

WCCUSD
CITIZENS' BOND OVERSIGHT COMMITTEE

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Meeting of March 9, 2020

A) OPENING PROCEDURES

B) CALL TO ORDER/PLEDGE OF ALLEGIANCE

Mr. Gosney called the meeting to order at 6:18 pm.

C) ROLL CALL

Present: Sallie DeWitt, Guadalupe Enllana (arrived 6:22 pm), Don Gosney, Vanessa Hill, Anton Jungherr (arrived 7:11 pm), Cameron Moore, Gregg Visineau

Absent: Lorraine Humes

8 members ~ 5 required for a quorum; a quorum was present.

Staff Present: Luis Freese, Julio Arroyo, Melissa Payne, Margarita Romo (left 8:44 pm)

Board Liaison: Absent

D) APPROVAL OF AGENDA

Ms. Enllana made a motion to approve the agenda, seconded by Ms. DeWitt. Voice Vote: Yes (6), No (0), Abstain (0), Absent (2, Humes, Jungherr). The motion passed.

E) PUBLIC COMMENTS FOR ITEMS NOT ON THE AGENDA

None.

F) TELEPHONE CONFERENCE CALL WITH CHRISTY WHITE TO DISCUSS THE DRAFT FINANCIAL AUDIT

Michael Ash, Audit Partner from Christy White and Associates joined the meeting by phone. He answered questions about the draft financial audit. The questions and answers are attached as Appendix 1.

G) TELEPHONE CONFERENCE CALL WITH MOSS ADAMS TO DISCUSS THE DRAFT PERFORMANCE AUDIT

Stephen Bachetti, Senior Manager and Lawrence Stepovich, Manager from Moss Adams joined the meeting by phone. They answered questions about the draft performance audit. The questions and answers are attached as Appendix 2.

At this point in the meeting, Mr. Jungherr made a motion to delete items K, L, and R from the agenda in the interest of meeting time management, seconded by Ms. DeWitt. After some discussion, Mr. Jungherr withdrew his motion.

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H) AUDIT SCHEDULES (Don Gosney)

Mr. Gosney referred to the audit schedule in the agenda packet.

I) DEBRIEFING AND DISCUSSION OF THE DRAFT FINANCIAL AUDIT

None.

J) DEBRIEFING AND DISCUSSION OF THE DRAFT PERFORMANCE AUDIT

None.

D I S T R I C T R E P O R T S

K) BOND PROGRAM PROJECTS STATUS and FINANCIAL REPORTS (Luis Freese/Melissa Payne)

Mr. Freese and Ms. Payne presented the standard project and financial reports. In response to a question from Mr. Visineau, Mr. Freese explained that the RFQ/P for Lake Elementary was to establish a specification for a school with a 500-550 student enrollment. Ms. Payne highlighted some supplementary cash flow projection items for Report 13, on page 137 of the agenda packet including the following positive variances: (1) increase to the fund balance of \$3.9 million from the under budget close out of the Nystrom and Olinda projects, (2) estimated future savings of \$3.2 million due to revisions of scope to the Highland and Riverside projects, and (3) a \$0.5 million improvement resulting from the elimination of double counting the cost of bond issuance in projected revenue and estimated central costs.

L) BOARD OF EDUCATION LIAISON REPORT (Consuelo Lara)

None.

C B O C R E P O R T S

CONSENT ITEMS

Approved with no objections.

M) ADOPTION OF MINUTES (Cameron Moore)

02.10.20 CBOC Draft Minutes

N) CBOC MEMBER INFORMATION REQUEST LOG (Don Gosney)

03.09.20 CBOC Member Information Requests Status Log

O) APPROVED RECOMMENDATIONS BY THE CBOC (Don Gosney)

03.09.20 CBOC Approved Recommendations

C O M M I T T E E R E P O R T S

P) CHAIRPERSON REPORTS (Don Gosney)

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Mr. Gosney referred to his reports in the agenda packet. He noted that while the results were not yet final, the latest report from the Contra Costa County Elections Division is that Measure R approval was at 56.92%.

