FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

Los Angeles County Office of Education

Extraordinary Audit of the Montebello Unifed School District

October 11, 2018

Michael H. Fine
Chief Executive Officer



October 11, 2018

Debra Duardo, Superintendent
Los Angeles County Office of Education
900 Imperial Highway
Downey, CA 990242

Dear Superintendent Duardo:

In January 2018, the Los Angeles County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to conduct an AB 139 Extraordinary Audit of the Montebello Unified School District in accordance with Education Code Section 1241.5 (b). The county superintendent became concerned about findings in multiple audit reports, including one from the state auditor's office, citing potential misuse of bond funds and increased levels of risk for fraud in the district. Details of these audit reports provided the county superintendent with reason to believe that fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

The county office requested that FCMAT review the expenditures, oversight, conflict of interest and performance reporting related to the 2004 Measure M and 2016 Measure GS bond programs. The period under review includes fiscal years 2013-14 through March 2017-18; however, the team found it necessary to review all bonds relating to expenditures recorded during the review period to ensure that a complete analysis of the use of bond proceeds was conducted.

The review results are intended to provide reasonable, but not absolute assurance regarding the accuracy of the district's financial transactions. The study agreement states that FCMAT will perform the following:

1. Evaluate the establishment, implementation and effectiveness of policies and procedures and internal control activities.

2. Review a sample selection of financial transactions and documentation recorded by the district related to the use of bond funds including those for employee compensation; expenditures; conflict of interest; oversight responsibilities and performance reporting.

Specific audit objectives are outlined in the study agreement in the document attached as Appendix E to this report.

This report contains the study team's findings and recommendations.

We appreciate the opportunity to serve you and we extend thanks to all the staff of the Los Angeles County Office of Education and the Montebello Unified School District for their cooperation and assistance during fieldwork.

Sincerely,

Michael H. Fine
Chief Executive Officer

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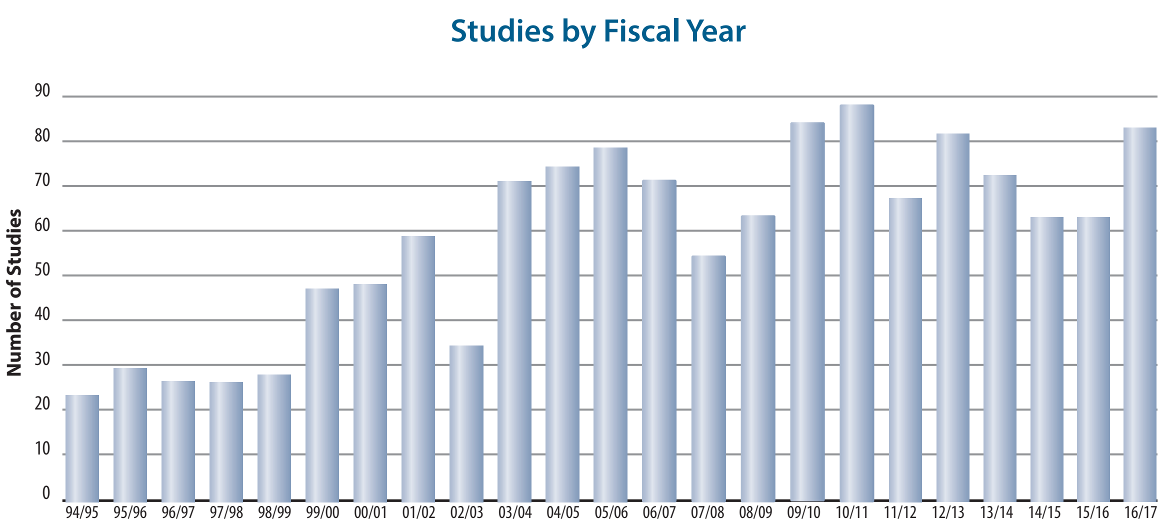
About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the LEA to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms.



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, Senate Bill 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

The Montebello Unified School District is located in Los Angeles County and serves approximately 27,000 students in grades K-12. The district serves students in the city of Montebello as well as portions of Bell Gardens, Commerce, Downey, Monterey Park, Pico Rivera and Rosemead and a part of the unincorporated community of East Los Angeles. The district, which is approximately 80% Hispanic or Latino, covers 8.33 square miles and, according to the city of Montebello, had approximately 64,000 residents as of July 2015.

Over the last several years, the district has struggled with tumultuous relationships involving the district administration, governing board members and external parties. The district has modified its leadership model several times over the last decade, at times operating under a co-superintendent model. In June 2015, the district dismantled the co-superintendent model, appointing one member to lead the district as superintendent and the other as chief financial and operations officer. At this same time, the longstanding assistant superintendent of business services vacated the position, and the district restructured it by creating a chief business official (CBO) position, hiring an individual with questionable experience and background. The cohesiveness of this new administrative team failed to solidify because of increasing concerns about the new CBO's practices.

In November 2016, after a period of administrative review, the governing board terminated contracts with the superintendent and former chief financial and operations officer, both of whom were longstanding administrative leaders. In March 2017, the CBO was terminated. During and subsequent to these releases, many key business management positions were also vacated, further eroding the district's institutional knowledge. The governing board appointed the assistant superintendent of instructional services to also serve as interim superintendent until April 2017, when they appointed him as superintendent. As of FCMAT's fieldwork, the superintendent also served as the district's CBO and continued his role overseeing instructional services.

