



*Proprietary & Confidential*

FINAL REPORT

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## **Oakland Unified School District**

### **MEASURE J AND MEASURE B CONSTRUCTION BOND FUNDS PERFORMANCE AUDIT REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

March 29, 2019

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101 Second Street, Suite 900  
San Francisco, CA 94105  
(415) 956-1500



**March 29, 2019**

Board of Education  
Oakland Unified School District  
1000 Broadway, Suite 680  
Oakland, CA 94607

Subject: Measure J and Measure B Construction Bond Funds Performance Audit Report for the Fiscal Year Ended June 30, 2018

Dear Board Members:

This report presents the results of our performance audit of the Oakland Unified School District's (OUSD or the District) 2008 Measure J and Measure B Construction Bond (or Bond Program) as required by District objectives and California Proposition 39, the "Smaller Classes, Safer Schools and Financial Accountability Act" (Proposition 39), California Constitution (State Constitution) Article XIII A, and California Education Code (Education Code) Section 15272. These California State (State) requirements specify that the proceeds from the sale of school facilities bonds are expended only on the specific projects listed in the proposition authorizing the sale of bonds (Listed Projects).

Both the State Constitution and Education Code require an annual independent performance audit to verify bond proceeds are used on Listed Projects. Finally, Senate Bill 1473, "School facilities bond proceeds: performance audits" (SB 1473), approved by the Governor on September 23, 2010, amended California Education Code to add Section 15286, which requires the annual performance audits to be conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States.

## **EXECUTIVE SUMMARY**

We conducted this Bond Program performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and audit results based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and audit results based on our audit objectives. The performance audit objectives, scope, methodology, audit results, and a summary of the views of responsible district officials are included in the report body.

Performance audit procedures covered the period from July 1, 2017 through June 30, 2018. Based on the performance audit procedures performed and the results obtained, we have met our audit objectives. We conclude that for the fiscal year (FY) ended June 30, 2018, bond proceeds were used only for Listed Projects under the 2008 Measure J and Measure B, which authorized the sale of the Bond, with the following potential exceptions and clarifications:

- The ballot language addresses projects at the District and school site levels; however, it is unclear if some expenditures are allowable per the Bond language.
- The District did not provide adequate documentation for certain expenditures.
- The District could not provide adequate documentation to support staff charge allocation to the Bond Program.
- The District was unable to explain a \$19,717.50 discrepancy to the Bond Program when comparing the Labor Distribution Report and the Cost Ledger for FY 2017/18.

The project kick-off meeting with OUSD was conducted on January 30, 2019. Requested documents were due on February 14, 2019. We performed on-site fieldwork from February 25 through February 28, 2019. Fact validation occurred through March 28, 2019.

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

- The District utilized other revenue sources to maximize the impact of Measure J and Measure B funds.
- The budget presented to the CBOC on June 11, 2018 agreed with the budget subsequently approved by the Board on June 28, 2018.
- OUSD had a master schedule that visually represents each of the phases of the Projects in the form of a timeline.
- The District reported the historical expenditure date for the projects and clearly separated Measure J and Measure B expenditures.
- The available requested expenditure sample documentation was provided in a timely manner.
- The District submitted a Contract Justification Form to the Board with the consent agenda contract that summarized relevant procurement process information. This form included relevant vendor information details on how vendors were selected, a summary of vendor services, determination of competitive pricing if the contract was not competitively bid, and competitive bid exceptions when applicable.
- While out-of-date, the District was able to provide a standardized items list for Bond Program materials procurement.
- The District was able to provide conflict of interest forms for outside consultants.
- Citizen Oversight Committee (COC) meeting minutes were posted on the District website and the meeting minutes included links to the relevant documentation.
- The Board of Education Meeting minutes were posted on the District website and the meeting minutes included links to the relevant documentation.

Additionally, we evaluated the effectiveness and efficiency of internal controls to provide an analysis of the School Construction Program and offer those charged with District governance and oversight information to improve program performance and operations. We identified the following internal control deficiencies related to compliance with Bond Program requirements, effectiveness, and efficiency of operations:

## Expenditure Management and Controls

- The ballot language addresses projects at the District and school site levels; however, it is unclear if some expenditures are allowable per the Bond language (see CAPA No. 1 for further information).
- The District could not provide adequate documentation to support staff charge allocations to the Bond Program (see CAPA No. 2 for further information).
- The District was unable to explain a \$19,717.50 discrepancy to the Bond Program when comparing the Labor Distribution Report and the Cost Ledger for FY 2017/18 (see CAPA No. 3 for further information).

## Program Management

- The policies and procedures that guide accomplishment of the Bond Program schedule, scope management, and performance goals were incomplete and appeared to be out-of-date (see Observation 3.1 for further information).
- Financial reporting lacked adequate details for key stakeholders to analyze the schedule and budgetary information at the program and project level (see Observation 3.2 for further information).
- There were 37 instances where payment processing took longer than contractual requirements and was not supported by a payment application/invoice rejection letter justifying the delay. Additionally, the District was unable to provide formalized policies and procedures defining payment procedures and controls (see Observation 4.1 for further information).
- The District was unable to validate that 23 expenditures were properly approved prior to payment (see Observation 4.2 for further information).
- The policies and procedures surrounding procurement are out-of-date and incomplete (see Observation 6.1 for further information).
- The District was unable to provide complete competitive solicitation documentation for two public works projects (see Observation 6.2 for further information).
- The District did not provide sufficient documentation to allow us to review nine out of 17 sampled vendors, or 53% (see Observation 6.3 for further information).
- The District awarded and issued contracts to bidders prior to Board of Education approval (see Observation 6.4 for further information).
- The District's standardized items list for Bond Program materials procurement is not current and is potentially not complete (see Observation 7 for further information).
- The District did not provide conflict of interest forms for the entire facilities management team (see Observations 8 and 9.1 for further information).
- Policies and procedures were not centrally located, did not define roles and responsibilities and the process for updating manuals was not documented (see Observations 8 and 9.2 for further information).

## Budgetary Management and Change Order Reporting and Controls

- The District did not provide policies and procedures covering the process for developing and adhering to design and construction budgets (see Observation 1.1 for further information).
- The District's Facilities Master Plan lacked adequate project-specific information by Bond Measure (see Observation 1.2. for further information).
- The District does not include revenues and expenditures by timeframe based on project forecasts to validate that sufficient funding is available to meet the financial requirements of Measure J objectives (see Observation 2 for further information).
- Change Order No. 2 with Arntz/Focon Joint Venture, Inc. represented a 16.5% increase from the original contract value, which is not compliant with PCC 20118.4 (see Observation 5.1 for further information).
- Change order execution and associated Board approval was not timely (see Observation 5.2 for further information).
- The policies and procedures surrounding change orders are conflicting, out of date and incomplete (see Observation 5.3 for further information).
- Change orders were not reported to key Measure J stakeholders to document change order impact and assigned responsibility (see Observation 5.4 for further information).
- District policies and procedures lacked claims avoidance considerations that address reporting requirements to identify actions taken to identify or limit claim exposure (see Observation 5.5 for further information).

We provided improvement recommendations related to our observations for Expenditure Management and Controls, Adherence to Design and Construction Cost Budgets, Adherence to Design and Construction Schedules and Timelines, Financial Reporting and Internal Controls, Payment Procedures, Change Order and Claims Procedures, Bidding and Procurement Procedures, Best Practices for Procurement of Materials and Services, Conflict of Interest, Compliance with State Laws and Guidelines, and Board Policy.

Additionally, on Monday, March 11, 2019, the District received a whistleblower report through the designated Oakland whistleblower email. The report noted potential "Pay for Play Violation, Intimidation and Cover Up" during the period June 2017 and July 2017 within the Facilities Department. Until an investigation is conducted through the proper channels, we are unable to verify whether the issues reported impacted our audit. We recommend that the District, or appropriate subject matter expert(s), thoroughly investigate the claim to determine necessary actions, if any, for appropriate resolution.

Finally, OUSD should consider reviewing the District's staffing plan to ensure reporting is available that includes key metrics, such as positions staffed, number of personnel, number of planned projects, and dollar value of planned projects utilized by the District to help determine organizational structure alignment with the Bond Program needs.

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

This report is intended solely for the use of the District's Board of Education, District Administration, and the CBOC. 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**  
San Francisco, CA

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# I. BACKGROUND INFORMATION

## A. OAKLAND UNIFIED SCHOOL DISTRICT APPROVED BOND FUNDS

In 2006, Alameda County voters approved Bond Measure B for \$435 million to finance the school facilities projects specified and listed in the Bond Project List. The funds were intended to “repair and modernize elementary, middle and high schools and pre-schools, including renovating classrooms, restrooms and other facilities to meet current safety standards, and repairing electrical, plumbing and other building systems; and to build libraries, classrooms, and science and computer labs.”

Measure J was subsequently approved by Alameda County voters in 2012 for \$475 million to “improve the quality of Oakland schools and school facilities to better prepare students for college and jobs, to upgrade science labs, classrooms, computers and technology, improve student safety and security, repair bathrooms, electrical systems, plumbing and sewer lines, improve energy efficiency and earthquake safety.”

Bond Program accounting records for FY 2018 showed total expenditures of \$80,063,250, Measure J Bond Program expenditures totaled \$68,519,965, and Measure B Bond Program expenditures totaled \$11,543,285 in the current year.

## B. CALIFORNIA STATE REQUIREMENTS

A Construction Bond Program performance audit is required for OUSD’s Measure J and Measure B Construction Bonds by Proposition 39, State Constitution Article XIII A, and Education Code Section 15272 for the FY ended June 30, 2018. These State requirements specify that the proceeds from the sale of school facilities bonds can be expended only on Listed Projects. Both the State Constitution and Education Code require an annual independent performance audit to verify Bond proceeds were used on Listed Projects. Finally, SB 1473, approved by the Governor on September 23, 2010, amended the California Education Code to add Section 15286, which requires an annual performance audit to be conducted in accordance with GAGAS issued by the Comptroller General of the United States.

Proposition 39 was passed by California voters on November 7, 2000. Proposition 39 amended provisions to the California Constitution and the California Education Code. The purpose and intent of the initiative was “to implement class size reduction, to ensure that our children learn in a secure and safe environment, and to ensure that school districts are accountable for prudent and responsible spending for school facilities.” It provided for the following amendments to the California Constitution and California Education Code:

- “1. To provide an exception to the limitation on ad valorem property taxes and the two-third vote requirements to allow school districts, community college districts, and county offices of education to equip our schools for the 21st Century, to provide our children with smaller classes, and to ensure our children’s safety by repairing, building, furnishing and equipping school facilities;
2. To require school district boards, community college boards, and county offices of education to evaluate safety, class size reduction and information technology needs in developing a list of specific projects to present to the voters;



3. To ensure that before they vote, voters will be given a list of specific projects their bond money will be used for;
4. To require an annual, independent financial audit of the proceeds from the sale of the school facilities bonds until all of the proceeds have been expended for the specified school facilities projects; and
5. To ensure that the proceeds from the sale of school facilities bonds are used for specified school facilities projects only, and not for teacher and administrator salaries and other school operating expenses, by requiring an annual independent performance audit to ensure that the funds have been expended on specific projects only.”



## II. OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of the performance audit included verification of OUSD 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 J and Measure B Bond funds under Proposition 39, which requires the District to expend these fund proceeds only on Listed Projects, and not for school operating expenses. The Measure J and Measure B Bond Program expended \$80,063,250 in FY 2018, \$68,519,965 for Measure J and \$11,543,285 for Measure B.

