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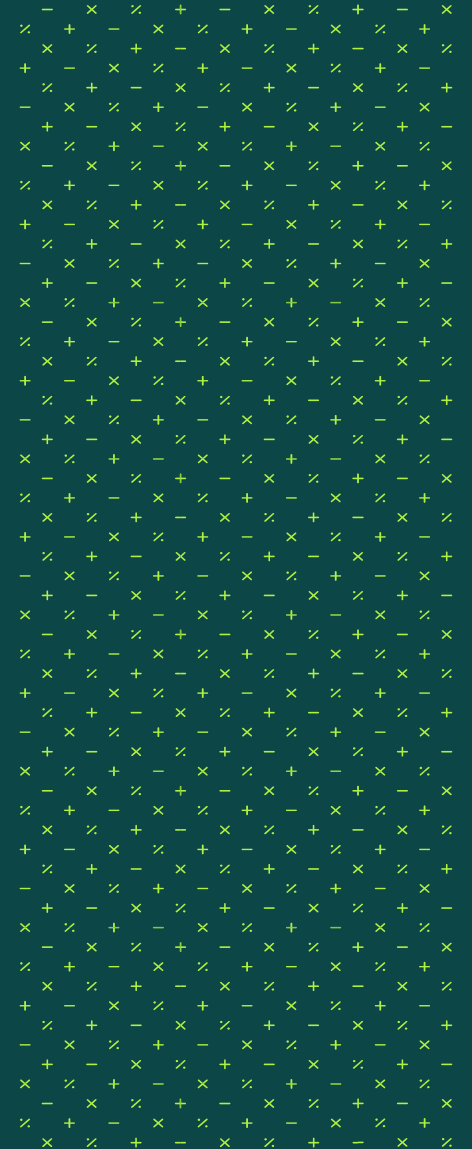
California Association of Bond Oversight Committees (CABOC)

Best Practices for Schools and Oversight Committees

Stephen Bacchetti

Tammy Lohr

Arthur Ngo



Today's Presenters



Stephen Bacchetti

Partner

Capital Projects

stephen.bacchetti@mossadams.com



Tammy Lohr

Senior Manager

K-14 Performance Audits

tammy.lohr@mossadams.com



Arthur Ngo

Senior Manager

Financial Statement Audits

arthur.ngo@mossadams.com



K-14 Team

Capital projects performance
audit practice

- Performs over 75 capital program projects annually, including:
 - Performance audits
 - Capital program assessments
 - 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



K-14 Team

Financial statements

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



Agenda

- Proposition 39 Overview
- What Is a Performance Audit?
- Article XIII A of the California Constitution (i.e., the COC's Toolbox)
- Project Life Cycle
- Best Practices for Comprehensive and Systemic Planning
- Common Contract Types and Delivery Methodologies
- Cost and Budget Management Strategies
- Benefits of an Expanded Performance Audit



California Proposition 39 (Prop 39) Overview

- On November 7, 2000, California voters approved Prop 39 (Smaller Classes, Safer Schools and Financial Accountability Act).
- California State requirements specify that proceeds from the sale of school facility bonds be 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 Government Auditing Standards (GAS), “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 include the following:
 - Program effectiveness and results audit objectives
 - Internal control audit objectives
 - Compliance audit objectives
 - Prospective analysis audit objectives



What Is 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.



Article XIII A of the California Constitution

(i.e., the COC's Toolbox)

