



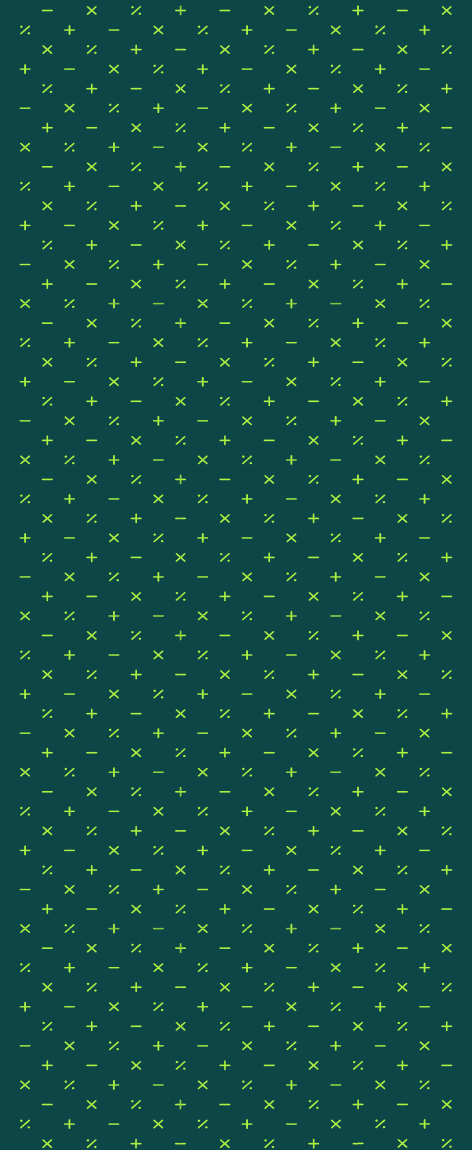
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California Association of Bond Oversight Committees (CABOC)

**Best Practice Monitoring and Oversight Controls
for K-14 Bond Programs**

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Today's Presenters

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Agenda

- The K-14 Team
- California Proposition 39 (Prop 39) Overview
- Performance Audits
- Current Situation with Facilities
- Common K-14 Bond Program Challenges
- Bond Program Master Planning
- Contract Types, Risks, Strategies, and Controls
- CBOC Overview and Best Practices
- Bond Program Performance Audit Checklist
- Benefits of an Expanded Performance Audit



The K-14 Team

Capital Projects Performance Audit Practice

- Performs over 75 capital program projects annually, including:
 - Project leadership
 - Program management
 - Performance audits
 - Capital program assessments
 - Process improvement, monitoring, and reporting
 - Construction audits
 - Cost compliance and control reviews
 - Change order reviews
 - Contract reviews
- Construction program policies and procedures
- Project and program sizes range from \$10 million to over \$5.5 billion



The K-14 Team

Financial Statements

- Extensive experience
- Specializes in K-14 audits, including:
 - Financial statement audits
 - Bond financial statement audits
 - Agreed-upon procedures



California Proposition 39 (Prop 39) Overview

- On November 7, 2000, California voters approved Proposition 39, “the Smaller Classes, Safer Schools and Financial Accountability Act.”
- California state requirements specify that 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).
- The measure required a 55% voter approval and specified accountability requirements for school construction bond measures, including requirements for financial statement and performance audits.



What Is a Performance Audit?

- According to Generally Accepted Government Auditing Standards (GAGAS), “Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria.”
- Performance audits may have more than one overall objective.
- Key categories of performance audit objectives may include the following:
 - Program effectiveness and results audit objectives
 - Internal control audit objectives
 - Compliance audit objectives
 - Prospective analysis audit objectives



Why a Performance Audit?

- Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to:
 - Improve operations
 - Reduce costs
 - Strengthen internal controls
- Performance audits facilitate decision-making by allowing parties with responsibility to oversee or initiate corrective action and contribute to public accountability.
- A capital program performance audit should assess whether an entity is achieving efficiency and effectiveness in the employment of available resources to achieve program compliance, operational, and financial goals.