We conducted this Bond Program performance 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. As required by GAGAS, we planned and performed the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and audit results based on our audit objectives. The evidence obtained provided a reasonable basis for our findings and audit results based on our audit objectives. Because GAGAS performance audit procedures require reasonable assurance, and these audit procedures did not require detailed examination of all transactions and activities, there is a risk that compliance errors, fraud, or illegal acts may exist that were not detected by us. Based on the performance audit procedures performed and the results obtained, we have met our audit objective. Performance audit procedures covered the period July 1, 2017 through June 30, 2018.

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

This performance audit did not constitute an audit of financial statements in accordance with Government Auditing Standards. Moss Adams was not engaged to, and did not render, an opinion on District internal controls. The full list of performance audit objectives (as specified by the District and agreed upon for this performance audit) and methodology applied included the following:

### **Conduct a Performance Audit (CAPA) for Measure J and B**

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 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. We selected 70% of the vendors with current-year expenditures of \$250,000 and over and 30% of the vendors with current-year expenditures under \$250,000. We tested 70 expenditures from Measure J totaling \$12,145,698 and 21 expenditures from Measure B totaling \$2,300,700 for a total of 91 expenditures tested in the amount of \$14,446,398.



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 the approved 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.

We attended entrance meetings with representatives of OUSD and are available to meet with OUSD, and the Citizen's Bond Oversight committee upon request. Additionally, we will attend CBOC meetings as part of the audit scope of work.

We conducted interviews with key personnel responsible for implementing the bond program. This included individuals in senior management and staff positions responsible for overseeing the planning, design, and construction work associated with the projects, such as team members of OUSD's program management team, OUSD's facilities and administration, and contractor project management. We interviewed the accounting staff responsible for monitoring and implementing the financial controls over the programs. We also interviewed selected contractors, architects, and engineers who are instrumental in executing the work of each program. A complete list of the individuals interviewed is included in Appendix A.

We also visited the Central Kitchen and Glenview Elementary School construction sites to gain firsthand observation of the systems, controls, and processes undertaken by field management. Details of our site visits are included in Appendix B.

### **Specific Outcome No. 1. Adherence to Design and Construction Cost Budgets**

We reviewed the established OUSD process 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.

We 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, and reviewed the reconciliation of the facilities master plan on the approved project lists for Proposition 39.

### **Specific Outcome No. 2. Adherence to Design and Construction Schedules and Timelines**

We reviewed the methods utilized by OUSD 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. To accomplish this, we walked through existing schedule performance tracking methods, Bond



fund expenditure schedules, and sample supporting documentation for expenditures and cost controls performance. Audit procedures included assessment of performance against schedule as well as controls needed for reliable schedule reporting.

### **Specific Outcome No. 3. Financial Reporting and Internal Controls**

We evaluated the actions taken by OUSD to apply policies and procedures that accomplish Bond Program schedule, scope management, and performance goals. We reviewed Bond Program reporting as needed to provide current, accurate, and complete cost, schedule, and budgetary information to Program stakeholders. Based on interviews and information gathered during the course of the project audit, conducted an analysis on financial reporting and controls.

This analysis also reviewed the cost, schedule, and budgetary reporting and review methodologies.

### **Specific Outcome No. 4. Payment Procedures**

We verified that OUSD was compliant with its policies and procedures related to Proposition 39 expenditures and payments for the period. We documented the use of Bond Program funds and segregation of these funds for Bond Program purposes, traced Bond funds received by OUSD and reconciled amounts received with amounts expended, and verified that these funds were expended for Bond Program purposes. Payment approval and cost accounting controls design and operation were verified. Review for payment in accordance with contract terms was conducted. We gathered and tested data to determine compliance and measure the effectiveness of payment controls. Cost reimbursable contracts were given specific focus and attention, as applicable. Processes to review and approve contractor charges were analyzed to prevent excessive charges and overpayments, and payment applications were reviewed to assess the adequacy of supporting documentation.

### **Specific Outcome No. 5. Change Order and Claim Procedures**

Change order documentation was reviewed for compliance with 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 was 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 to verify that required approvals were applied. Additionally, we evaluated and reviewed the procedures used to effectively communicate potential claims and mitigate claims risk.

### **Specific Outcome No. 6. Bidding and Procurement Procedures**

We validated support to ensure the use of sole source procurement was documented, cost justification was available, and required approvals were applied. We summarized the sole source procurement documentation reviewed including instances where the specifications were narrowly defined to be vendor specific. For competitive bids, we verified compliance with requirements of the California school construction state requirements, Public Contracting Code, as well as State and



other Professional Services Contract relevant laws and regulations. Additionally, we evaluated procurement controls for application of competitive and compliant contracting practices.

### **Specific Outcome No. 7. Best Practices for Procurement of Materials and Services**

We determined whether OUSD had and used a standardized items list and educational specifications for Bond Program materials procurement to identify facilities material requirements. We assessed whether OUSD 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. Review for cost-benefit analysis performed in setting materials standards and for District management approvals required significant materials specification changes.

### **Specific Outcome Nos. 8 and 9. Conflict of Interest and Compliance with State Laws and Guidelines and Board Policy**

We analyzed OUSD compliance with selected relevant state laws and regulations regarding school district facilities programs. We performed a risk assessment and utilized our past experiences to identify laws and regulations that OUSD may be subject to. The California Schools Accounting Manual (CSAM), Education Code, Public Contract Code, Government Code, California Code of Regulations (Title 21 and Title 24), and other appropriate regulations will be considered within our analysis. We selected some of these laws and regulations that are considered highest risk for further review to assess OUSD compliance. This analysis does not constitute a legal opinion or a complete analysis for compliance with all applicable state laws and regulations. Based on our experience in performing Proposition 39 audits, we affirm that we have the capacity and knowledge to address the key areas of OUSD's facility bond program including design, engineering, contracting, and overall financial review.

The audit report was developed and discussed with appropriate personnel as the engagement progressed. A draft report was prepared at the end of the engagement for distribution and comment prior to final report issuance to appropriate District management. In our final report, identified areas of effective practice and areas needing improvement within the framework of each of the major scope areas identified above. Good practices for each scope area are identified. The elements of Finding, Criteria, Cause, Effect, Recommendation, and Benefit (as required by GAO Government Auditing Standards) are included in each finding. Management response, responsible individual, and planned resolution date are included in the audit recommendations matrix. The deliverables provided to OUSD are produced in a collaborative and objective manner and convey the performance audit results to achieve maximum benefit to OUSD, its Administration, and the Board of Trustees. We will be prepared to provide a presentation to the Board of Trustees and/or CBOC.



### III. AUDIT RESULTS

#### CONDUCT A PERFORMANCE AUDIT (CAPA)

We reviewed expenditures for compliance with the Bond’s requirements for listed projects to ensure that unallowable costs were not allocated to the Bond Program, in accordance with GAGAS for performance audits. Our testing resulted in the following potential exceptions:

##### CAPA No. 1

**The ballot language addresses projects at the District and school site levels; however, it is unclear if some expenditures are allowable per the Bond language.** We reviewed expenditures for compliance with the Bond’s requirements for Listed Projects to ensure that unallowable costs were not allocated to the Bond Program. Of the 91 sampled expenditures, eight expenditures were identified as potentially unallowable per the Bond language for a total of \$142,539.72 (Measure J - \$78,349.89, Measure B - \$64,189). While each of the expenditures provide benefits to the District, the Bond language for Measure J and Measure B did not provide clear language for the allowability of the expenditures identified. The following expenditure types were identified within our sampled amount (see [Appendix D](#) for additional detail)

- Rent for Current Admin Building
- Community Outreach
- Non-Site-Specific Equipment for Use in Facilities
- Architectural Services for the Administration Building

The District is currently paying rent for space at 1000 Broadway to house its administration totaling \$3,472,831 in the current year due to flooding that occurred in FY 2013. The Bond language does not specifically address administration rental charges as allowable. Upon inquiry, the District provided documentation to support the allowability of the expenditure. The support consisted of an initial legal opinion on October 14, 2014, and a subsequent suggestion from the State Trustee on February 26, 2018 concluding “the District has the authority to use Measure J Bond Fund 21 for the lease payments of 1000 Broadway.” No formal plans of the administration office relocation or reconstruction efforts were available.

**Improvement Recommendations:** The District should continue to consult with its legal counsel to ensure costs incurred for the expenditures identified in Appendix D are allowable under the terms of the Measure J and Measure B bond 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. Further, the District should formalize and report on relocation and/or reconstruction plans of the administration office building to ensure key stakeholders understand the total impact to the Bond Program.





## CAPA No. 2

**The District could not provide adequate documentation to support staff charge allocations the Bond Program.** We evaluated and reviewed the funds used for administrator salaries only to the extent they performed administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General. Based on sampled documentation, no timecards or other time certification support validating the time allocation and cost percentages was provided. Based on the Fund 21 Labor Costs FY2018 report provided by the District, the total charges for allocated personnel (i.e., not 100% dedicated to the Bond Program) accounted for 27% of the total staffing charges (\$955,285 allocated staff charges/\$3,537,914 total staff charges). Staff names, titles, allocation percentages, and assigned duties relating to the Bond Program were provided as available. However, no time studies or staff allocation support was available in fiscal year 2018 to validate appropriateness and compliance with the Ballot language.

Opinion No. 04-110 from the State of California's Office of the Attorney General states that "a school district may use Proposition 39 school bond proceeds to pay the salaries of district employees to the extent they perform administrative oversight work on construction projects authorized by a voter approved bond measure." While it is understood that labor costs to the Bond Program are necessary, they should be properly supported going forward to ensure appropriateness and compliance with Bond language.

**Improvement Recommendation:** The District should implement the processes and controls needed to provide supporting documentation that validates the applicability and accuracy of labor charged to the Bond Program consistent with Opinion 04-110. Specifically, a timekeeping system, or equivalent tracking system, should be implemented so that all labor costs incurred are identifiable, compliant, and have a direct beneficial relationship to the Bond Program. Additionally, the District should evaluate labor amounts charged to the Bond Program to ensure appropriateness and compliance with Opinion 04-110. Results of this evaluation 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. Finally, OUSD should consider reviewing the District's staffing plan to ensure reporting is available that includes key metrics, such as positions staffed, number of personnel, number of planned projects, and dollar value of planned projects utilized by the District to help determine organizational structure alignment with Bond Program needs.

## CAPA No. 3

**The District was unable to explain a \$19,717.50 discrepancy to the Bond Program when comparing the Labor Distribution Report and the Cost Ledger for FY 2017/18.** The discrepancy occurred in the salary data for categories 2305 and 2405. The District provided an explanation related to manual entries and accruals. However, after taking the manual entries and accruals into consideration, there was still a \$16,587.20 discrepancy in category 2305 and a \$3,120.30 discrepancy in category 2405 totaling \$19,717.50.

**Improvement Recommendation:** The District should perform a regular reconciliation between the Labor Distribution Report and financial reports to ensure completeness and accuracy of labor charges to the Bond Program. This will help ensure the labor cost charged to Bond Programs is accurate and complete.





## SPECIFIC OUTCOME NO. 1 – ADHERENCE TO DESIGN AND CONSTRUCTION COST BUDGETS

### Observation 1.1

**The District did not provide policies and procedures covering the process for developing and adhering to design and construction budgets.** We reviewed the established OUSD process 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. Based on documentation provided, budgets are approved by the Board and are entered into the accounting software system. However, the following roles and responsibilities surrounding design and construction budget management were not well defined (i.e., who prepares detailed budgets, when and how budgets are developed and reported, and who is responsible for recording budget information in accounting and project management software systems). Based on project management documentation, it is unclear whether project management records (i.e., forecasted cost estimates by project) differ from approved budgets within the accounting system. Lack of established and written policies and procedures for both accounting and project management software systems could lead to inconsistent practices by District staff, resulting in potential inaccurate reporting to the Bond Program stakeholders. Based on our experiences, construction forecasts can significantly differ from Board-approved budgets and regular reconciliation efforts are needed to ensure sufficient funding to achieve Program goals and objectives.