**Q) NECESSARY FINANCIAL REPORTS IN THE WORLD OF
BUDGET DEFICITS (Don Gosney)**
A C T I O N I T E M S

Proposed Motion #1: The CBOC shall work with the WCCUSD staff to determine which reports they need on a monthly basis, which they need on a quarterly basis and which they do not need at all.

Proposed Motion #2: In an effort to show solidarity with staff, teachers and other District employees whose jobs will suffer because of the current budget deficit, the CBOC shall authorize staff to provide financial reports with the most current data available at the time but without asking District staff to work overtime.

Mr. Gosney provided background to his proposed motions, and then made a motion to approve proposed motion 1, seconded by Ms. Enllana. Mr. Jungherr discussed the possibility of an amendment to the effect the CBOC would only require reports the District used. Mr. Moore noted that it had been his understanding that we would be voting on Mr. Jungherr's February 2020 meeting proposal to ratify that the District and CBOC had come to agreement on the form and frequency of financial reports, and expressed concern that if we started discussing frequency again, we would not resolve this FAI "high risk" recommendation by June. He provided a handout with proposed amended wording of the motion for review, and made a motion to amend Mr. Gosney's motion with this revision, seconded by Ms. Hill. Mr. Visineau and Ms. Payne made some suggestions regarding additional annual reports, and Mr. Moore agreed to these changes. The final wording of the amended motion:

"The CBOC has worked with the WCCUSD staff to determine which reports they need on a monthly basis, which they need on a quarterly basis, which they need on an annual basis, and which they do not need at all. The reports and their frequency are listed in the table below and shall be in the form presented in the March 9, 2020 CBOC meeting agenda packet and the 2018 CBOC Annual Report.

Report Title	Frequency
Consolidated Budget Status Report (Colbi)	Monthly
Consolidated Budget Status Report – 2016 Master Plan Projects (Colbi)	Monthly
Bond Program Spending to Date by Site (Report #2)	Monthly
Bond Program Financial Status (Report # 13)	Monthly
Financial Impact of Report # 13 Analysis (Report 13A)	Monthly
A/P Check List	Monthly
Bond Program KPI Summary (Report 1)*	Annually, at the January Meeting
Report # 13 A Annual Variance	Annually, at the January Meeting"

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Voice Vote to Approve the Amended Motion: Yes (7), No (0), Abstain (0), Absent (1, Humes). The motion passed.

Mr. Moore indicated that he supported Mr. Gosney's seconded proposed motion, and would vote in favor if Mr. Gosney chose to propose it in the future.

**R) FORENSIC AUDIT INVESTIGATION
IMPLEMENTATION TASK FORCE (Melissa Payne)**

Ms. Payne provided an update on FAI recommendation implementation progress. She also referred to a memo in the agenda packet describing bond refunding opportunities in today's low interest rate environment. Mr. Moore asked staff to remind Dr. Wold to document the decision-making process for a negotiated vs competitively bid transaction.

S) ATTENDANCE REVIEW (Don Gosney)

No discussion.

T) TIMEKEEPING (Anton Jungherr)

No action taken.

U) BOARD POLICY 7214.2 UPDATE (Don Gosney)

No discussion.

V) RESOLUTION 20-1 (Anton Jungherr)

No action taken.

W) CALENDAR (Don Gosney)

No discussion.

X) FUTURE AGENDA TOPICS

Mr. Gosney noted he would be meeting with the District to discuss the agenda for the joint meeting with the Board on March 25. His proposed agenda topics are (1) the 2019 financial audit, (2) the 2019 performance audit, and (3) the role of the CBOC/definition of an independent CBOC.

Y) ADJOURNMENT

Mr. Gosney adjourned the meeting at 9:44 pm.

Submitted by: Cameron M. Moore, Secretary

May 12, 2020

APPENDIX 1: QUESTIONS AND ANSWERS REGARDING THE DRAFT FINANCIAL AUDIT

Note: the questions were provided in advance except as indicated. The answers from the auditor are indicated in italics.

DON GOSNEY

1. Why is the name of Christy White not found anywhere in this Draft Financial Audit Report?

Will be included in the final report and the audit opinion letter.

