.
7. Reviewed OUSD change order processing procedures and compared to best practices for assuring that changes are warranted and are negotiated at fair and reasonable prices.

RESULTS OF REVIEW

Expenditure Compliance Testing

We found that OUSD Measure B bond expenditures were made only for valid obligations and only for purposes described in the bond, and that such payments were in accordance with contract provisions. While our review disclosed no instances of non-compliance, we believe that requiring professional service contractors to provide supporting timesheets for work done on a time and material basis would provide better controls for ensuring accurate payment for services provided.

We reviewed a sample of 75 expenditure transactions with a total value of \$2,064,904 or 49.2% of the \$4,194,600 Measure B bond expenditures for FY 2007. We tested these expenditures to determine whether or not they were used for purposes stated in the bond measure. In addition, our expenditure review included the following tests:

1. Was each expenditure supported by a valid invoice?
2. Was each invoice approved by the Project Manager, the Director of Facilities and Assistant Superintendent prior to payment?
3. Were costs invoiced within the contract ceilings?
4. Were costs charged to the appropriate project number?
5. Were invoices adequately supported?
6. Was the amount paid consistent with the amount owed?
7. Was the contractor a valid business (verified through an internet search)?

**OAKLAND UNIFIED SCHOOL DISTRICT
SCHOOL BOND MEASURE B
FISCAL AND PERFORMANCE AUDIT**

Our review of the 75 sampled transactions disclosed no instances of non-compliance. However, we noted that OUSD did not require professional service contractors to submit supporting timesheets for work performed on a Time & Material (T&M) basis. Such a requirement is a best practice for T&M contracts that establishes a means of verifying the validity of time charged by the contractor.

Recommendation

We recommend that OUSD require contractors to provide supporting timesheets for work performed on a T&M basis.

Compliance with Procurement Laws

We found that OUSD's procurement policies and procedures for Measure B construction projects are consistent with state laws and regulations. However, OUSD document retention policies and procedures could be improved.

Public Contract Code 20111(b) requires a sealed bid procurement process for public project purchases of \$15,000 or more and Government Code Section 4526 requires that the selection of architectural, landscape architectural, engineering, environmental, land surveying, or construction project management be made on the basis of demonstrated competence and professional qualifications; and that when selected, prices be negotiated at fair and reasonable prices.

OUSD procedures require a sealed bid procurement process for project purchases of \$15,000 or more including contracts for school construction. OUSD procedures also require the selection of architectural, landscape architectural, engineering, environmental, land surveying, or construction project management be made on the basis of demonstrated competence and professional qualifications; and that when selected, prices be negotiated at fair and reasonable prices.

Procurement best practices identify certain key procurement documentation that should be maintained and where that documentation should be kept. At a minimum, the following documentation should be retained for each contract award in excess of legal thresholds on competitive requirements:

1. A copy of the advertisement for Request for Bids or Request for Proposals.
2. A record of who attended pre-bid conferences.
3. The Bid Tabulation summary for construction contracts.
4. Record of proposal evaluation with evaluation criteria for A & E contracts and the basis of award.

**OAKLAND UNIFIED SCHOOL DISTRICT
SCHOOL BOND MEASURE B
FISCAL AND PERFORMANCE AUDIT**

5. A record of negotiation including an explanation of how the price was determined to be reasonable for A & E contracts.
6. A record of Board/State Administrator approval.
7. The executed contract.
8. All negotiated change orders including records of negotiation with explanation of how price was determined to be reasonable.

Current procedures do not identify document retention policy and procedures. While the procedures require the preparation of most of those documents, such documentation was not necessarily readily available in the contract files.

Recommendation

We recommend that the District establish document retention policies and procedures identifying key procurement documentation that should be maintained and where that documentation should be kept. At a minimum, the documentation identified above should be retained for each contract award in excess of legal thresholds on competitive requirements.

Invoice Processing Procedures

We found that OUSD invoice review policies and procedures provided adequate controls to ensure reliable and accurate payment of bond obligations. We found adequate separation of duties between invoice review and approval, and accounting of obligations and invoice payment. Contractor invoices are received and reviewed for accuracy and compliance with contract requirements and approved by project managers. Final invoice approval is received from the Assistant Superintendent, OUSD Facilities Division. Once approved, invoices are sent to accounting where they are entered into the accounting system and then sent to accounts payable for payment.

Change Order Processing

We found that OUSD change order processing procedures were adequate for ensuring that changes are warranted, but could be improved to ensure that change orders are negotiated at fair and reasonable prices.

Best practices for change order management requires the following:

1. Tests to ensure that change orders are warranted.
2. Preparation of an independent estimate of change order cost.
3. A contractor detailed cost proposal.
4. A price or cost analysis of the contractor's proposal.
5. A pre-negotiation position based on an assessment of the independent estimate, the contractor's proposal, and the cost analysis.

**OAKLAND UNIFIED SCHOOL DISTRICT
SCHOOL BOND MEASURE B
FISCAL AND PERFORMANCE AUDIT**

6. Negotiation of a fair and reasonable price.
7. Preparation of a record of negotiation showing the basis for reaching a fair and reasonable price.