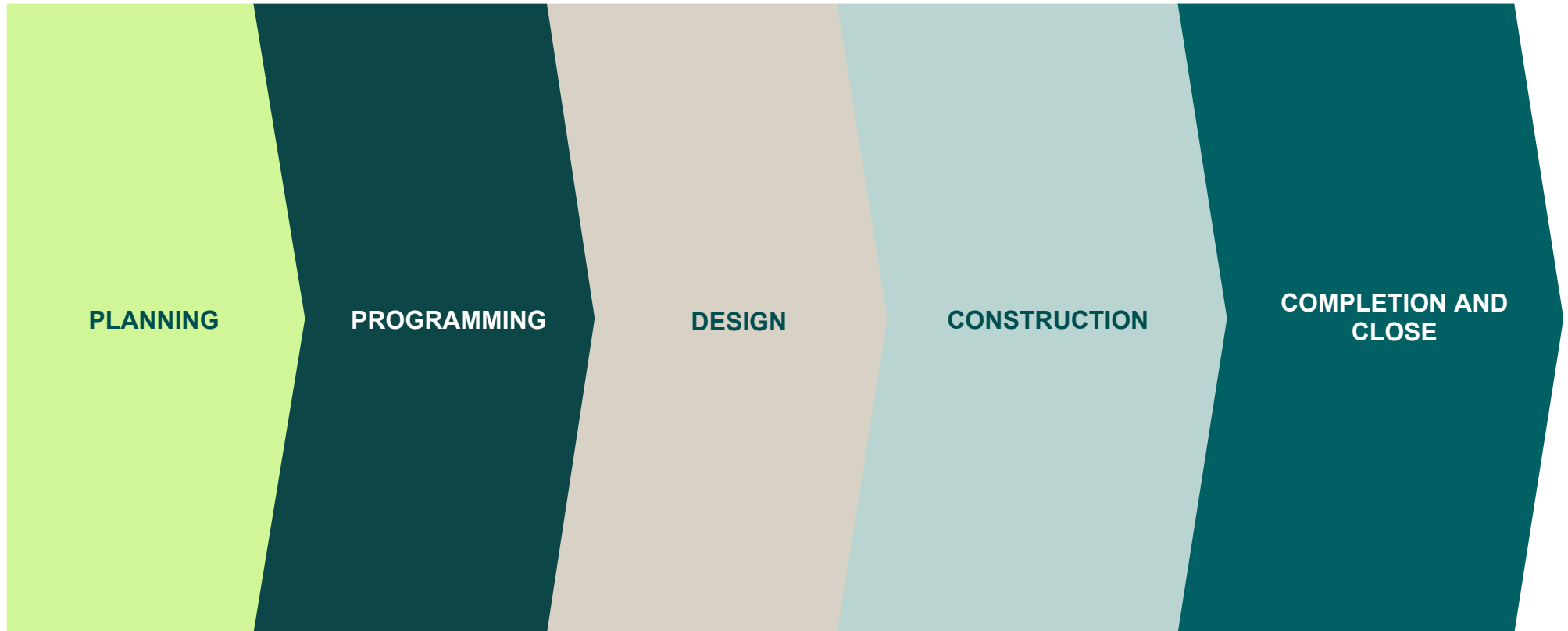
The Citizens' Oversight Committee may engage in any of the following activities:

- 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 or 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



Project Life Cycle

Construction Audits



Project Life Cycle

Planning

Common planning steps include:

- Performing a needs assessment
- Preparing funding alignment
- Facilitating project scope definitions sessions
- Establishing requirements and prioritization schedules
- Establishing communications with process and progress meetings



Project Life Cycle

Programming

Common programming steps include:

- Developing a master plan
 - Establish long-range strategies focused on development and sustainability
 - Broad participation
 - Regular updates are important as needs and conditions change
 - Utilize Capital Improvement Plans to identify present and future needs requiring capital infrastructure
 - Operate for a shorter duration and list the projects and capital programs planned
- Assessing staffing models



Project Life Cycle

Programming

- Applying best procurement practices by establishing a procurement plan and policy to ensure competitive vendor and contractor selections
- Defining program control structure and procedures
- Building contractual controls
- Assessing efficacy of project scheduling



Keys to Success

Leverage technology and track performance:

- Identify relevant data for external and internal stakeholder information needs (e.g., board, management, and project management)
- Determine best practice key performance indicators (KPIs) including, but not limited to, the following:
 - Program and project budget, forecast, commitments, expenditures, schedule, and project status narratives
 - Itemized program and project change order amounts, percentage against original contract values, root cause, and description information
 - Funding sources and cash flow timing



Keys to Success

- Plan and design systems to collect, store, and analyze project data and to report results
- When selecting a system or means to monitor/manage projects, take steps to ensure it will provide the capability to report on projects and programs with minimal manual effort
- Regularly report on project status and activities with appropriate personnel



Common Construction Delivery Methods

- Design-Bid Build
- Multiple Prime
- Design Build
- Lease-Leaseback Contracts
 - Refer to Davis v. Fresno Unified School District (April 27, 2023, S266344) (“Davis II”) for latest ruling
- Construction Management at Risk (CMAR)
- Ensure to work with Bond Counsel and District management complies with Public Contracting Code and policies and procedures



Contract Types



LUMP SUM



TIME AND MATERIALS



COST PLUS



GUARANTEED MAXIMUM PRICE (GMP)



Right-to-Audit Clause

- Confirm appropriate right-to-audit clause in contract
- Ensure audit rights are sufficiently clear to enable efficient and complete auditing of charges
- Require all supporting documents be available upon request
- No audit scope limit



Best Practice Controls

Risk	Controls
Labor overcharges	Detailed timekeeping documentation of contractor hours worked; actual costs or stipulated max rates (vetted)
Excessive change order cost	Owner and AE required approvals to prevent paying for general contractor 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
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 be 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 supported with provider quotes



Change Orders

- The board may authorize the contractor to proceed with performance of the change or alteration, without the formality of securing bids, if the cost agreed upon does not exceed 10% of the original contract.
- Typical processes include:
 - Request for Information (RFI)
 - Change Order Request (COR)
 - Change Order
- Supporting cost documentation is required (increases and decreases to GMP total).
- Understanding scope of change is critical.
- Should be approved by owner, architect/engineer (AE), and general contractor (GC).
- Generally, don't pay for subcontractor/GC/AE errors or damage.



Benefits

- 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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