**Improvement Recommendation:** The District should develop, implement, and consolidate their policies and procedures surrounding design and construction budgets to ensure consistent reporting, effective controls, accountability, and communication of the policies and procedures (see Recommendations 8 and 9.2 for further information). The Bond Program Budget information should have master plan update considerations (see Recommendation 1.2 for further information).

### Observation 1.2

**The District's Facilities Master Plan lacked adequate project-specific information by Bond Measure.** We reviewed the reconciliation of actual projects for which bond funds were expended to projects approved by the Board, analyzed the reconciliation of projects approved by the Board to projects on the approved facilities master plan, and reviewed the reconciliation of the facilities master plan on the approved project lists for Proposition 39. The Measure J Expenditures Details by Site Report provided to the CBOC on June 11, 2018 included a reconciliation of actual projects for which Measure J funds were expended to project budgets approved by the Board on June 28, 2017. However, the OUSD Unified School District Facilities Master Plan 2012 Report plan lacked project specific budget information; therefore, we were unable to reconcile projects approved by the Board to projects on the approved facilities master plan. Additionally, absent project-specific information within the Facilities Master Plan, we were unable to reconcile project goals and objectives with associated budgets to the Measure J ballot language.

**Improvement Recommendation:** Per the California School Boards Association's article Facilities Master Planning (FMP) dated 2007, "An FMP should be conducted or updated by district staff approximately every five to 10 years, or prior to any significant building project. Once a board has decided to conduct or update their district's FMP, it must do three things: Set goals and expectations



for the plan; allocate resources and set direction for district staff and; assemble an advisory committee.” Master planning procedures should be documented within policies and procedures (see Recommendation 1.1 for further information). The District should also consider updating the 2012 Master Plan to include relevant financial data, the list of project by Measure, and the prioritization of those projects.

## **SPECIFIC OUTCOME NO. 2 – ADHERENCE TO DESIGN AND CONSTRUCTION SCHEDULES AND TIMELINES**

### **Observation 2**

**The District does not include revenues and expenditures by timeframe based on project forecasts to validate that sufficient funding is available to meet the financial requirements of Measure J objectives.** We reviewed the methods utilized by OUSD 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. Based on the CBOC Report dated June 11, 2018, the “Historical Expenditures Details by Site” and “Details of Expenditure” reports included approved budgets for Measure J and expenditures from inception to FY 2018 for Fund 35 and 25 only (i.e., not Measure J) respectively and omitted the forecasted project-specific expenditures, revenues, and schedule/timeline data. As documented in the Board Presentation of May 9, 2018, the CBOC Report’s supplemental schedules re-highlighted that the Program has a “serious structural deficit.” The Program has “started more projects and committed to more spending than we can afford.” This deficit is \$160M per the presentation. Additionally, OUSD had a master schedule, titled OUSD Master Schedule – Detail, dated April 2018, that visually represents each of the phases of the Projects in the form of a timeline. However, we found no cost projection data in the reports so it is unclear which projects will not have sufficient funding. Further, the master schedule identified Prop 39 projects, but did not identify Measure J projects specifically. Finally, draft procedural documents did not address schedule management reporting and controls.

**Improvement Recommendation:** Consistent with the GFOA, the District should report the project schedule, expenditure, and available revenues by project by Measure to ensure enough funds are available to complete a project. Per the Government Finance Officers Association (GFOA) Capital Project Monitoring and Reporting best practices for Reporting on Projects Status and Activities states, “Meaningful reports should provide straightforward project information...Highlight significant changes to project scope, costs, schedule, or funding. To aid in the reporting, an annual snapshot of key schedule, cost estimate, and available funding information should be taken to establish baseline data for performance measures and report components.” Without an updated schedule and the associated cash flow by project, it is difficult to see when the funds will be fully expended. Ensuring there are enough funds to complete a project prior to starting it and reporting the schedule of available revenues will help ensure projects that are started are adequately funded through completion and provide greater visibility into the program’s financial position. Finally, schedule reporting and control policies and procedures should be implemented to ensure consistent tracking of Bond Program projects.



## SPECIFIC OUTCOME NO. 3 – FINANCIAL REPORTING AND INTERNAL CONTROLS

### Observation 3.1

**The policies and procedures that guide accomplishment of the Bond Program schedule, scope management, and performance goals were incomplete and appeared to be out-of-date.**

Formalized policies and procedures were not available for schedule (see Observation No.2 for further information), scope management (see Observation No. 1.2 and 7 for further information) and performance goals (see Observation No. 3.2 for further information).

**Improvement Recommendation:** The District should develop, implement, and consolidate their policies and procedures surrounding performance goals to ensure consistent reporting, effective controls, accountability, and communication of the policies and procedures (see Observation No. 8 and 9.2 for further information).

### Observation 3.2

**Financial reporting lacked adequate details for key stakeholders to analyze the schedule and budgetary information at the program and project level.** Bond Program performance reporting practices were compared to GFOA and San Diego County Taxpayers Association's (SDCTA) best practices to measure the effectiveness of controls surrounding bond-funded projects.

The District presented at the Citizens Bond Oversight Committee (CBOC) on June 11, 2018. The presentation included the following key reports:

- **Cost and Budget** – The Measure J Expenditures Details by Site Report included a reconciliation of actual projects for which Measure J funds were expended to project budgets approved by the Board on June 28, 2017 (see Observation No. 1.2 for cost and budget, 5.4 for change orders, and below for further information).
- **Schedule** – The “Historical Expenditures Details by Site” and “Details of Expenditure” reports included approved budgets for Measure J and expenditures from inception to FY 2018 for Fund 35 and 25 only (i.e., not Measure J) respectively and omitted the forecasted project-specific expenditures, revenues, and schedule/timeline data (see Observation No. 2 for schedule and below for further information).

Per the SDCTA's Oversight Committee Best Practices, at minimum, the following should be reported to the Citizen Oversight Committee:

- List of projects accompanied by measurements of their status in terms of budgets and timelines
- Any alterations to project budgets or timelines with adequate explanations for these changes
- Comparison of current status of projects in terms of budgets and timelines to the original budget and timeline estimates of the project

This available reporting lacked adequate alteration/change order, schedule, and budget to forecast information.



**Improvement Recommendation:** Both the SDCTA and GFOA recommends that budget-to-actual comparisons of revenues, expenditures, cash flow, and fund balances be periodically reported. Change order reporting should include information such as itemized change amounts, percentages, descriptions, change responsibility, date of approval, subtotals, and totals for easy end-user reference. Detailed budget-level information for current bond issuances allows the District to monitor budgetary performance against committed contract values and can serve as an early warning indicator for potential problems. This information provides decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident. Both the SDCTA and GFOA comments that this information is essential input for demonstrating accountability and transparency. Additionally, cash flow reporting should include revenues, cash, and expenditures by timeframe to document that sufficient funding is available to meet financial requirements for Measure J and these figures should be consistently reported in the Bond program report. This documentation will also serve as a useful tool for District management and stakeholders to understand the timing of project schedules.

## **SPECIFIC OUTCOME NO. 4 – PAYMENT PROCEDURES**

### **Observation 4.1**

**There were 37 instances where payment processing took longer than contractual requirements and was not supported by a payment application/invoice rejection letter justifying the delay. Additionally, the District was unable to provide formalized policies and procedures defining payment procedures and controls.** Per the California Prompt Payment Act, all payment applications for construction projects should be paid within 45 days of receipt and acceptance. In addition, the professional service agreements the District entered into stipulate prompt payment within 30 days of receipt and acceptance of their invoice or payment request. In a number of instances, no received date was included on the invoice documentation. Without a date of receipt, or legible date of receipt, within invoice documentation, we were unable to validate compliance with District procedural documents and/or contractual obligations as it was unclear when the District received the invoice. In such instances, the invoice date was compared against the check date to determine promptness of payment. Based on this analysis, we identified 37 of 91 (Measure J – 29/70, Measure B – 8/21) non-compliant instances that were noted in the current audit period (See [Appendix E](#) for additional details). Time stamps were available on other sampled documentation; therefore, it appeared this procedure was inconsistently performed.

**Improvement Recommendation:** The District should finalize payment processing policies and procedures to ensure the District’s compliance with contractual agreements, state laws and ordinances, and other regulations. Not only will this help the District remain in compliance, but prompt payment promotes better relationships with the contractors and subcontractors, which can lead to more bidders and potentially better pricing on future projects.



## Observation 4.2

**The District was unable to validate that 23 expenditures were properly approved prior to payment.** Processes to review and approve contractor charges were analyzed to prevent excessive charges and overpayments, and payment applications were reviewed to assess the adequacy of supporting documentation. Based on the draft procedural documents provided, the District required the following approvals prior to payment:

- Construction-related expenditures: Inspector of Record, Architect, Project Manager, Program Director, and Deputy Chief
- Other expenditures: Project Manager, Program Director, and Deputy Chief

Through our analysis of expenditure approvals, we identified 24 out of 91 (Measure J – 16/70, Measure B – 7/21) samples that did not receive all of the required approvals necessary for payment (see [Appendix F](#) for additional details). Additionally, per the draft procedural documents, the District required approval from the OUSD Accounting, Audit, Finance, and Planning departments (Measure J 70/70, Measure B 21/21). This approval was not clearly identified in any of the sampled expenditures documentation provided.

**Improvement Recommendation:** The District should finalize policies and procedures related to the payment approval process and obtain Board approval as a best practice. The District should also implement controls to ensure proper review and approval prior to payment. Providing clear policies and procedures can help ensure the process is clear to personnel. Implementing controls helps prevent unauthorized payments from being processed.

## SPECIFIC OUTCOME NO. 5 – CHANGE ORDER AND CLAIM PROCEDURES

### Observation 5.1

**Change Order No. 2 with Arntz/Focon Joint Venture, Inc. represented a 16.5% increase from the original contract value, which is not compliant with PCC 20118.4.** Change order documentation and controls were reviewed for compliance with Public Contracting Code, California school construction state requirements, and other regulations. PCC 20118.4 states, “The board may authorize the contractor to proceed with performance of the change or alteration, without the formality of securing bids, if the cost so agreed upon does not exceed the greater of the following... (2) ten percent of the original contract price.” The original contract for Arntz/Focon Joint Venture, Inc. was \$1,600,000. The value of Change Order 2 was \$263,370 for the construction services on the Madison Park Academy Expansion Project. This change represents a 16.5% increase in the contract value ( $\$263,370 / \$1,600,000 = 16.46\%$ ), which exceeds 10% of the original contract price.

**Improvement Recommendations:** The District should update their policies and procedures to ensure future change orders are in compliance with PCC 20118.4 and best practices.



## Observation 5.2

**Change order execution and associated Board approval was not timely.** This change was for an extension of time to April 21, 2017; however, the change order was not fully authorized until the Board approval on April 11, 2018, which was nearly a year after the extension date of the change. At the time of Board approval, the cost was already incurred and the cost was in excess of 10% of the initial contract value. The significant dates for this change order are as follows:

- OUSD Director of Faculties signs and dates February 2, 2016
- Contract completion date per the change order April 21, 2017
- General Counsel signed October 20, 2017
- Architect of Record signed October 23, 2017
- The change order was Board-approved on April 11, 2018

**Improvement Recommendations:** The District should implement policies and procedures to include a proactive approach for addressing change order management reporting and controls, especially those for delays and time extensions. The changes should be addressed as they occur. Executing changes in a timely manner helps support good relationships with contractors and subcontractors allowing them to be paid for their work in a timely manner and lessening the risk of them stopping work or seeking claims.