2. Under Note 3 on Page 11 we're seeing a table showing the interest earned on investments using Measures D and E funds. In this report, is there also a table showing the interest paid during the same time period to the investors that purchased the bonds? If not, why not?

Interest paid is not included within the scope of a standard bond fund financial audit. Interest paid to investors is captured in "Fund 51" which is included in the full District financial statements and audit.

3. Under Compliance and Other Matters on Page 15, the report states "providing an opinion on compliance with these provisions was not an objective of our audit". To a lay observer, they might look at a financial audit with the hope to learn that the District is in compliance. Why was this not an objective? Is this a standard accounting practice?

This is standard language used in accordance with government auditing standards. There will be a transmittal communication/ letter to the Board that captures the intent in plainer English.

GREGG VISINEAU (not provided in advance)

1. In Note 6, what are "Other Building Funds"?

Ask the District for specifics of what is contained in these other funds, but it is not atypical for Districts to have them.

2. In the last column, is "District Audit – Building Fund" intended to convey District Audit minus Building Fund?

No, simply a hyphen.

APPENDIX 2: QUESTIONS AND ANSWERS REGARDING THE DRAFT PERFORMANCE AUDIT

Note: the questions were provided in advance except as indicated. The answers from the auditor are indicated in italics.

CAMERON 'MAC' MOORE

1. Prop 39 Compliance: Part of the reason for conducting a performance audit is to help make the determination that funds were not used for operating expenses: "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."

The CBOC and the public look to the performance audit to provide guidance on this issue. In the current report, as with past reports, the executive summary alludes but does not make a clear statement on this requirement (see paragraph 3, executive summary). The report would be enhanced if it included a simple declarative statement that this basic Prop 39 requirement was met, not met, or that it could not be determined whether the requirement was met.

The auditors indicated that they felt that the language in paragraphs 2 and 3 of the executive summary were clear enough and did not warrant change.

2. Staff Time Allocation Documentation System: In the CBOC-Moss Adams conference call of February 10, there was a discussion regarding evaluating the implementation of the staff time allocation system beyond the June 30, 2019 audit closing date, given the importance of the subject. It appears this has not been done. Why not?

This question prompted an extensive discussion. Moss Adams did propose additional scope of work to cover an evaluation post the audit closing date, but the District decided it would be better reviewed in the 2020 audit. It was clarified that the time study and percentage allocations of staff time to Bond and non-Bond funds completed in June 2019 was for budgeting purposes, and was not intended to be the method for determining Prop 39 compliance. Daily timekeeping is now the norm, but the system for doing so is evolving. For hourly employees, it's relatively simple. However, for salaried employees that work more than 8 hours a day, the system is more complex. The District has settled on a daily percentage of work method for salaried employees. Moss Adams indicated that the District was on the right track.

3. Reporting Views of Responsible Officials: There are a number of observations (such as 10, 11, 13b, 13c, 15, 16) where in its Management Response the District notes that it has addressed previous audit recommendations in the draft Bond Program Management Plan (BPMP) and Moss Adams states "The District has not taken steps..." in the Status of Resolution comments. There are a number of other observations (such as 3a, 4a, 5, 6a, 8, 13a, 14, 22a) where in the Management Response the District notes that it has addressed previous audit recommendations in the draft BPMP and Moss Adams states "The District has taken steps...", referencing the draft BPMP. What was the evidence, or lack thereof, that determined this distinction?

It would make the report clearer if in the first case the District added "...after the 6/30/2019 closing date of the audit period." to its Management Response and Moss

Adams added "...had not taken steps within the 7/1/2018 – 6/30/2019 audit period." to the Status of Resolution. Otherwise the syntax and tenses used imply that Moss Adams disputes the District claim as of the release date of the report.

Moss Adams and the District will review and consider making changes to the language in the table.

Noting that his remaining questions were for the District and not Moss Adams, Mr. Moore ended his questioning in the interest of time.

DON GOSNEY

1. On the third page of the Executive Summary, we read: "The District should support or validate the reported amounts within the Bond Program Spending to Date by Site, Data..." Can Moss Adams please provide details explaining how this should be supported or validated?