Bond Program Performance Audit Checklist

- Use of best practices for procurement of contractors and professional services and compliance with public contracting code
- Evaluation of public outreach and communication program
- Evaluation of overall transparency of bond program, including but not limited to, evaluation of bond website information
- Compliance with legal requirements for prevailing wage and labor compliance
- Performance review of independent Citizens Bond Oversight Committee
- Review of current bond program management program and plan
- Evaluation of design and construction timelines, which include benchmarking to industry standards



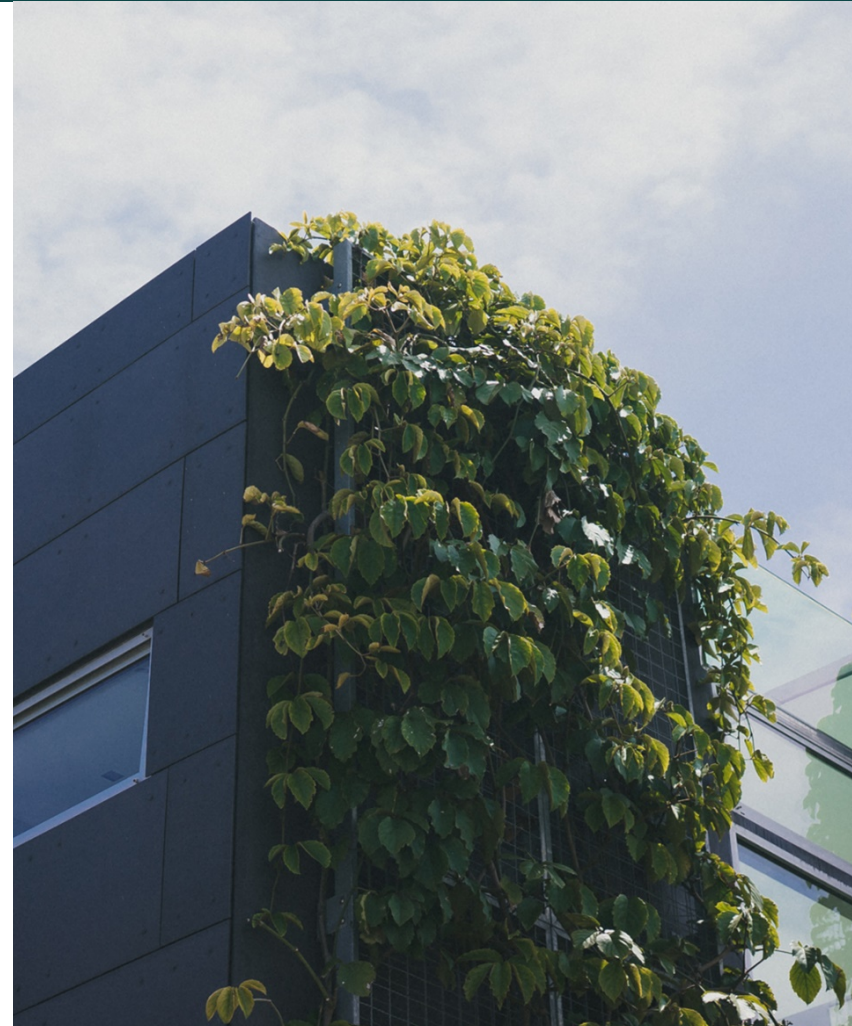
Bond Program Performance Audit Checklist

- Review of project budgets
- Use of best practices and technology for planning and construction of school facilities
- Assessment of payment procedures and payment processing time
- Review of program and construction management structure, including staff and fees
- Evaluation of change order procedures and results, which include benchmarking to industry standards
- Use of construction project delivery methods and performance analysis
- Evaluate compliance with Opinion No. 04-110 which 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.”



Current Situation with Facilities

- Aging facilities and increase in facilities use
- Demographic population shift to the West and Sun Belt states
- Very involved stakeholders
- Statutory requirements (e.g., CA Proposition 39)
- Changing code requirements impacting facilities
- Fluctuating material and labor costs
- Labor shortages and supply chain issues