## Observation 5.3

**The policies and procedures surrounding change orders are conflicting, out of date and incomplete.** The following potential issues regarding the change order policies and procedures include:

- There are acronyms in the flowcharts that are not defined, (EDP, OAS) and participants in the key that are not in the flowcharts (AA, PQA, MF, OSI)
- The flowcharts were last updated November 8, 2014
- The Change Order Process Document is marked Draft
- The process in the Change Order Process Draft varies from the corresponding flowchart in multiple ways including individuals preparing the documents
- The Proposed Change Orders – Process document also varies from the corresponding flowchart beginning with the individuals who should review the PCO

Having policies and procedures surrounding change orders that are conflicting, out-of-date, and incomplete can lead to inconsistent procedures, a lack of accountability, and a lack of controls and oversight into processes.

**Improvement Recommendations:** The GFOA recommends, within their article, “Documenting Accounting Policies and Procedures,” that the documentation of accounting policies and procedures should be evaluated annually and updated periodically, no less than once every three years. As a best practice, the District should update and consolidate their policies and procedures surrounding change orders to ensure effective controls, accountability, and communication of the policies and procedures. Any changes in policies and procedures should be updated in the documentation





promptly as they occur and a specific employee should be assigned the duty of overseeing this process. The resulting documentation can also serve as a useful training tool for staff.

## Observation 5.4

**Change orders were not reported to key Measure J stakeholders to document change order impact and assigned responsibility.** We reviewed and analyzed policies and procedures covering the review and approval of contractor change orders to identify potential exposures. Specific consideration was given to change order cause, responsibility, and pricing. We reviewed the Construction Contract Status Report and observed the following information:

- Project Name
- Project Number
- Original Construction Contract Amount
- Approved Change Order Total
- Approved PCOs Not in Change Orders
- Estimated Costs not in a PCO (see Observation No. 5.5)
- Final Contract Amount

However, the report does not include change order impact with change responsibilities identified. Identifying change order responsibilities may include classifications such as owner-initiated, scope changes, design errors, contract errors, and unforeseen conditions. Without this level of information, responsibility for change orders and associated cost will not be evident to key decision makers. Absent further information, change order reporting is not in line with best practices and lacks information to adequately report to key stakeholders. Finally, the District did not have formalized change order management and control policies and procedures.

**Improvement Recommendation:** As a best practice and consistent with the San Diego Taxpayers Association (SDCTA), OUSD should establish more robust change order reporting within Bond Program reporting to ensure end users understand change order impact and assigned responsibility. Change order reporting should include information such as itemized change amount, percentages, descriptions, change responsibility, date of approval, subtotals, and totals for easy end-user reference. Change order documentation should be available at the project and program level with both detailed and summary level information available. Summary and detailed change reporting is necessary to understand change order cause, responsibility, pricing, and compliance and to identify potential duplicated work scopes and/or redundancies caused by unclear scope objectives and/or expectations within the master plan. Absent this additional information, change order details are not adequately reported to end users. Per the SDCTA's Oversight Committee Best Practices, any alterations to project budgets or timelines with adequate explanations for these changes should be reported to the Citizen Oversight Committee. Policies and procedures surrounding change order management and controls should be updated accordingly to ensure consistent practices.



## Observation 5.5

**District policies and procedures lacked claims avoidance considerations that address reporting requirements to identify actions taken to identify or limit claim exposure.** We evaluated and reviewed the policies and procedures provided during our fieldwork. The procedural manual included a Claims Management Section (Article 6.16) detailing the steps to take in case a claim arises. However, there was no documentation of regular reporting available to identify actions taken to prevent or limit claim exposures. Construction-related claims have many causes and often arise as a result of unresolved change orders, differing site conditions, or as a result of disruptions, delays, acceleration, and other time-related issues that require timely monitoring, planning, and effective actions to avoid claims. Additionally, the Construction Contract Status Report provided had a report column titled “Estimated Costs not in a PCO” totaling the total construction contract. However, it is unclear whether any of these amounts relate to a potential claim. Evidence of reporting available to identify actions taken to prevent or limit claim exposures was not available.

**Improvement Recommendation:** As a best practice, OUSD should revise claims avoidance and control procedures within policy documents and update OUSD management reporting to reflect procedures performed to identify and avoid potential claims. The Bond Program report narrative section should address in detail potential differences with the contractor, such as responsibility for performing specific work. Particular care should be taken to record and preserve all possible data and evidence with respect to any matter that may become a basis for a contractor claim. As there may be many root causes for claims, the claims avoidance policy should include a detailed process that OUSD follows to identify the areas of exposure that may lead to a claim and steps taken to prevent claims, such as document control requirements, identification of appropriate communication channels, and proactive cost, schedule, and quality control procedures.

## SPECIFIC OUTCOME NO. 6 – BIDDING AND PROCUREMENT PROCEDURES

### Observation 6.1

**The policies and procedures surrounding procurement are out-of-date and incomplete.** As a best practice, procurement policies and procedures should be clear, complete and in accordance with Public Contract Code, Education Code, and other state laws and regulations (e.g., CUPCAA). Some of the issues regarding the procurement policies and procedures provided by the District include:

1. The bidding process documents were last updated December 19, 2014.
2. The Informal Bidding Process document is marked Information Only.
3. The Formal Bidding Process document is marked Information Only.
4. Bid thresholds were not defined for public works, material, or professional service procurement.

Having policies and procedures surrounding procurement that are out-of-date, incomplete, or not identified as Board-approved, could lead to improper or non-compliant procurement, varying processes or thresholds being used, and a lack of accountability if the roles and responsibilities surrounding procurement are not clearly defined.

**Improvement Recommendations:** As a best practice, the District should update and consolidate their policies and procedures surrounding procurement to ensure effective controls, accountability





and communication of the policies and procedures (see Recommendations 8 and 9.2 for further information).

### Observation 6.2

**The District was unable to provide complete competitive solicitation documentation for two public works projects.** Per the CUPCCAA Policy, any agreement over \$175,000 requires Board of Education authorization, or a formal competitive solicitation process, including a Request for Qualification (RFQ), advertisement, a minimum of three Statements of Qualifications for consideration, and the documentation of the selection evaluation. Any deviation from the CUPCCAA policy requires prior Board approval or detailed and documented justifications. The District was unable to support a competitive solicitation process was conducted for the following two vendors:

VENDOR NAME	PROJECT NAME	BOND MEASURE	ORIGINAL CONTRACT DATE	ORIGINAL CONTRACT AMOUNT	ITEMS NOT PROVIDED
THOMPSON BUILDERS INC	MCCLYMONDS HIGH SCHOOL	MEASURE J GENERAL OBLIGATION B	10/19/2017	\$2,816,000.00	Bid Advertisement, RFP/RFQ, Bid Summary and supporting documentation
STRONGER BUILDING SERVICES	SKYLINE HIGH SCHOOL	MEASURE J GENERAL OBLIGATION B	5/3/2018	\$420,070.80	Bid Advertisement, RFP/RFQ

In addition, the procurement of the Skyline High School project resulted in the receipt of only two bids. CUPCCAA’s policy requires a minimum of three bids and prior Board approval or a justification, which were not provided for our review. Absent complete bid documentation we are unable to determine if procurement Skyline High School complied with CUPCCAA.

**Improvement Recommendations:** The District should maintain complete and consolidated bid and procurement documentation that is readily available in a central location, either physically or electronically. This will enable the District to verify compliance with applicable guidance. Additionally, as a best practice, the District should maintain a consolidated bid and procurement activity report that will allow District senior management to identify, prevent, or detect noncompliance with District policies and procedures, state laws and regulations, and best practices (e.g., not sole source procurement). A checklist or equivalent mechanism, with appropriate sign-offs on procurement requirements, can serve as a good tool for all relevant parties (Accounting, as well as Facilities and Procurement) to validate compliance with policy and procedure requirements.

### Observation 6.3

**The District did not provide sufficient documentation to allow us to review nine out of 17 sampled vendors, or 53%.** After several requests, no documentation was available to verify compliance with requirements of the California school construction state requirements, Public Contracting Code, as well as relevant state laws and other professional services contract regulations.



Additionally, we were unable to evaluate competitive and compliant contracting practices for these nine vendors (see [Appendix G](#) for additional detail).

**Improvement Recommendations:** The District should maintain complete and consolidated bid and procurement documentation that is readily available in a central location, either physically or electronically (see Recommendation 6.2 for further information).

## Observation 6.4

### **The District awarded and issued contracts to bidders prior to Board of Education approval.**

The District awarded and issued eight contracts (see Observation 6.3 for further information) to vendors who bid on projects prior to receiving Board approval. The time between when the contract was awarded and Board approval secured ranged from 19 days to 118 days. Public Contract Code and Education Code authorize the governing board of the school district to enter into contracts with vendors. By awarding and issuing contracts prior to Board approval, the District is deviating from Public Contract Code and Education Code.

**Improvement Recommendations:** The District should receive, and require, Board approval prior to issuing or awarding any contracts or Purchase Orders (see Recommendation 6.2 for further information).

## **SPECIFIC OUTCOME NO. 7 – BEST PRACTICES FOR PROCUREMENT OF MATERIALS AND SERVICES**

### Observation 7

**The District’s standardized items list for Bond Program materials procurement is not current and is potentially not complete.** We determined whether OUSD had and used a standardized items list and educational specifications for Bond Program materials procurement to identify facilities material requirements. We reviewed the OUSD Hardware Specifications Guideline Booklet and Draft Materials Standards document. Upon review we noted the following dates of specification updates:

1. OUSD Hardware Specification Guideline Booklet – 12/2/2014
2. OUSD Materials Standards Draft dated 12/1/16 (via OUSD online)
3. Facilities Master Plan – 2012
4. OUSD Design Guidelines – 5/14/2014 – Draft
5. Educational Specifications Elementary School Level – 5/14/2014 – Draft
6. Educational Specifications Middle School Level – 5/14/2014 – Draft
7. Educational Specifications High School Level – 5/14/2014 – Draft
8. Essential Outdoor Classroom Elements – May 2013
9. Door Hardware Specification Guideline – 12/4/2009
10. Hydraulic Elevator Standards – 11/25/2010
11. OUSD Minimum Wheelchair Lift Standards – 1/8/2011
12. Fire Alarm Standards – 12/9/2013
13. Intrusion Alarm System Standards – 3/19/2014



14. Combination Fire Alarm and Intrusion Alarm System Standards – 3/19/2014

15. OUSD Standard Network Build Specification – 4/16/2014

As noted in the updates above, at least four categories of standardized specifications are still in draft, signifying they have not been completed, reviewed, and approved as a standard specification for use within the District. No evidence of Board approval was available and no formalized policies were available to document the procedures to update the material standards logs. Without current and up-to-date standardized specifications, the District is potentially utilizing specifications that do not consider facility safety, energy conservation (e.g., Title 21 and 24), longevity, educational requirements, and other appropriate regulations and standards.