OUSD procedures are consistent with best practices, except that there is no formal requirement for a price or cost analysis of change orders and no policy on the preparation of a record of negotiation. We also noted that the negotiation of prices could be accomplished in a more efficient and effective manner if OUSD negotiated change order labor and equipment rates at the onset of a contract by labor category and equipment type. Once negotiated, these rates would be used for all contractor change order proposals.

The negotiation of the proposed labor and equipment rates should be based on supporting contractor documentation reviewed by OUSD for accuracy and compliance with contract change order pricing procedures. For example, labor is to be proposed at the prevailing wage including fringe benefits and other payroll costs. The prevailing wage and fringe benefit costs are defined and thus can be precisely calculated. The basis for other proposed labor costs such as workman compensation insurance and unemployment tax costs can be supported by historical costs in the contractor's accounting records.

Recommendation

We recommend that OUSD establish a dollar threshold at which a formal price or cost analysis of the contractor's change order proposal is required. We also recommend that OUSD establish procedures to document the basis for the reasonableness of negotiated change order prices through a record of negotiation on all change orders. Lastly, we recommend that at the onset of a contract OUSD negotiate fair and reasonable change order labor and equipment rates, by labor category and equipment type, to be used by the contractor when submitting proposals for contract change orders.

OAKLAND UNIFIED SCHOOL DISTRICT
SCHOOL BOND MEASURE B
FISCAL AND PERFORMANCE AUDIT

LIMITATIONS AND RESTRICTIONS

The terms of our engagement did not provide for reporting on events and transactions, which occurred subsequent to the date of our report. Accordingly, we accept no responsibility to update or review this report for any such events or transactions. This report relates only to matters referred to herein and does not extend to any financial or performance reports pertaining to OUSD taken as a whole. Additionally, this review was limited to only those matters related to the Measure B expenditures for the year ended June 30, 2007.

April 2008

Thompson, Cobb, Bazilio & Associates, PC

OAKLAND UNIFIED SCHOOL DISTRICT
MEASURE B EXPENDITURES FOR YEAR ENDED JUNE 30, 2007
BY PROJECT

Attachment I

Site	Project Type	Board Approved Project Budget	Expenditures to 6/30/2007
Redwood Heights	Portable addition	\$ 157,500	\$ 10,976
Pre Design		157,500	10,976
Chabot Elementary	Portable	17,500,000	324,315
Cox Elementary	Additional classroom Phase 4	14,870,000	20,314
Jefferson Elementary	Portable	23,000,000	16,249
Montera	Modernization	6,535,000	45,225
Oakland High	Modernization	12,000,000	323
Peralta	Modernization	1,739,308	76
Design		75,644,308	406,503
Bret Harte Middle	Modernization	5,814,622	1,775
Cox Elementary	Modernization/ Small Schools	5,551,570	29,120
Hoover	Modernization	3,978,832	3,580
Lincoln Elementary	Portable Replacement	9,091,800	85,786
Madison Middle	Modernization	8,798,084	272,592
DSA		33,234,908	392,853
Calvin Simmons	Modernization/Small Schools	3,782,059	65
Contracts Total		3,782,059	65
Havenscourt Middle	Modernization	3,451,708	207
Lazear Elementary	Modernization	2,300,000	13,545
Bidding		5,751,708	13,752
Carter Middle	Modernization	2,500,000	1,882
Cleveland Elementary	Modernization Phase 2	3,644,295	968,856
Elmhurst Middle	Modernization/ Small Schools	7,300,000	19,330
Laurel Elementary	Modernization	2,108,060	52,215
Ralph Bunche	Modernization	7,500,000	9,340
Whittier	Modernization	3,369,240	12,131
Construction		26,421,595	1,063,754
Cox Elementary	Additional Classroom Phase 1	375,000	157,770
Emerson Elementary	Modernization	4,277,800	655,133
Highland Small Schools	Modernization/ Phase3	(See Phase I)	3,299
King Estates	Small Schools Phase 4	(See Phase I)	32,947
Punch List		4,652,800	849,149
Highland Small Schools	Modernization/ Phase 1	1,300,000	259,061
King Estates	Small Schools Phase 1	3,500,000	4,200
King Estates	Small Schools Phase 3	(See Phase I)	104,423
Manzanita Elementary	Modernization Phase 2	(See Phase I)	57,427
Oakland Tech	Modernization	3,547,187	494,288
Webster Academy	Portable Demolition	195,000	40,859
Westlake*	Modernization	10,375,000	365,333
Close-out		18,917,187	1,325,591
Highland Small Schools	Modernization/ Phase 2	(See Phase I)	5,262
Manzanita Elementary	Modernization/ Phase 1	3,825,064	117,646
McClymonds	Small Schools	2,800,000	9,048
Completed		6,625,064	131,956
Grand Total		\$ 175,187,129	\$ 4,194,599