The District did not provide documentation to support a couple of items in the "Other Revenue" category.

2. For Moss Adams and Staff: One of the loudest complaints heard by community members against the Bond Program is that ALL of the projects went over budget. This leads to the question posed near the top of Page 13: "Who prepares detailed budgets?". If the budget that is put before the Board and public is less than accurate, then why should it be held up as the gold standard when the cost of the project exceeds the approved budget? Many of the Bond Program projects have been delayed dramatically due to community filed lawsuits or situations that could not be foreseen when the budget was drafted (black mold, asbestos, dry rot, underground fuel storage tanks that were not on any parcel plans, sliding hillsides).

Moss Adams has some best practice budgeting templates. They suggested considering a workshop on budgeting prior to the next bond issue. Ms. DeWitt stated that while any project has unforeseen issues that can raise costs, where she remains critical of the District is that she has not observed overall budget management, that is if costs go up in one area of the budget, cuts are made to other areas to keep the overall budget in line.

3. For Moss Adams and Staff: Observation 3b on Page 13 says that the District is unable to support or validate Bond Program spending by site. Is this a case where the District can't find the files verifying the expenditures or is this a case where the District won't provide the correct and verifiable data? In either case, what is being done since the end of this audit period to correct this problem of 'missing funds'?

Moss Adams noted some variances in Report 2. Ms. Payne stated that a part of the issue was timing: Moss Adams was provided the preliminary closing report, as the final closing report was not completed. She also noted that the individual who prepared the report is no longer doing so.

4. For Moss Adams and Staff: Observation No. 20 on Page 30 says: "The District no longer tracks local participation and instead relies on construction firms to comply with these requirements." Without casting aspersions on any contractor used by the District, when this requirement is left in the hands of the contractors, it's not much different than when a used car salesman tells a customer "Trust me". Contractors are notorious for bypassing local hire agreements and prevailing wage requirements. As President Reagan was fond of saying: "Trust, but verify."

Without the financial and ‘boots on the ground’ support of the Building Trades affiliates, neither of these bonds would have had the campaign financing to have passed. Local hire and PLA agreements were a requirement for the Building Trades support. For the District to break that trust will be an insult to this community. The PLANNED RESOLUTION DATE on Page 44 says that this will be resolved by Spring of 2020 but fails to explain how it will be dealt with.

Ms. Payne stated that contractors are responsible for providing certified payroll reports to the state Department of Industrial Relations and she noted they do so under penalty of perjury, providing them strong incentive for accuracy. The District investigated third party verification but it was prohibitively expensive. She referred members to page 104 of the agenda packet, which notes strong local hire figures by the contractor for Michelle Obama School. She also indicated that the District was revising the BPMP to strengthen provisions regarding local participation tracking.

5. For Moss Adams and Staff: Observation 22b on Page 32 opines “The District has not taken steps to address Transparency of Bond Program recommendation (Moss Adams 2017 and 2018 reports-Objective No. 22). Consistent with the prior year, the CBOC website lacked readily available benchmark information.” This is NOT a new problem and continues to this day. The CBOC has offered to help maintain the CBOC web site but their offers have been vehemently rebuffed by senior staff. As the CBOC Chair, I routinely receive complaints that members of the community cannot find items on the CBOC web site or that links on the site are either dead or take the viewer to the wrong place.

Ms. Payne stated that the District is working on website maintenance, updating links etc. but that the staff member working on this has been out so progress has been slower.

6. For Moss Adams and Staff: As a continuation of Observation 23b on Page 33, the CBOC would like to join with Moss Adams as loudly and as forcefully as we can: “Additionally, as of June 30, 2019, the Bond Oversight Committee had vacancies. As a best practice, the District should evaluate communications options (i.e., appropriate communication channels) to ensure no vacancies within the CBOC consistent with the SDCTA guidance.”

No additional comment.