**Improvement Recommendations:** The District should regularly update its standardized items and educational specifications list to accurately reflect the most up-to-date standards and guidance provided by local and state governments. The manual should include details such as material types, standard equipment and systems, manufacturer specification numbers, and minimum standards for new construction and modernization mandated by the District for projects undertaken. This manual should be provided to project architects and designers, and required products and system specifications should be provided to all bidders during the procurement process. As a best practice, these minimum standards mandated by the District should consider facility safety, energy conservation (e.g., Title 21 and 24), longevity, educational requirements, and other appropriate regulations and standards. Procurement staff should be trained on how to utilize the standard specifications when procuring materials or services for the District. Additionally, OUSD should define how to make updates to the Standards Specifications document. This policy should ensure that documentation exists including the requestor and date of request, description of change, cost-benefit relationship for the change, approver and date of approval, and a time-stamped updated specifications document (see Recommendations 8 and 9.2 for further information). The cost-benefit analysis for significant specification changes should be approved by appropriate OUSD management. The Standard Specifications document should avoid including narrow scope requirements to prevent excessive pricing to OUSD.

## **SPECIFIC OUTCOME NOS. 8 AND 9 – CONFLICT OF INTEREST AND COMPLIANCE WITH STATE LAWS AND GUIDELINES AND BOARD POLICY**

### **Observation 8 and 9.1**

**The District did not provide conflict of interest forms for the entire facilities management team.** The District provided 24 Conflict of Interest forms for review; however, based on the Facilities Planning and Management Team organizational chart provided, we expected to see Conflict of Interest forms from the following individuals as well:

- Deputy Chief, Facilities, Planning & Management
- Administrative Assistant III Bilingual
- Coordinator Facilities Management
- Office Manager
- Administrative Assistant I
- Director, Facilities Management (Program)



- Project Manager, Facilities Planning
- Project Manager, Sustainability & Energy Efficiency

In addition, the District did not provide clear guidance on the Conflict of Interest Policies and Procedures. The documentation was requested and a search was performed on the provided documentation, but the guidance was not located. As a best practice, we would expect to see policies and procedures related to conflict of interest. Due to the absence of policies and procedure guidance on conflict of interest, we cannot determine if the Conflict of Interest Forms provided are compliant with a policy.

**Improvement Recommendations:** As a best practice, the District should clearly document their policies and procedures surrounding conflict of interest, maintain a complete set of completed conflict of interest forms, and review their current forms to determine if additional action needs to be taken. Having consolidated, adequate, and documented policies and procedures as well as maintaining completed forms will provide insight to potential conflicts, allowing the District to make appropriate adjustments and help protect the District if conflict of interest issues arise.

## Observation 8 and 9.2

**Policies and procedures were not centrally located, did not define roles and responsibilities and the process for updating manuals was not documented.** District policies and procedures are documented in over 50 different documents covering the different areas within the Bond Program. These documents were not consolidated and in many cases were not time stamped and/or had conflicting information between flowchart and process information. Based on inquiry, a consolidated facilities policies and procedures document had not been submitted to the Board for approval.

The specific areas of review for compliance with State Laws and Guidelines and Board Policy have occurred throughout this report. Our analysis considered laws, policies, and regulations that the District is subject to. Below is a summary of areas and objectives where we noted exceptions:

- Compliance with Ballot Language – See Conduct a Performance Audit
- Payment Procedures – See Specific Outcome No. 4
- Change Orders and Claim Procedures – See Specific Outcome No. 5
- Bidding and Procurement Procedures – See Specific Outcome No. 6
- Best Practices for Procurement of Materials and Services – See Specific Outcome 7

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



## IV. REPORTING VIEWS OF RESPONSIBLE OFFICIALS

### CONDUCT A PERFORMANCE AUDIT (CAPA)

#### **CAPA No. 1 – Certain expenditures are not clearly defined in Measure ballot**

We will consider the auditor's recommendation to consult with the bond legal counsel to ensure expenditures are allowable within the terms of Measure J bond language. The District is currently formulating a relocation plan as alternative temporary housing for some central office operation starting FY2019-20. Further, the District is in the process of identifying sites for permanent administration building.

#### **CAPA No. 2 – No adequate documentation for support staff allocations**

We concur. The District launched Escape Online 5 on July 1<sup>st</sup>, 2018, a comprehensive and integrated business system that provides a detail workflow ensuring internal controls are in place for HR, Payroll, and Budget departments. Escape's position control system is integrated with budget to ensure funding are identified when positions are authorized, filled, or changed. Escape also provides time accounting records for certification. ESCAPE has timekeeping system or equivalent tracking system to comply with Opinion 04-110 for staff rendering overtime and extra time. Staff are trained to review personnel costs related to Bond projects.

#### **CAPA No. 3 – Discrepancy of labor cost report to cost ledger**

We concur. The District launched Escape Online 5 on July 1<sup>st</sup>, 2018, a comprehensive and integrated business system that provide transparent and accurate reports, including labor costs reports, as opposed to the old financial system. The district will implement the reconciliation of Labor Distribution Report to the Cost Ledger effective immediately.

### **SPECIFIC OUTCOME NO. 1 – ADHERENCE TO DESIGN AND CONSTRUCTION COST BUDGETS**

#### **Observation 1.1 and 1.2**

We will consider the Auditor's recommendation to update the facilities and project management policies and procedures in accordance with current laws and regulations to ensure compliance in managing bond-funded projects. The district will also look into installing and/or updating the project management software system to ensure timely and accurate reporting and to track project schedule, construction costs, change orders and completion timelines.

### **SPECIFIC OUTCOME NO. 2 – ADHERENCE TO DESIGN AND CONSTRUCTION SCHEDULES AND TIMELINES**

The District, in consultation with CBOC has revised the format of reporting in FY 2018-19. The current reports includes summary of projects with specific funding source including Measure J and B. We will consider the Auditor's recommendation to update the policies and procedures in accordance with current laws and regulation to ensure compliance in managing bond-funded projects. The district will also look into installing and/or updating the project management software system to track project schedule, construction costs, change orders and completion timelines.



### **SPECIFIC OUTCOME NO. 3 – FINANCIAL REPORTING AND INTERNAL CONTROLS**

**Observation 3.1:** The District launched Escape Online 5 on July 1st, 2018, a comprehensive and integrated business solution that provides a detailed workflow ensuring internal controls in processing all requisitions, issuance of Purchase Orders and changes orders. Workflow includes hierarchy of approvals at different level from requestor to department managers & directors, budget, purchasing, CFO and CBO.

**Observation 3.2:** We will consider the Auditor’s recommendation to update the policies and procedures in accordance with current laws and regulations to ensure compliance in managing bond-funded projects. The district will also look into installing and/or updating the project management software system to track project schedule, construction costs, change orders and completion timelines.

### **SPECIFIC OUTCOME NO. 4 – PAYMENT PROCEDURES**

#### **Observation 4.1 – Payment processing time is longer than contractual requirements**

We concur. The inability to determine the actual receipt date for some of the invoices was due to the fact that the “Date received” stamp was not legible in some invoices. The district is considering to replace the stamp that can be scanned in to the invoice receipt system.

In addition to the “date received” stamp, facilities accounting also have an invoice receipt scanning mechanism tied to a peripheral “PM Tools” system. This attaches a barcode to any invoice coming into the accounting department for processing, which triggers our stipulated 30-day processing cycle.

Sometimes invoices could be returned to the vendor by the Project Manager due to delivery issues, stop notices and/or other contract terms not met. When this happens, the said invoice is scanned out of the system until the issue is resolved, and then scanned back in. In such instance, the invoice still maintains its original issue date while not considered “received” for onward processing, until the respective project Manager approves for payment.

The launching of ESCAPE in July 2018 with the installation of Laserfishe, a document management software will allow staff to scan contracts, invoices and supporting approved documents and attached it to the requisitions, PO and payment request on a timely manner. This will eliminate the time delay in transmitting documents from Facility Department to Accounts Payable Department.

### **SPECIFIC OUTCOME NO. 5 – CHANGE ORDER AND CLAIM PROCEDURES**

#### **Observation 5.1**

We will consider the Auditor’s recommendation to update the policies and procedures in accordance with current laws and regulations to ensure compliance in managing bond-funded projects. The district will also look into installing and/or updating the project management software system to track project schedule, construction costs, change orders and completion timelines.

The implementation of Escape Online 5 on July 1st, 2018, a comprehensive and integrated business solution provides a detailed workflow ensuring internal controls in processing all requisitions, issuance of Purchase Orders and changes orders as well as ensuring all supporting documents on changes, justification and approvals are attached to each transaction being processed and paid.



### **SPECIFIC OUTCOME NO. 6 – BIDDING AND PROCUREMENT PROCEDURES**

We will consider the Auditor's recommendation to update the procurement policies and procedures in compliance with requirements of California School Construction State requirements, Public Contracting Code, Education Codes and other state and local laws and regulations to ensure compliance in managing bond-funded projects.

### **SPECIFIC OUTCOME NO. 7 – BEST PRACTICES FOR PROCUREMENT OF MATERIALS AND SERVICES**

We will consider the Auditor's recommendation to update the procurement policies and procedures in accordance with current laws and regulations to ensure compliance in managing bond-funded projects. The district will regularly update the list of standardized items and education specifications as provided by the local and state government to ensure compliance to facility safety, energy conservation, longevity, educational requirements and other appropriate regulations and standards.

### **SPECIFIC OUTCOME NOS. 8 and 9 – CONFLICT OF INTEREST AND COMPLIANCE WITH STATE LAWS AND GUIDELINES AND BOARD POLICY**

The District will ensure that all officers and employees authorizing procurements and financial commitments submits Form 700 on a timely manner in compliance to state laws and board policies.



## APPENDIX A – INTERVIEWS PERFORMED

The following key OUSD personnel were interviewed:

- Chief Financial Officer
- Chief Business Officer
- Deputy Chief, Facilities, Planning and Management
- Director, Facilities Management (Construction)
- Central Office Accounting Manager
- Executive Director of Fiscal Services
- Three Members of the Citizen Bond Oversight Committee (CBOC)
- Analyst (for Bond Fund 21)
- Accounting Manager
- Specialist, Contracts and Bids
- Project Manager, Glenview Project





## APPENDIX B – SITE VISITS

We visited the Central Kitchen and Glenview Elementary School construction sites to gain firsthand observation of the systems, controls, and processes undertaken by field management.

### CENTRAL KITCHEN

We toured the Central Kitchen Project located at 2850 West Street, Oakland, CA 94608 with Project Manager Rick Moore to determine the authenticity of the project in progress.

Mr. Moore was in the process of preparing the monthly payment application at the time of our site visit and gave us a brief description of the process, which allowed us to better understand the payment application process from the contractor's point of view.

### GLENVIEW ELEMENTARY SCHOOL

We toured the Glenview Elementary School Project with OUSD Project Manager Wil Newby on February 28, 2019 to determine the authenticity of project in progress.



## APPENDIX C – REVIEW OF PRIOR YEAR AUDIT AND OPEN AUDIT LOG

We reviewed the prior year's performance findings and recommendations within the Measure J and Measure B FY 2016-17 audit. We interviewed District and Bond Program personnel and reviewed relevant documentation to determine the status of improvement opportunities identified in previous audits. Through inquiry and review of documents, we confirmed that all prior year recommendations have had corrective actions taken or are included within the current year's audit recommendations within context of our audit objectives. Based on the Measure J and Measure B FY 2017-18 audit, 22 improvement opportunities were identified. Management responses from the Chief Business Officer and District Facility Staff are reported below for each open recommendation.

