

Audit Findings Update Tracker - Fiscal Year 2019-2020

	CONTEXT	UPDATES/IMPROVEMENTS	REPORTING VIEWS OF RESPONSIBLE OFFICIALS JUNE 30, 2020
	CONDUCT AND PERFORMANCE AUDIT (CAPA)		
CAPA No 1.	The ballot language addresses projects at the District and school site levels; however, particular expenditures are not explicit the Bond language	Improvement Recommendations: Bond measures require long-term planning. There is always a trade-off between limiting a future Board's discretion to respond to the changing needs of the community versus the need to specify how each bond dollar must be spent. Key stakeholders may consider explicit language addressing this matter in a future ballot.	The current plan was adopted on June 5, 2020, via Board Resolution 1819-0211 to move forward with a permanent District Administrative Center at the former Cole Elementary School. Interim administrative housing was not needed or contemplated at the time of Measure J's development or passage. Thus, it was not specifically delineated in the Bond Project List. However, the Bond Project List does include a reference to "administrative sites" and to renting facilities "on an interim basis." Further, the use of bond funds for interim administrative housing is explicitly contemplated under Measure J. The Measure J Bond Project List mentions the use of bond funds for "administrative sites," and it mentions the ability to use bond funds for "[r]ental...facilities...on an interim basis, as needed to accommodate...personnel."
CAPA No 2.	The District does not have a documented basis for distributing salary between the narrow category of bond compliant construction projects, and routine everyday school facilities administrator expenses.	Improvement Recommendation: We recommend management to formally document the basis for distributing salary between the narrow category of bond compliant construction projects, and routine everyday school facilities administrator expenses.	We agree that there is not a formal basis of allocation, but the 80 percent allocation for four specific employees and the 100 percent allocation for others is reasonable based on anecdotal evidence. To address this finding, the District will develop a time documentation for record keeping per the California School Accounting Manual (CSAM) Procedures 905.
CAPA No. 3	There is a higher than usual risk of noncompliance of approving unallowable expenditures due to a decentralized expense approval procedure for certain interdepartmental transactions.	Improvement Recommendation: Although departments other than Facilities may legitimately expend bond funds on eligible activities, we recommend that Facilities personnel remain involved in the approval process. The reason is to mitigate the risk of approving unallowable activities due to decentralized approval processes. The Facilities personnel have the historical experience to assess allowability, to ensure all expenditures are recorded into the bond fund accounting and budget records, to ensure proper reporting of all payments to key stakeholders, and because the Facilities department is ultimately responsible for compliance.	We agree that Facilities, as the primary party responsible for Bond Fund expenditures, should be in the loop on all Bond Funded procurement and will work with the Chief Business Officer to develop a process supporting this.
	ADHERENCE TO DESIGN AND CONSTRUCTION COST BUDGETS		
Observation 1.1	Policies and procedures covering the process for developing and adhering to design and construction budgets are current; however, not followed in practice.	Improvement Recommendation: The District should practice frequent budget reconciliation procedures to ensure the budget to actual reflects most current and accurate information and to better control and manage project costs. The District's procedures manual states, "the Project Manager is required to know where the budget is always on their project. This should include all soft costs and construction costs associated with the project. This can be accomplished by properly tracking all contracts, invoices, and pay applications in the PM database."	We developed a new program procedures manual drafted on January 25, 2020 to update and include the facilities and project management policies and procedures in accordance with current laws and regulations to ensure compliance in managing bond-funded projects. We will consider the recommendations of the auditor and work to finalize those procedures.
Observation 1.2	The bond program has not contracted for obligations in excess of available resources, however the District incurred expenditures prior to securing the budget for the Cole Administrative Center project.	Improvement Recommendation: Project cancellation leads to inefficient use of bond funds. A policy allowing for interim updates to the annual spending plan may mitigate future similar projects' risk.	While the budget for the Cole project was not included in a Board Approved Spending Plan until 2021, the Board action authorizing and directing staff to move ahead with a project to rehouse our central administration functions in a new building at Cole did specifically state that budget would be authorized and directed staff to proceed on that basis.