7. Observation 22c on Page 33 discusses efforts by the District to communicate with the community about the Bond Program. With the exception of the District’s web site (considered something of a joke for the user’s inability to find what they’re looking for) and a Facebook page that only a select few knows even existed, any other efforts made by the District have been extremely amateurish and inadequate. With a quarter of a million residents in the District, reaching out to a few dozen should never be considered a success. One of the bigger problems with the outreach is the failure/refusal to listen to members of the community that can help in this regard.

Moss Adams indicated that what they are looking for is a District plan, and evidence the District is following the plan.

8. During the interviews included in this audit, I got the feeling that the effectiveness of the Bond Oversight Committee was outside of the scope of your audit. Is this correct? With previous auditors this was an integral part of the audit but with these recent audits this

does not seem to be a consideration. Is this normal or has your scope been narrowed to exclude this as a consideration of the Bond Program operations?

Moss Adams indicated they were open to suggestions on how to better review the effectiveness of the CBOC in future audits.

GREGG VISINEAU

1. Preface from GV: with reference to paragraph 3 on the first page of the Executive Summary: The District remains out-of-compliance with Proposition 39, being “unable to demonstrate that District labor charges were accurately and completely identified as Bond Program costs with timekeeping records”. This remains extremely disturbing to me. This is the third consecutive Bond Program Performance Audit which has found the District out-of-compliance with this legal requirement of Proposition 39. The CBOC has reported this in each of its previous two Annual Reports and will do so again for its 2019 Annual Report.

The District has been aware of this non-compliance for three-years and could only produce scant documentation covering the period June 3, 2019 to June 28, 2019. This is not at all unlike the time study allocations provided in years past. The exposure to the bond program from potential financial mismanagement – misallocating General Fund labor costs to the Bond Fund, without proper cause or justification – is well known and has been communicated multiple times from the CBOC to both the District and the Board.

Questions from GV: For all of the Proposition 39 Compliance Audits performed by Moss Adams over the past 3-years, what percentage has been reported as non-compliant with respect to this labor cost requirement? Does Moss Adams have a “best practice” in this area?

This topic was previously discussed, and so Mr. Visineau withdrew his question.

2. Preface from GV: with reference to the first bullet on the top of the second page of the Executive Summary: “A formal update to the Bond Program master plan was presented to the Board on May 22, 2019, including updates to key projects, cash flow expectations, and more.” The District has provided these “formal updates” every year in May. However, by no stretch of the imagination – as far as my own personal experience is concerned with respect to annual Strategic Updates to a five-year Strategic Plan – is this any more than a perfunctory annual status report. The phraseology “updates to key projects”, “cash flow expectations”, and “and more” is rather vague. A true strategic update is usually much more pinpointed.

Questions from GV: Did Moss Adams look for any evidence that this May 22, 2019 update addressed key strategic elements such as

- risk analysis, scenario planning or simple sensitivities?
- Changes in actual and projected construction cost escalation since the original Long-Range Facilities Master Plan (the FMP) was delivered in July 2016?
- Changes in actual or projected demographics across West County, either from overall population changes or the impact of charter schools, since the 2016 FMP?

If those types of strategic elements were evidenced, how? If not, then perhaps the District plans to consider them in future “formal updates”? Does Moss Adams have a “best practice” in this area?

Moss Adams does not have any specific best practices for the annual update to the facilities master plan. They referred to Observation 6(a) recommending establishing formal procedures for master planning, and stated that an article recently published by the California School Board Association had some good information about best practices.

3. Preface from GV: with reference to the first and second paragraphs on the second page of the Executive Summary, beginning immediately below the fourth bullet at the top:
 - In my personal opinion, these two paragraphs comprise the crux of the Audit Report for improving the District’s financial management of its bond program. The first referenced paragraph says, in essence:
 - The District fully addressed only 2 of the FY2018 audit report’s 25 improvement recommendations.
 - The District took no steps to address 9 of the FY2018 audit report’s 25 improvement recommendations.
 - The District took only partial steps to address 14 of the FY2018 audit report’s 25 improvement recommendations.
 - And there were 5 brand new improvement recommendations for FY2019 v FY2018.
 - That leaves the District with 28 improvement recommendations to address – as they have scheduled themselves in “Reporting Views of Responsible Officials”, beginning on Page 34 of the Audit Report – between February 2020 and July 2020.
 - I recall that, for the FY2018’s improvement recommendations, all were to be completed by the end of FY2019. That objective was clearly not met. In fact, the District has “progressed” in its performance audit objectives as follows:
 - FY2017: 21 improvement objectives (if memory serves me right, which it might not!).
 - FY2018: 25 net improvement objectives (as mentioned above).
 - FY2019: 28 net improvement objectives (also as mentioned above).