SOURCE	CATEGORY	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE	PLANNED RESOLUTION DATE	STATUS OF RESOLUTION
CAPA 1	Expenditure Management and Controls	The ballot language addresses projects at the District and school site levels; however, it is unclear if some expenditures are allowable per the Bond language.	The District should continue to consult with its legal counsel to ensure costs incurred for the expenditures identified in Appendix D are allowable under the terms of the Measure J and Measure B bond 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. Further, the District should formalize and report on relocation and/or reconstruction plans of the administration office building to ensure key stakeholders understand the total impact to the Bond Program.	We will consider the auditor's recommendation to consult with the bond legal counsel to ensure expenditures are allowable within the terms of Measure J bond language. The District is currently formulating a relocation plan as alternative temporary housing for some central office operation starting FY2019-20. Further, the District is in the process of identifying sites for permanent administration building.	Fiscal year 2019-20	Open – New observation and recommendation
CAPA 2	Expenditure Management and Controls	The District could not provide adequate documentation to support staff charge allocations to the Bond Program.	The District should implement the processes and controls needed to provide supporting documentation that validates the applicability and accuracy of labor charged to the Bond Program consistent with Opinion 04-110. Specifically, a timekeeping system, or equivalent tracking system, should be implemented so that all labor costs incurred are identifiable, compliant, and have a direct beneficial relationship to the Bond Program. Additionally, the District should evaluate labor amounts charged to the Bond Program to ensure appropriateness and compliance with Opinion 04-110. Results of this evaluation 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. Finally, OUSD should consider reviewing the District's staffing plan to ensure reporting is available that includes key metrics, such as positions staffed, number of personnel, number of planned projects, and dollar value of planned projects utilized by the District to help determine organizational structure alignment with Bond Program needs.	We concur. The District launched Escape Online 5 on July 1st, 2018, a comprehensive and integrated business system that provides a detail workflow ensuring internal controls are in place for HR, Payroll, and Budget departments. Escape's position control system is integrated with budget to ensure funding are identified when positions are authorized, filled, or changed. Escape also provides time accounting records for certification. ESCAPE has timekeeping system or equivalent tracking system to comply with Opinion 04-110 for staff rendering overtime and extra time. Staff are trained to review personnel costs related to Bond projects.	Fiscal year 2019-20	Open – New observation and recommendation
CAPA 3	Expenditure Management and Controls	The District was unable to explain a \$19,717.50 discrepancy to the Bond Program when comparing the Labor Distribution Report and the Cost Ledger for FY 2017/18	The District should perform a regular reconciliation between the Labor Distribution Report and financial reports to ensure completeness and accuracy of labor charges to the Bond Program. This will help ensure the labor cost charged to Bond Programs is accurate and complete.	We concur. The District launched Escape Online 5 on July 1st, 2018, a comprehensive and integrated business system that provide transparent and accurate reports, including labor costs reports, as opposed to the old financial system. The district will implement the reconciliation of Labor Distribution Report to the Cost Ledger effective immediately.	Fiscal year 2019-20	Open – New observation and recommendation
Observation 1.1	Budgetary Management and Change Order Reporting and Controls	The District did not provide policies and procedures covering the process for developing and adhering to design and construction budgets.	The District should develop, implement, and consolidate their policies and procedures surrounding design and construction budgets to ensure consistent reporting, effective controls, accountability, and communication of the policies and procedures (see Recommendations 8 and 9.2 for further information). The	We will consider the Auditor's recommendation to update the facilities and project management policies and procedures in accordance with current laws and regulations to ensure compliance in managing bond-funded projects. The district will also look into installing and/or updating the project management software system to ensure timely and accurate reporting and to	Fiscal year 2019-20	Open – New observation and recommendation



SOURCE	CATEGORY	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE	PLANNED RESOLUTION DATE	STATUS OF RESOLUTION
			Bond Program Budget information should have master plan update considerations (see Recommendation 1.2 for further information).	track project schedule, construction costs, change orders and completion timelines.		
Observation 1.2	Budgetary Management and Change Order Reporting and Controls	The District's Facilities Master Plan lacked adequate project-specific information by Bond Measure.	Per the California School Boards Association's article Facilities Master Planning (FMP) dated 2007, "An FMP should be conducted or updated by district staff approximately every five to 10 years, or prior to any significant building project. Once a board has decided to conduct or update their district's FMP, it must do three things: Set goals and expectations for the plan; allocate resources and set direction for district staff and; assemble an advisory committee." Master planning procedures should be documented within policies and procedures (see Recommendation 1.1 for further information). The District should also consider updating the 2012 Master Plan to include relevant financial data, the list of project by Measure, and the prioritization of those projects.	We will consider the Auditor's recommendation to update the facilities and project management policies and procedures in accordance with current laws and regulations to ensure compliance in managing bond-funded projects. The district will also look into installing and/or updating the project management software system to ensure timely and accurate reporting and to track project schedule, construction costs, change orders and completion timelines.	Fiscal year 2019-20	Open – New observation and recommendation
Observation 2	Budgetary Management and Change Order Reporting and Controls	The District does not include revenues and expenditures by timeframe based on project forecasts to validate that sufficient funding is available to meet the financial requirements of Measure J objectives.	Consistent with the GFOA, the District should report the project schedule, expenditure and available revenues by project by Measure to ensure enough funds are available to complete a project. Per the Government Finance Officers Association (GFOA) Capital Project Monitoring and Reporting best practices for Reporting on Projects Status and Activities states, "Meaningful reports should provide straightforward project information...Highlight significant changes to project scope, costs, schedule, or funding. To aid in the reporting, an annual snapshot of key schedule, cost estimate, and available funding information should be taken to establish baseline data for performance measures and report components." Without an updated schedule and the associated cash flow by project, it is difficult to see when the funds will be fully expended. Ensuring there are enough funds to complete a project prior to starting it and reporting the schedule of available revenues will help ensure projects that are started are adequately funded through completion and provide greater visibility into the program's financial position. Finally, schedule reporting and control policies and procedures should be implemented to ensure consistent tracking of Bond Program projects.	The District, in consultation with CBOC has revised the format of reporting in FY 2018-19. The current reports includes summary of projects with specific funding source including Measure J and B. We will consider the Auditor's recommendation to update the policies and procedures in accordance with current laws and regulation to ensure compliance in managing bond-funded projects. The district will also look into installing and/or updating the project management software system to track project schedule, construction costs, change orders and completion timelines.	Fiscal year 2019-20	Open – New observation and recommendation
Observation 3.1	Program Management	The policies and procedures that guide accomplishment of the Bond Program schedule, scope management, and performance goals were incomplete and appeared to be out-of-date.	The District should develop, implement, and consolidate their policies and procedures surrounding performance goals to ensure consistent reporting, effective controls, accountability, and communication of the policies and procedures (see Observation No. 8 and 9.2 for further information).	The District launched Escape Online 5 on July 1st, 2018, a comprehensive and integrated business solution that provides a detailed workflow ensuring internal controls in processing all requisitions, issuance of Purchase Orders and changes orders. Workflow includes hierarchy of approvals at different level from requestor to department managers & directors, budget, purchasing, CFO and CBO.	Fiscal year 2019-20	Open – New observation and recommendation



SOURCE	CATEGORY	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE	PLANNED RESOLUTION DATE	STATUS OF RESOLUTION
Observation 3.2	Program Management	Financial reporting lacked adequate details for key stakeholders to analyze the schedule and budgetary information at the program and project level.	Both the SDCTA and GFOA recommends that budget-to-actual comparisons of revenues, expenditures, cash flow, and fund balances be periodically reported. Change order reporting should include information such as itemized change amount, percentages, descriptions, change responsibility, date of approval, subtotals, and totals for easy end-user reference. Detailed budget-level information for current bond issuances allows the District to monitor budgetary performance against committed contract values and can serve as an early warning indicator for potential problems. This information provides decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident. Both the SDCTA and GFOA comments that this information is essential input for demonstrating accountability and transparency. Additionally, cash flow reporting should include revenues, cash, and expenditures by timeframe to document that sufficient funding is available to meet financial requirements for Measure J and these figures should be consistently reported in the Bond program report. This documentation will also serve as a useful tool for District management and stakeholders to understand the timing of project schedules.	We will consider the Auditor's recommendation to update the policies and procedures in accordance with current laws and regulations to ensure compliance in managing bond-funded projects. The district will also look into installing and/or updating the project management software system to track project schedule, construction costs, change orders and completion timelines.	Fiscal year 2019-20	Open – New observation and recommendation
Observation 4.1	Program Management	There were 37 instances where payment processing took longer than contractual requirements and was not supported by a payment application/invoice rejection letter justifying the delay. Additionally, the District was unable to provide formalized policies and procedures defining payment procedures and controls.	The District should finalize payment processing policies and procedures to ensure the District's compliance with contractual agreements, state laws and ordinances, and other regulations. Not only will this help the District remain in compliance, but prompt payment promotes better relationships with the contractors and subcontractors, which can lead to more bidders and potentially better pricing on future projects.	<p>We concur. The inability to determine the actual receipt date for some of the invoices was due to the fact that the "Date received" stamp was not legible in some invoices. The district is considering to replace the stamp that can be scanned in to the invoice receipt system.</p> <p>In addition to the "date received" stamp, facilities accounting also have an invoice receipt scanning mechanism tied to a peripheral "PM Tools" system. This attaches a barcode to any invoice coming into the accounting department for processing, which triggers our stipulated 30-day processing cycle.</p> <p>Sometimes invoices could be returned to the vendor by the Project Manager due to delivery issues, stop notices and/or other contract terms not met. When this happens, the said invoice is scanned out of the system until the issue is resolved, and then scanned back in. In such instance, the invoice still maintains its original issue date while not considered "received" for onward processing, until the respective project Manager approves for payment.</p> <p>The launching of ESCAPE in July 2018 with the installation of Laserfishe, a document management software will allow staff to scan contracts, invoices and supporting approved documents and attached it to the requisitions, PO and payment request on a timely manner. This will eliminate the time delay in transmitting documents from Facility Department to Accounts Payable Department.</p>	Fiscal year 2019-20	Open – New observation and recommendation



SOURCE	CATEGORY	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE	PLANNED RESOLUTION DATE	STATUS OF RESOLUTION
Observation 4.2	Program Management	The District was unable to validate that 23 expenditures were properly approved prior to payment.	The District should finalize policies and procedures related to the payment approval process and obtain Board approval as a best practice. The District should also implement controls to ensure proper review and approval prior to payment. Providing clear policies and procedures can help ensure the process is clear to personnel. Implementing controls helps prevent unauthorized payments from being processed.	See Observation 4.1 above for the consolidated management response relating to Program Management.	Fiscal year 2019-20	Open – New observation and recommendation
Observation 5.1	Budgetary Management and Change Order Reporting and Controls	Change Order No. 2 with Arntz/Focon Joint Venture, Inc. represented a 16.5% increase from the original contract value, which is not compliant with PCC 20118.4.	The District should update their policies and procedures to ensure future change orders are in compliance with PCC 20118.4 and best practices.	<p>We will consider the Auditor’s recommendation to update the policies and procedures in accordance with current laws and regulations to ensure compliance in managing bond-funded projects. The district will also look into installing and/or updating the project management software system to track project schedule, construction costs, change orders and completion timelines.</p> <p>The implementation of Escape Online 5 on July 1st, 2018, a comprehensive and integrated business solution provides a detailed workflow ensuring internal controls in processing all requisitions, issuance of Purchase Orders and changes orders as well as ensuring all supporting documents on changes, justification and approvals are attached to each transaction being processed and paid.</p>	Fiscal year 2019-20	Open – New observation and recommendation
Observation 5.2	Budgetary Management and Change Order Reporting and Controls	Change order execution and associated Board approval was not timely.	The District should implement policies and procedures to include a proactive approach to addressing change order management reporting and controls, especially those for delays and time extensions. The changes should be addressed as they occur. Executing changes in a timely manner helps support good relationships with contractors and subcontractors allowing them to be paid for their work in a timely manner and lessening the risk of them stopping work or seeking claims.	See Observation 5.1 above for the consolidated management response relating to Budgetary Management and Change Order Reporting and Controls.	Fiscal year 2019-20	Open – New observation and recommendation
Observation 5.3	Budgetary Management and Change Order Reporting and Controls	The policies and procedures surrounding change orders are conflicting, out of date and incomplete.	The GFOA recommends, within their article, “Documenting Accounting Policies and Procedures,” that the documentation of accounting policies and procedures should be evaluated annually and updated periodically, no less than once every three years. As a best practice, the District should update and consolidate their policies and procedures surrounding change orders to ensure effective controls, accountability, and communication of the policies and procedures. Any changes in policies and procedures should be updated in the documentation promptly as they occur and a specific employee should be assigned the duty of overseeing this process. The resulting documentation can also serve as a useful training tool for staff.	See Observation 5.1 above for the consolidated management response relating to Budgetary Management and Change Order Reporting and Controls.	Fiscal year 2019-20	Open – New observation and recommendation
Observation 5.4	Budgetary Management and Change Order Reporting and Controls	Change orders were not reported to key Measure J stakeholders to document change order impact and assigned responsibility.	As a best practice and consistent with the San Diego Taxpayers Association (SDCTA), OUSD should establish more robust change order reporting within Bond Program reporting to ensure end users understand change order impact and assigned responsibility. Change order reporting should include information such as itemized change amount, percentages, descriptions, change responsibility, date of approval, subtotals, and totals for easy end-	See Observation 5.1 above for the consolidated management response relating to Budgetary Management and Change Order Reporting and Controls.	Fiscal year 2019-20	Open – New observation and recommendation