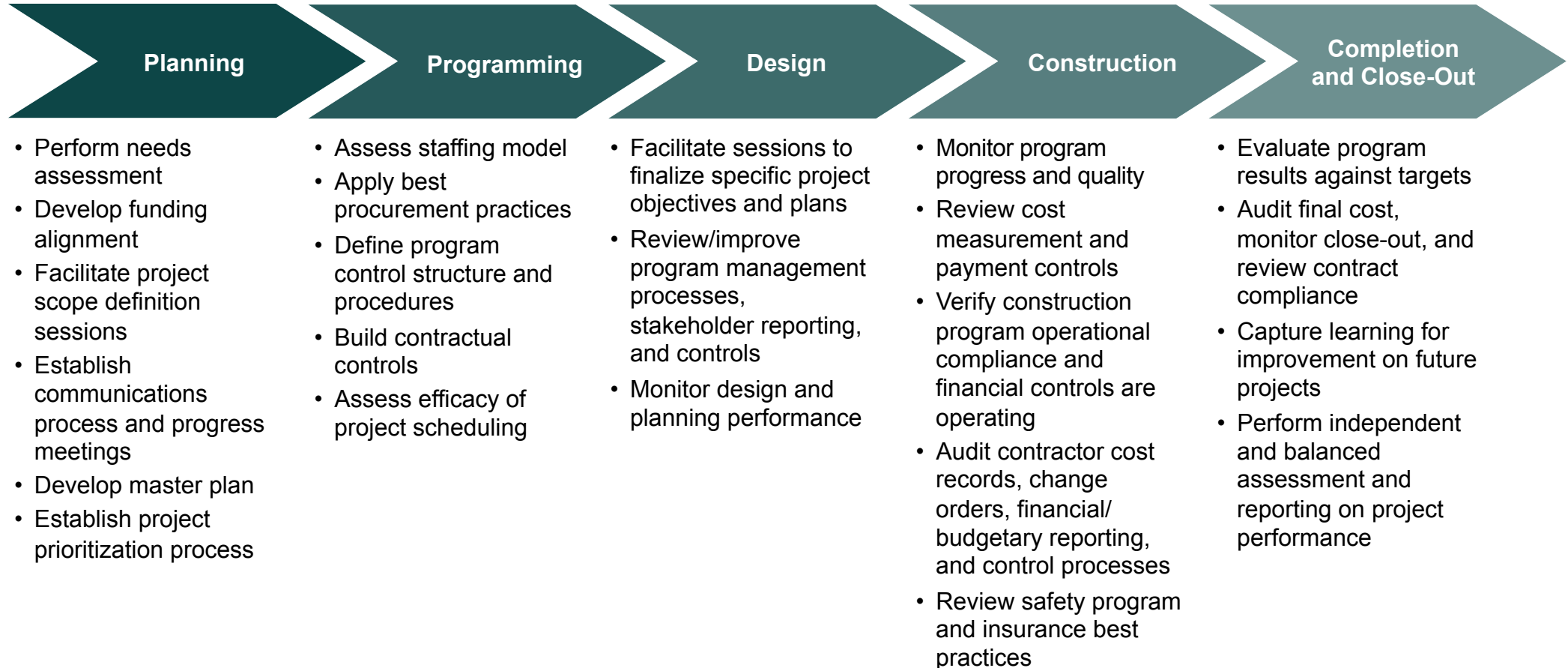


Common K-14 Bond Program Challenges

- **Inadequate master planning controls**
- Excessive requirements and scope creep
- Overcharges and costly practices
- **Inadequate project financial records and reports**
- Project and schedule delays
- Construction quality issues
- Project funding not aligned with project plans
- **Unfavorable contract terms and controls**
- **Excessive change order costs**
- Stakeholder perception issues
- Project staffing
- Capacity of construction companies
- Unfulfilled owner or occupant requirements
- Property and casualty loss
- Claims and disputes



Common K-14 Bond Program Challenges



Bond Program Master Planning

Government Finance Officers Association (GFOA) – Capital Planning Policies

Bond program master planning policies provide an essential framework for managing tasks and assuring that plans are consistent with the Project List and overall organizational goals. Policies should include items such as:

- A description of how stakeholder departments will collaborate
- A description of the role of the public and other external stakeholders in the process
- Identification of how decisions will be made in the planning process, including a structured process for prioritizing needs and allocating limited resources
- Provisions for monitoring and oversight of the bond program, including reporting requirements and how to handle changes and amendments to the plan
- Percent of project completed
- Percent of project budget expended



Bond Program Master Planning

GFOA – Capital Project Monitoring and Reporting

Monitoring and reporting for bond program capital projects should include:

- Percent of project completed
- Percent of project budget expended
- Progress on key project milestones
- Contract status information, including time remaining and percentage used
- Revenue and expenditure activity
- Cash flow and investment maturities
- Funding commitments
- Available appropriation