This first referenced paragraph ends with: “Of the 28 open recommendations, 12 relate to policies and procedures development and implementation”. [My emphasis]

The second referenced paragraph includes: “The majority of the opportunities for improvement are related to the District not having formalized and Board-approved policies and procedures”. [Again, my emphasis]

Questions from GV: If 12 of the 28 improvement recommendations relate to policies and procedures, how does that comprise a majority of the opportunities for improvement? The implication is that the BPMP’s work product will resolve the majority of the opportunities for improvement: Is that the Auditor’s intent with this statement in the Executive Summary?

The second referenced paragraph also uses the phrases “significant strides” and “significant progress” to describe the BPMP’s work product. But then it says, “However, documentation was still in draft and not yet formalized and approved”.

Moss Adams stated the District is making progress, and different school districts go at different paces in resolving outstanding observations. Ms. Hill made the observation that expectations for implementing recommendations should have been low. The recommendation to obtain external support for developing written policies and procedures was provided in the FY 2018 performance audit delivered in March 2019. Swinerton was placed under contract in May 2019. The FY 2019 performance audit closing date was June 30 2019.

4. When the Audit Report refers to “policies and procedures development and implementation”, where on earth in the BPMP does it refer to assuring effective implementation? I.e., where does it talk about “operationalizing” its documentation (which is still in draft and not yet formalized and approved)? If does address the implementation piece of “development and implementation”, do the Auditors have an opinion on its potential for being effective? For being measurable? For being tested and reported out? For assuring continuous improvement? And for reporting out meaningful and believable verification to the general public?

Does Moss Adams have a “best practice” (or set of best practices) for assessing not just “policies and procedures development”, but also the ongoing, effective implementation of said policies and procedures?

Yes, when the written policies and procedures are completed they can be tested to determine whether they are being implemented.

5. Preface from GV: with reference to the final paragraph on the fourth page of the Executive Summary, which spills over to the top of the fifth page of the Executive Summary:

“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 the degree of compliance with the procedures may deteriorate”. [My emphasis]

The 2016 Forensic Accounting Investigation (the FAI) strongly recommended the creation and filling of an independent Director of Internal Audit position to deal with just this issue (among many others identified in the FAI’s 112 recommendations). That position has now been empty since June (or July?) 2019 and will apparently not be filled any time soon.

Questions from GV: Does Moss Adams have a “best practice” for how management can exercise that responsibility for the proper implementation and operation of an adequate internal control system in the absence of an independent Director of Internal Audit?

I personally confess to having grave concern about the “management” responsible for assuring an “adequate internal control system” being the same “management” which is operating under those internal controls and testing of same. I.e., Does Moss Adams have a professional opinion about having an internal auditor working for the District organization which is being audited?

Management runs the operation and needs to make the call and be responsible for the internal control systems. An external auditor such as Moss Adams can validate these systems.

6. Has Moss Adams been approached by the District for a proposal to extend its currently-expiring 3-year contract (for FY2017-2019 Performance Audits) to FY2020 and possibly beyond? The District automatically extended Christy White Associates' then-expiring 3-year contract for Bond Fund Financial Audits by an additional 3-years without re-entering the marketplace at that time.

Does Moss Adams know if the District intends to re-enter the marketplace now (or anytime soon) for its next Performance Audit Contract, beginning with FY2020?

Does Moss Adams know if the District even plans to conduct full-fledged Bond Program Performance Audits (as recently recommended to the Board by the CBOC) beginning with FY2020? Or if it plans to revert to conducting only Proposition 39 Compliance Audits in future?

The District has not started the contracting process yet.