SOURCE	CATEGORY	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE	PLANNED RESOLUTION DATE	STATUS OF RESOLUTION
			<p>user reference. Change order documentation should be available at the project and program level with both detailed and summary level information available. Summary and detailed change reporting is necessary to understand change order cause, responsibility, pricing, and compliance and to identify potential duplicated work scopes and/or redundancies caused by unclear scope objectives and/or expectations within the master plan. Absent this additional information, change order details are not adequately reported to end users. Per the SDCTA's Oversight Committee Best Practices, any alterations to project budgets or timelines with adequate explanations for these changes should be reported to the Citizen Oversight Committee. Policies and procedures surrounding change order management and controls should be updated accordingly to ensure consistent practices.</p>			
Observation 5.5	Budgetary Management and Change Order Reporting and Controls	District policies and procedures lacked claims avoidance considerations that address reporting requirements to identify actions taken to identify or limit claim exposure.	As a best practice, OUSD should revise claims avoidance and control procedures within policy documents and update OUSD management reporting to reflect procedures performed to identify and avoid potential claims. The Bond Program report narrative section should address in detail potential differences with the contractor, such as responsibility for performing specific work. Particular care should be taken to record and preserve all possible data and evidence with respect to any matter that may become a basis for a contractor claim. As there may be many root causes for claims, the claims avoidance policy should include a detailed process that OUSD follows to identify the areas of exposure that may lead to a claim and steps taken to prevent claims, such as document control requirements, identification of appropriate communication channels, and proactive cost, schedule, and quality control procedures.	See Observation 5.1 above for the consolidated management response relating to Budgetary Management and Change Order Reporting and Controls.	Fiscal year 2019-20	Open – New observation and recommendation
Observation 6.1	Program Management	The policies and procedures surrounding procurement are out-of-date and incomplete.	As a best practice, the District should update and consolidate their policies and procedures surrounding procurement to ensure effective controls, accountability, and communication of the policies and procedures (see Recommendations 8 and 9.2 for further information).	We will consider the Auditor's recommendation to update the procurement policies and procedures in compliance with requirements of California School Construction State requirements, Public Contracting Code, Education Codes and other state and local laws and regulations to ensure compliance in managing bond-funded projects.	Fiscal year 2019-20	Open – New observation and recommendation
Observation 6.2	Program Management	The District was unable to provide complete competitive solicitation documentation for two public works projects.	The District should maintain complete and consolidated bid and procurement documentation that is readily available in a central location, either physically or electronically. This will enable the District to verify compliance with applicable guidance. Additionally, as a best practice, the District should maintain a consolidated bid and procurement activity report that will allow District senior management to identify, prevent, or detect noncompliance with District policies and procedures, state laws, regulations, and best practices (e.g., not sole source procurement). A checklist or equivalent mechanism, with appropriate sign-offs on procurement requirements, can serve as a good tool for all relevant parties (Accounting, as well as Facilities and Procurement) to validate compliance with policy and procedure requirements.	See Observation 6.1 above for the consolidated management response relating to Program Management.	Fiscal year 2019-20	Open – New observation and recommendation





SOURCE	CATEGORY	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE	PLANNED RESOLUTION DATE	STATUS OF RESOLUTION
Observation 6.3	Program Management	The District did not provide sufficient documentation to allow us to review nine out of 17 sampled vendors, or 53%.	The District should maintain complete and consolidated bid and procurement documentation that is readily available in a central location, either physically or electronically (see Recommendation 6.2 for further information).	See Observation 6.1 above for the consolidated management response relating to Program Management.	Fiscal year 2019-20	Open – New observation and recommendation
Observation 6.4	Program Management	The District awarded and issued contracts to bidders prior to Board of Education approval.	The District should receive, and require, Board approval prior to issuing or awarding any contracts or Purchase Orders (see Recommendation 6.2 for further information).	See Observation 6.1 above for the consolidated management response relating to Program Management.	Fiscal year 2019-20	Open – New observation and recommendation
Observation 7	Program Management	The District's standardized items list for Bond Program materials procurement is not current and is potentially not complete.	The District should regularly update its standardized items and educational specifications list to accurately reflect the most up-to-date standards and guidance provided by local and state governments. The manual should include details such as material types, standard equipment and systems, manufacturer specification numbers, and minimum standards for new construction and modernization mandated by the District for projects undertaken. This manual should be provided to project architects and designers, and required products and system specifications should be provided to all bidders during the procurement process. As a best practice, these minimum standards mandated by the District should consider facility safety, energy conservation (e.g., Title 21 and 24), longevity, educational requirements and other appropriate regulations and standards. Procurement staff should be trained on how to utilize the standard specifications when procuring materials or services for the District. Additionally, OUSD should define how to make updates to the Standards Specifications document. This policy should ensure that documentation exists including the requestor and date of request, description of change, cost-benefit relationship for the change, approver and date of approval, and a time-stamped updated specifications document (see Recommendation 8 and 9.2 for further information). The cost-benefit analysis for significant specification changes should be approved by appropriate OUSD management. The Standard Specifications document should avoid including narrow scope requirements to prevent excessive pricing to OUSD.	We will consider the Auditor's recommendation to update the procurement policies and procedures in accordance with current laws and regulations to ensure compliance in managing bond-funded projects. The district will regularly update the list of standardized items and education specifications as provided by the local and state government to ensure compliance to facility safety, energy conservation, longevity, educational requirements and other appropriate regulations and standards.	Fiscal year 2019-20	Open – New observation and recommendation
Observation 8 and 9.1	Program Management	The District did not provide conflict of interest forms for the entire facilities management team.	As a best practice, the District should clearly document their policies and procedures surrounding conflict of interest, maintain a complete set of completed conflict of interest forms, and review their current forms to determine if additional action needs to be taken. Having consolidated, adequate, and documented policies and procedures as well as maintaining completed forms will provide insight to potential conflicts, allowing the District to make appropriate adjustments and help protect the District if conflict of interest issues arise.	The District will ensure that all officers and employees authorizing procurements and financial commitments submits Form 700 on a timely manner in compliance to state laws and board policies.	Fiscal year 2019-20	Open – New observation and recommendation



SOURCE	CATEGORY	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE	PLANNED RESOLUTION DATE	STATUS OF RESOLUTION
Observation 8 and 9.2	Program Management	Policies and procedures were not centrally located, did not define roles and responsibilities and the process for updating manuals was not documented.	As a best practice, the District should consolidate all policies, procedures, and resolutions into one document to ensure effective controls and communication of the policies and procedures. The GFOA recommends, within their article "Documenting Accounting Policies and Procedures," that the documentation of accounting policies and procedures should be evaluated annually and updated periodically, no less than once every three years. Any changes in policies and procedures should be updated in the documentation promptly as they occur and a specific employee should be assigned the duty of overseeing this process. We recommend that construction program procedures are documented and updated in a similar manner. The resulting documentation can also serve as a useful training tool for staff.	See Observation 8 and 9.1 above for the consolidated management response relating to Program Management.	Fiscal year 2019-20	Open – New observation and recommendation





## APPENDIX D – CONDUCT A PERFORMANCE AUDIT (CAPA) NO. 1

The following table contains the expenditures identified as potentially unallowable per the Bond language. See CAPA No. 1 for additional detail.

PERSON/ENTITY NAME	BOND MEASURE	POST DATE	PEID	P/O #	INVOICE #	NET	EXPENDITURE DESCRIPTION
<b>Measure J</b>							
OAKLAND PUBLIC EDUCATION FUND	J	3/16/2018	V053845	P1806886	INV00372	\$46,669.01	Community Outreach is not clearly defined as an allowable cost by the Measure J Bond language.
SPARKNIGHT LLC C/O CBRE-ASSET	J	2/2/2018	V061473	P1800268	1001440CUFEB	\$28,793.85	Rent for 1000 Broadway - Current Admin Building
APPLE COMPUTER	J	6/12/2018	V000338	P1808673	6735234503	\$1,588.03	Non-Site-Specific Equipment - For use in facilities - While the Measure J Bond language does allow for the purchase of equipment, it is not clear if this equipment was purchased per the allowable language of the bond. Additionally, it is not clear if this expenditure is 100% allocated to the bond program or should be allocated to other facility business.
INTER-COMMUNICATIONS	J	6/2/2018	V061673	P1809230	WN02061801	\$1,299.00	Non-Site-Specific Equipment - For use in facilities - While the Measure J Bond language does allow for the purchase of equipment, it is not clear if this equipment was purchased per the allowable language of the bond. Additionally, it is not clear if this expenditure is 100% allocated to the bond program or should be allocated to other facility business.
<b>Measure J Total</b>						<b>\$78,349.89</b>	
<b>Measure B</b>							
OAKLAND PUBLIC EDUCATION FUND	B	6/30/2018	V053845	P1806491	INV000581	\$38,000.00	Community Outreach is not clearly defined as an allowable cost of the Measure J Bond language.
CODY ANDERSON WASNEY ARCHITECT	B	6/30/2018	V060881	P1801133	061813018	\$24,700.00	The Admin site, currently called "The Center," is not clearly identified as an allowable site per the Measure B Bond language.
WILLIAM SCOTSMAN	B	6/9/2018	I081026	P1800660	5737688	\$1,296.38	The Admin site, currently called "The Center," is not clearly identified as an allowable site per the Measure B Bond language.
NORTHWEST CASCADE, INC.	B	8/3/2017	V062009	P1800391	0550358101	\$192.45	The Admin site, currently called "The Center," is not clearly identified as an allowable site per the Measure B Bond language.
<b>Measure B Total</b>						<b>\$64,188.83</b>	
<b>Measure J and Measure B Total</b>						<b>\$142,539.72</b>	



## APPENDIX E – OBSERVATION 4.1

The following table shows the 37 lacking prompt payment and or received dates were not legible based on documentation provided by the District. See Observation 4.1 for additional detail.