Bond Program Master Planning

GFOA – Capital Project Monitoring and Reporting

- Comparison of results in relation to established performance measures
- Highlights of significant changes to project scope, costs, schedule, or funding
- To aid in reporting and establish baseline data for performance measures and report components, an annual snapshot of key schedule, cost estimate, and available funding information
- Confirmation of continued availability and appropriateness of revenue sources identified in the capital budget



Contract Types, Strategies, and Controls

Contract Type and Right to Audit Clause

- Lump sum
- Time and materials
- Cost plus
- Cost plus: Guaranteed Maximum Price (GMP)
- Ensure good right-to-audit clause in contract
- Sufficiently clear audit rights to enable efficient and complete auditing of charges
- No audit scope limit
- Require all supporting documents to be available upon request
- Can be a tool for both owners and contractors to increase accountability, transparency, and collaboration



Contract Types, Strategies, and Controls

Change Order Controls

- Typical process:
 - Request for Information (RFI)
 - Change Order Request (COR)
 - Change Order
- Supporting cost documentation required – increases and decreases to Guaranteed Maximum Price (GMP) total
- Understanding scope of change is critical
- Should be approved by owner, architect/engineer (AE), and general contractor (GC)
- Should not pay for subcontractor, GC, and AE errors or damage



Contract Types, Strategies, and Controls

Cost Management Strategies and Controls

Risk	Good Controls
Labor overcharges	Detailed timekeeping documentation of contractor hours worked; actual costs or stipulated max rates
Excessive change order cost	Owner and AE-required approvals to prevent paying for GC errors or in-scope work
Cost management issues and surprises	Detailed documentation for cost estimates from contractor
Excessive rental equipment cost	Cap on total rental payments of 75% of fair market value (FMV)
Excessive contract cost and overpayments	Adequate definition of contract savings clause
Hidden contractor profit center	Detailed definition of acceptable costs listed in General Conditions
Unallowable cost charges	Provision that home office personnel are contractor overhead and not job chargeable
Overbilled subcontractor cost	Detailed supporting documentation submitted with billings from subcontractors
Excessive insurance costs	Stipulated insurance rates in contract



Citizen Bond Oversight Committee (CBOC)

Overview and Best Practices

Education Code 15278:

- (b) The purpose of the citizens' oversight committee shall be to inform the public concerning the expenditure of bond revenues. The citizens' oversight committee shall actively review and report on the proper expenditure of taxpayers' money for school construction. The citizens' oversight committee shall advise the public as to whether a school district or community college district is in compliance with the requirements of paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution. The citizens' oversight committee shall convene to provide oversight for, but not be limited to, both of the following:
 - (1) Ensuring that bond revenues are expended only for the purposes described in paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution.
 - (2) Ensuring that, as prohibited by subparagraph (A) of paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution, no funds are used for any teacher or administrative salaries or other school operating expenses.



CBOC Overview and Best Practices

The Citizens' Bond Oversight Committee may engage in any of the following activities:

- Receiving and reviewing copies of the annual independent performance audit and independent financial audit
- Inspecting school facilities and grounds to ensure bond revenues are expended
- Receiving and reviewing copies of any deferred maintenance proposals or plans developed
- Reviewing efforts by the school or community college district to maximize bond revenues by implementing cost-saving measures, including but not limited to:
 - Mechanisms designed to reduce the costs of professional fees and site preparation by incorporating efficiencies in school site design
 - Recommendations regarding the joint use of core facilities and the use of cost-effective and efficient reusable facility plans



CBOC Overview and Best Practices

Bond Program Request List

- Facilities organizational chart
- Master plan
- Program policies and procedures
- Staffing plan
- Performance tracking
- Expenditure report
- Labor report
- Purchase order log
- CBOC website hyperlink
- Sampled contracts, change orders, expenditures, and labor charges
- Check Register Report



Benefits of an Expanded Performance Audit

- Project economy, efficiency, and cost control
- Prevention of problems and early detection of risks
- Compliance with contract requirements and existing policies and procedures, Public Contracting Code, and Education Code
- Tighter internal controls/project controls
- Reduction in errors and overcharges
- Improved communication
- Evolution toward a culture of continuous improvement
- Protection of stakeholder funds





Questions?

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