Observation 1.3	The District's project cancellation increases the risk of inefficient use of bond funds.	Improvement Recommendation: Project cancellation leads to inefficient use of bond funds. A policy allowing for interim updates to the annual spending plan may mitigate future similar projects' risk. In addition, the District should report the project schedule and planned expenditures by project and by funding source to ensure enough funds are available to complete a project. See the recommended reporting under Observation 2.	We agree that cancellation of projects can lead to an inefficient Bond program. We have no objection to the measures recommended and welcome the opportunity to present regular Bond program progress reports.
ADHERENCE TO DESIGN AND CONSTRUCTION SCHEDULES AND TIMELINES			
Observation 2	The District does not include expenditures by timeframe based on project forecasts to validate that sufficient funding is available to meet the financial requirements of Measure J objectives.	Improvement Recommendation: Consistent with the Government Finance Officers Association (GFOA), the District should report the project schedule and planned expenditures by a project by funding sources to ensure enough funds are available to complete a project. Per the 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 the 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. (See Appendix K for an example of a project status report)	The District, in consultation with CBOC has revised the format of reporting to address this finding. The current reports include summary of projects with specific funding source including Measure J and B and Project Reconciliation Summary for major projects, which provides detailed financial information at the project level. We have a Project Status Report, which includes project timeline and the percentage of completion information; however, this information has not been presented to CBOC. We will consider the Auditor's recommendation to include the completion timelines and project status in the CBOC report. We are also developing a system to create a report that track project schedules, construction costs, change orders and completion timeline.
FINANCIAL REPORTING & INTERNAL CONTROLS			
Observation 3.1	Financial reporting lacked enough details for key stakeholders to analyze the schedule at the program and project level.	Improvement Recommendation: Concise and meaningful reporting enables the District to monitor budgetary performance against committed contract values and can serve as an early warning indicator for potential problems. Accepted best practices suggest that budget-to-actual comparisons of expenditures, and the percentage of completion, be presented to key stakeholders. The reporting should be accompanied by narrative descriptions of variances over a specified threshold. This information provides decision-makers time to consider actions that may be needed if significant deviations in budget-to-actual results become evident.	We are purchasing a new program management software that will enable us to more efficiently generate reports that include the recommended information such as project schedules, construction costs, change orders, and project timeline.
Observation 3.2	Financial reporting presented to the stakeholders are not reconciled to the District's accounting records.	Improvement Recommendation: Accounting personnel should work with project managers to implement review and reconciliation procedures to ensure consistent information is communicated between all stakeholders and reported to the CBOC.	The project managers accounts are focused on contract reconciliation and the roll up reports do not always correspond to the project budget reported to CBOC. We will work with our new software to make sure that this correspondence does take place.
PAYMENT PROCEDURES			
Observation 4.1	Payment application packages were incomplete	Improvement Recommendation: The District should have a clear guideline for payment processing, and they should be enforced. Furthermore, templates should be periodically updated to remain applicable. To that end, the District should finalize policies and procedures related to the payment approval process, including explicitly updating the payment application form template. Supplying clear policies and procedures can help ensure that expenditures are properly processed with appropriate internal controls.	We concur. We will update the checklist, which assists accounting staff and project managers to gather all of the necessary documents to process the payments, to be aligned with the current procedures. We will also provide clear guidelines on which documents are applicable to certain expenditures to our staff. We are also working to standardize our documentation organization so that every required document is memorialized in the payment packet. Finally, we will also memorialize the acceptable omissions such as processing interim progress payments (but not final progress payments) without the certification of compliance with our local business policy.

Observation 4.2	Construction and Consultant quality control documentation was incomplete.	Improvement Recommendation: The District should have a clear guideline for payment processing, and it should be enforced. Furthermore, templates should be periodically updated to remain applicable. To that end, the District should finalize policies and procedures related to the payment approval process, including explicitly updating the payment application form template. Supplying clear policies and procedures can help ensure that expenditures are properly processed with appropriate internal controls.	We will review in detail the cited issues and work with our program management team to make corrections.
Observation 4.3	There were 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's policy and procedures do not include procedures to ensure the District's compliance with contractual agreements, state laws and other regulations.	Improvement Recommendation: The District should update the procedures manual to include a compliance review step to ensure the District's compliance with contractual agreements, state laws and other regulations. The District should also update their documentation when there is any delay in processing the payment to justify the reason for the delay to mitigate the risk of noncompliance with state laws and regulations.	We agree with the improvement recommendations
CHANGE ORDER AND CLAIM PROCEDURES			
Observation 5.1	As of June 30, 2020, the District's Policies lacked claims avoidance considerations, evidence preservation to limit exposure.	Improvement Recommendation: Although this matter appears to have been resolved with the September 23, 2020 Procedures Manual, it was not explicitly subject to our audit procedures because the resolution was after June 30, 2020.	We appreciate the helpful recommendation of the auditor about claims avoidance protocols and best practice. We developed a revised program procedures manual drafted on January 25, 2020. The revised manual consolidates and updates our claims avoidance protocols. We will consider the specific recommendations of the auditor and work to finalize those procedures. Also, we are purchasing a new program management software that will enable us to more efficiently generate reports that include the best practice information such as project schedules, construction costs, change orders, and project timeline.
Observation 5.2	The policies and procedures surrounding change order review and acceptance are inconsistently applied and incomplete.	Improvement Recommendations: The District should continuously update the program procedures manual. Having policies and procedures surrounding change orders that are incomplete can lead to inconsistent implementation in practice, a lack of accountability, and increased claims risk. 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 its policies and procedures surrounding change orders to ensure adequate controls, consistently applied, and communicated to. 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.	We appreciate the recommendations for improvement and want to point out that all change orders are reviewed by the general counsel's office or their designee before presentation to Board for approval. We will develop procedures to document the analysis and proper valuation of our change orders
Observation 5.3	There is not a defined policy for reporting of meaningful change orders to key stakeholders.	Improvement Recommendation: As a best practice, the District should establish more robust change order reporting within Bond Program reporting to ensure end-users understand change order impact, assigned responsibility, and litigation exposure. To that end, key stakeholders should receive an active litigation report of claims filed. If there are none, there should be a standard report that says, "no litigation at this time." We further recommend that a threshold be established for reporting of accepted change orders, that materially increase the use of resources, to key decision-makers. Such a limit could be exceeding the contingency reserve (Allowance Expenditure Directive) amount by a percentage or absolute amount but should be formally set up in policy so that it may be consistently followed.	We will investigate how to best summarize the salient issues in each change order and how we're reporting on them to the key decision makers