PERSON/ENTITY NAME	POST DATE	PEID	P/O #	INVOICE #	NET	WARRANT DATE	RECEIVED DATE	INVOICE DATE	PAYMENT PROCESS TIME
<b>Measure J</b>									
OAKLAND PUBLIC EDUCATION FUND	3/16/2018	V053845	P1806886	INV00372	\$46,669.01	3/20/2018	No stamp	3/24/2017	361
TRIMARK ECONOMY RESTAURANT FIX	6/30/2018	V012687	P1800748	1547674	\$9,507.48	7/10/2018	No stamp	9/26/2017	287
BYRENS KIM DESIGN WORKS	2/7/2018	I009281	P1804619	01MADISON	\$10,575.00	2/9/2018	No stamp	8/1/2017	192
ARC DOCUMENT DBA ARC IMAGING R	8/14/2017	V071532	P1800618	5003752792	\$817.00	8/17/2017	No stamp	2/19/2017	179
YSERCO	3/3/2018	V059188	P1806426	3806	\$6,335.00	3/5/2018	No stamp	10/20/2017	136
INTER-COMMUNICATIONS	6/2/2018	V061673	P1809230	WN02061801	\$1,299.00	6/11/2018	No stamp	2/6/2018	125
ORBACH HUFF & SUAREZ	8/1/2017	V060295	P1800464	82581	\$5,264.10	8/4/2017	No stamp	4/4/2017	122
DANNIS WOLIVER KELLEY	8/21/2017	I024616	P1800465	205691	\$26,102.67	8/21/2017	No stamp	4/25/2017	118
AMERICAN MODULAR SYSTEMS	1/19/2018	V070868	P1805712	9552	\$6,480.00	1/22/2018	No stamp	10/4/2017	110
RUDYS COMMERCIAL REFRIGERATION	6/30/2018	I091892	-	-	\$9,123.00	8/10/2018	No stamp	5/3/2018	99
DAILY JOURNAL CORPORATION	11/30/2017	V054522	P1804532	B3045913	\$742.44	12/4/2017	No stamp	8/31/2017	95
ROOFLINE SUPPLY & DELIVERY	3/3/2018	V061364	P1806201	10336033001	\$866.48	3/5/2018	12/1/2017	11/27/2017	94
CORODATA SHREDDING	11/30/2017	V060796	P1804047	1166644	\$36.75	12/4/2017	9/15/2017	8/31/2017	80
STRONGER BUILDING SERVICES	6/30/2018	I006095	-	-	\$82,080.00	9/12/2018	No stamp	6/30/2018	74
LCA ARCHITECTS	5/24/2018	I010791	P1801124	33102-23	\$150,014.02	6/1/2018	No stamp	4/1/2018	61
KDI CONSULTANTS	10/25/2017	V057341	P1801324	1057	\$18,550.00	10/26/2017	Not legible	8/31/2017	56
ANTHONIO	6/20/2018	V054447	-	-	\$(5,760.00)	6/21/2018	No stamp	5/1/2018	51
PACIFIC GAS AND ELECTRIC	1/19/2018	V004035	P1801076	1222480MADISON	\$9,084.17	1/22/2018	No stamp	12/7/2017	46
CUMMING CONSTRUCTION MANAGEMENT	11/2/2017	V071275	P1803258	56836	\$46,340.00	11/14/2017	No stamp	9/30/2017	45
CITY OF OAKLAND	3/29/2018	F021232	P1807090	B1800808	\$248,116.67	4/3/2018	No stamp	2/20/2018	42
STATE WATER RESOURCES CONTROL	4/13/2018	V053161	P1807309	495148	\$400.00	5/3/2018	3/22/2018	3/21/2018	42
ELATION SYSTEMS	8/2/2017	V059713	P1800170	2978	\$37,500.00	8/4/2017	No stamp	6/26/2017	39



PERSON/ENTITY NAME	POST DATE	PEID	P/O #	INVOICE #	NET	WARRANT DATE	RECEIVED DATE	INVOICE DATE	PAYMENT PROCESS TIME
DESILVA ENTERPRISES	2/28/2018	V071742	P1805618	0118031	\$2,870.00	3/5/2018	1/25/2018	1/26/2018	39
ALVARADO MANUFACTURING	11/20/2017	V062722	P1801944	24586400	\$1,623.00	12/4/2017	Not legible	10/27/2017	38
APPLE COMPUTER	6/12/2018	V000338	P1808673	6735234503	\$1,588.03	6/14/2018	No stamp	5/9/2018	36
SAFEPLAY BY DESIGN	9/28/2017	I004694	P1800211	2066	\$850.00	10/5/2017	9/1/2017	8/11/2017	34
GERALD D. SMITH	6/30/2018	I006441	P1809305	0032020A	\$542.50	7/10/2018	6/6/2018	5/30/2081	34
JENSEN HUGHES	5/21/2018	V053604	P1804340	INV2016938	\$1,917.00	6/1/2018	4/30/2018	4/23/2018	32
STAR ELEVATOR	6/30/2018	I004017	-	-	\$10,458.72	8/10/2018	No stamp	6/29/2018	32
<b>Measure B</b>									
DEVELOPMENT GROUP	2/27/2018	V071926	P1805993	N17099	\$3,973.93	3/5/2018	2/26/2017	2/14/2018	372
KDI CONSULTANTS	6/14/2018	V057341	P1801318	1102	\$760.00	6/19/2018	No stamp	3/1/2018	110
FIRST ALARM SECURITY & PATROL	6/9/2018	V058204	P1809089	386484	\$495.00	6/11/2018	3/22/2018	3/19/2018	81
WICKMAN DEVELOPMENT AND CONSTR	5/29/2018	V061445	P1806087	CONTR033118	\$148,960.00	6/1/2018	No stamp	3/31/2018	62
VERDE DESIGN	9/27/2017	V059474	P1800668	CONTR082517	\$3,177.50	10/5/2017	No stamp	8/25/2017	41
STATE WATER RESOURCES CONTROL BOARD	6/30/2018	V053161	-	-	\$484.00	8/10/2018	07/05/2018	4/5/2018	36
NIMBLE STORAGE INC.	11/28/2017	V071675	P1803853	SIV173246	\$15,365.95	12/4/2017	Not legible	10/31/2017	34
PACIFIC GAS AND ELECTRIC	6/30/2018	V004035	-	-	\$70,963.64	8/21/2018	No stamp	7/20/2018	32



## APPENDIX F – OBSERVATION 4.2

The following table contains the expenditures lacking proper approvals, if applicable. See Observation 4.2 for additional detail.

PERSON/ENTITY NAME	POST DATE	PEID	P/O #	INVOICE #	NET	SIGNED BY INSPECTOR OF RECORD (Y/N/N/A OR "-")	SIGNED BY ARCHITECT (Y/N/N/A OR "-")	SIGNED BY PROJECT MANAGER (Y/N/N/A OR "-")	SIGNED BY PROGRAM DIRECTOR	SIGNED BY DEPUTY CHIEF
<b>Measure J</b>										
CUMMING CONSTRUCTION MANAGEMENT	11/2/2017	V071275	P1803258	56836	\$46,340.00	-	-	No	No	No
TULUM INNOVATIVE ENGINEERING	6/4/2018	I007332	P1804032	CONTR053118	\$2,028,571.53	Yes	Yes	No	Yes	Yes
BYRENS KIM DESIGN WORKS	2/7/2018	I009281	P1804619	01MADISON	\$10,575.00	-	-	No	Yes	Yes
ALTEN CONSTRUCTION	9/6/2017	V059657	P1800470	3 ESCROW	\$11,083.34	No	No	Yes	Yes	Yes
SPARKNIGHT LLC C/O CBRE-ASSET	2/2/2018	V061473	P1800268	1001440CUFEB	\$28,793.85	-	-	-	No	No
ANTHONIO	6/20/2018	V054447	-	-	\$(5,760.00)	-	-	Yes	No	No
OAKLAND PUBLIC EDUCATION FUND	3/16/2018	V053845	P1806886	INV00372	\$46,669.01	-	-	No	Yes	Yes
APPLE COMPUTER	6/12/2018	V000338	P1808673	6735234503	\$1,588.03	-	-	-	No	No
ELATION SYSTEMS	8/2/2017	V059713	P1800170	2978	\$37,500.00	-	-	Yes	No	No
DESILVA ENTERPRISES	2/28/2018	V071742	P1805618	0118031	\$2,870.00	-	-	Yes	No	No
DAVILLIER – SLOAN	2/12/2018	V043703	P1805015	OUSD2018-1	\$15,618.00	-	-	Yes	No	No
LAYA'S PARTNERSHIP	5/21/2018	I007564	P1806690	2	\$17,640.00	-	-	No	Yes	No
STRONGER BUILDING SERVICES	6/30/2018	I006095	-	-	\$82,080.00	No	Yes	Yes	Yes	Yes
AMERICAN MODULAR SYSTEMS	1/19/2018	V070868	P1805712	9552	\$6,480.00	-	-	No	Yes	Yes
DAILY JOURNAL CORPORATION	11/30/2017	V054522	P1804532	B3045913	\$742.44	-	-	Yes	No	No
ST BERNARD SCHOOL	8/30/2017	V005006	P1801518	CONTR073117	\$1,000.00	-	-	No	Yes	Yes
<b>Measure B</b>										
D LINE CONSTRUCTORS	4/10/2018	I006952	P1804620	17143 APPL 3	\$356,517.29	Yes	Yes	Yes	No	No
CAHILL/FOCON JOINT VENTURE	6/30/2018	V060849	P1808734	APPL 3	\$1,051,162.00	No	Yes	Yes	Yes	Yes
DIGITAL DESIGN COMMUNICATIONS	6/29/2018	V050159	P1807986	7866	\$9,795.96	-	-	No	No	No
NIMBLE STORAGE INC.	11/28/2017	V071675	P1803853	SIV173246	\$15,365.95	-	-	No	No	No



PERSON/ENTITY NAME	POST DATE	PEID	P/O #	INVOICE #	NET	SIGNED BY INSPECTOR OF RECORD (Y/N/N/A OR "-")	SIGNED BY ARCHITECT (Y/N/N/A OR "-")	SIGNED BY PROJECT MANAGER (Y/N/N/A OR "-")	SIGNED BY PROGRAM DIRECTOR	SIGNED BY DEPUTY CHIEF
FIRST ALARM SECURITY & PATROL	6/9/2018	V058204	P1809089	386484	\$495.00	-	-	Yes	Yes	No
OAKLAND PUBLIC EDUCATION FUND	6/30/2018	V053845	P1806491	INV000581	\$38,000.00	-	-	No	No	No
DEVELOPMENT GROUP	2/27/2018	V071926	P1805993	N17099	\$3,973.93	No	No	No	No	No



## APPENDIX G – OBSERVATION 6.3

The following table is a list of the nine samples where documentation was not available. See Observation 6.3 for additional detail.

VENDOR NAME	PROJECT NAME (SITE DESCRIPTION)	BOND
TULUM INNOVATIVE ENGINEERING	MADISON MIDDLE	MEASURE J GENERAL OBLIGATION B
ADCO/TURNER GROUP/ALTEN JOINT	GLENVIEW	MEASURE J GENERAL OBLIGATION B
OVERAA TULUM ECLIPSE JV	FOSTER	MEASURE J GENERAL OBLIGATION B
ANTHONIO	FRICK MIDDLE	MEASURE J GENERAL OBLIGATION B
ECLIPSE ELEC/THOMPSON BUILDERS	FOSTER	MEASURE J GENERAL OBLIGATION B
RUDYS COMMERCIAL REFRIGERATION	FOSTER	MEASURE J GENERAL OBLIGATION B
ORBACH HUFF & SUAREZ	FACILITIES PLANNING	MEASURE J GENERAL OBLIGATION B
ARC DOCUMENT DBA ARC IMAGING R	FACILITIES PLANNING	MEASURE J GENERAL OBLIGATION B
ELITE PLAS/THOMPSON BUILDERS	FOSTER	MEASURE J GENERAL OBLIGATION B