Observation 5.4	Change Orders are often classified as "error and omissions" due to the architect's drawings, not including all specifications.	Improvement Recommendation: The District should define a "normal" scope of a change order classified as an architect "error and omissions." Accepted change orders exceeding the defined normal scope, should trigger an investigation. The investigation should determine if there is a professional who made a mistake, or if the change order is because of an unforeseeable condition or change in circumstances. Bond program management should further create a database to monitor the situations where they went beyond the reasonable scope threshold, to identify if the same architect, or other patterns, are contributing to a disproportionate volume of "errors and omissions."	We agree with the establishment of a set of parameters to analyze the performance of each architect against the change orders on each project and development of a management plan for outliers. We do note that change orders are already classified as owner requests, agency requirement, unforeseen conditions, or errors and omissions
BIDDING AND PROCUREMENT PROCEDURES			
Observation 6.1	The policies and procedures surrounding procurement are out-of-date and incomplete	Improvement Recommendations: The procurement procedures listed on the OUSD Facilities Department Standard Operating Procedures Manual should be reviewed for consistency and simplicity with the District's procurement policy.	We developed a new program procedures manual drafted on January 25, 2020 to update and include the facilities and project management policies and procedures in accordance with current laws and regulations to ensure compliance in managing bond-funded projects. We will consider the recommendations of the auditor and work to finalize those procedures. We are also working to standardize our documentation organization so that every required document is memorialized in the payment packet.
Observation 6.2	Bid documents - The District was unable to provide the scoresheets, so we could not determine if the lowest cost or best value vendors were selected for four public works projects	Improvement Recommendations: The District should update the policies and procedures to ensure the maintenance of 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 and support the performance audit. 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 useful tool for all relevant parties (Accounting, as well as Facilities and Procurement) to validate compliance with policy and procedure requirements.	We will work to improve our document filing practices. In this case multiple staff member recall the scoring, but we have been unable to locate the document.
Observation 6.3	Contract documents - The District did not provide complete contract documentation for four out of 58 sampled contracts, or 7 percent.	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).	We agree with the recommendation for a central electronic file of all approved contract documents
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.	Improvement Recommendations: The District should regularly update its standardized items and educational specifications list to accurately reflect the most current 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.	We are in the process of updating the list of standardized items and education specifications. As of June 30, 2020, we completed updating Elevator, Wheelchair Lift, and Technology Service Data and Communications Standards. We will continue to work on updating the design specifications to ensure compliance to appropriate regulations and standards.
BEST PRACTICES FOR PROCUREMENT OF MATERIALS AND SERVICES			

<p>Observation 8 and 9.1</p>	<p>The District did not provide a conflict of interest disclosure for specific management positions defined in the District's board policy within the facility department.</p>	<p>Improvement Recommendations: Having consolidated 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 a dispute of interest issues arise. We recommend facilities management to discuss with legal counsel about the current policy, and any recommendations should be implemented by formal written policy. Discussion topics about if the facilities department should have a policy separate from the District, identification of positions subject to the policy, and manner in which reported conflicts of interest are resolved. We also recommend the District to designate a person responsible for obtaining form 700s for all employees listed in the District policy. The District should provide form 700s in a timely manner upon request of all stakeholders.</p>	<p>The District will consult with the legal counsel to develop a policies and procedures over conflict of interest form within the facility department to ensure that all officers and employees authorizing procurements and financial commitments submits Form 700 and internally created conflict of interest form on a timely manner in compliance to state laws and board policies.</p>
<p>Observation 8 and 9.2</p>	<p>Policies and procedures were centrally located, defined roles and responsibilities and readily available at the District's website; however, some procedures are inconsistent and incomplete as of June 30, 2020.</p>	<p>Improvement Recommendation: The district should continuously update and review the procedures manual to ensure the District policy and procedures reflect current requirements under State laws and regulations. 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, updated correspondingly, and approved promptly. The resulting documentation can also serve as a useful training tool for staff. The District should determine and consolidate procedure manual into one to mitigate the risk of inconsistent practices.</p>	<p>We appreciate the suggestion to regularly review and update our procedures manual to ensure that our documents are complimentary and not conflicting and will adding that review to our master calendar tasks.</p>