The district engaged the service of Vasquez & Company LLP to complete its independent audit for the period ending June 30, 2016. On December 1, 2016 the first of three letters were sent to the governing board citing concerns about the high turnover in administrative leadership and key financial management positions and allegations of impropriety. The first letter requested a closed session meeting with the governing board, but was reportedly ignored. The second letter, dated December 9, 2016, just before the deadline to file independent audit reports with the state, warned the governing board of the potential delays or inability to complete the audit because of the district management's actions, but this document was also reportedly ignored. Representatives of the firm hand-delivered a third letter to the governing board indicating the district's risk for fraud, related party transactions and questionable competitive procurements had been reassessed and modified to the high-risk category. The district subsequently terminated services with this firm before completion of the 2015-16 audit.

The district later engaged the services of Christy White and Associates to complete the audit for 2015-16. The published report raised similar concerns about significant deficiencies in internal control, potential for fraud, weaknesses in accounting procedures for bond funds and deficiencies in bid procedures. This auditor's report was dated May 31, 2017.

During the development of the district's 2016-17 adopted budget, concerns arose regarding the district's fiscal health. As part of the district's adopted budget process, the Los Angeles County Office of Education required it to prepare a fiscal stabilization plan identifying actions that would be taken to mitigate its fiscal shortfall. While a plan was developed, FCMAT could not confirm the degree to which discussion and communication between the administration and the governing board of its content took place, or formal action by the governing board. The district's 2016-17 first interim financial report, adopted in December 2017, was certified as qualified, prompting the county office to assign a fiscal advisor to oversee the district's fiscal operations and assist in fiscal recovery.

In February 2017, while the district struggled with a $30 million dollar deficit, three legislative representatives requested the California Joint Legislative Audit Committee to conduct an independent audit of the district's fiscal condition.

The county office became increasingly concerned with the district's administration of bond proceeds, which was further exacerbated by increased public scrutiny over the district's administrative leadership and fiscal health. Each of the investigative and independent audits conducted by external parties cited material weaknesses in internal controls, increased risk for fraud, lack of proper oversight and potential misuse of bond funds. Assertions about potential misuse of bond funds include the following:

- Lack of appropriate oversight over bond funds.
- Lack of compliance with bond oversight requirements including failure to maintain the bond oversight committee and comply with meeting and reporting requirements.
- Failure to ensure lack of conflicts of interest between those party to executing contracts and approving bond fund expenditures.
- Unsubstantiated use of bond funds for salary and benefit expenditures of the district.
- Destruction of documents.

Additionally, an active investigation has been launched by the Securities and Exchange Commission (SEC).

In January 2018, the county office requested that FCMAT assist the county office by conducting an Assembly Bill (AB) 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal fiscal activities may have occurred at the Montebello Unified School District.

Study Guidelines (AB 139 Audit Authority)

Education Code Section 1241.5(b) permits a county superintendent of schools to review or audit the expenditures and internal controls of any county school district if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. On completion of the investigation, if evidence exists that fraud or misappropriation of funds may have occurred, Education Code Section 42638(b) states, "…the county superintendent shall notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney."

The purpose of this review is to determine if sufficient documentation exists to support the assertion that fraud, misappropriation of funds or other illegal fiscal practices may have occurred that should be reported to the local district attorney's office for further investigation by law enforcement.

Based on the allegations and information provided, the county office asked FCMAT to provide for the assignment of professionals to conduct an AB 139 extraordinary audit under the provisions of Education Code Section 1241.5(b). FCMAT and the county office entered into an agreement for these services on January 3, 2018. As part of the review, FCMAT interviewed district management, staff and board members, and reviewed documents to determine if fraud, misappropriation of funds or other illegal fiscal practices may have occurred that warrant further investigation by the local district attorney's office.

FCMAT visited the district on April 10-12 to conduct interviews, collect data and review documents. This report is the result of those activities.

In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

Study Team

The study team was composed of the following members:

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*As a member of this study team, this consultant was not representing her employer but was working solely as an independent contractor for FCMAT.

Each team member reviewed the draft report to confirm accuracy and achieve consensus on the final recommendations.

Scope, Procedures and Fieldwork

Fraud audits have many components including fieldwork, obtaining and examining available original source documents; when possible corroborating documents and information through third-party sources; interviewing potential witnesses, gaining an understanding of internal controls applicable to the scope of the fieldwork; and assessing factors such as intent, capability, opportunity, and possible pressures or motives. The fraud audit is conducted based on the team's experience and judgment.

Although there are many different types of fraud, occupational fraud, including asset misappropriation and corruption, may occur when employees are in positions of trust and have access to assets. Embezzlement occurs when someone who is lawfully entrusted with property takes it for his or her personal use. Common elements in all fraud include the following:

- Intent, or knowingly committing a wrongful act
- Misrepresentation to accomplish the act
- Reliance on weaknesses in the internal control structure
- Concealment to hide the act

The focus of this review is to determine, and report to the district and county office, whether the district has adequate management controls for reporting and monitoring financial transactions and whether fraud, misappropriation of funds or other illegal fiscal activities may have occurred during the period under review.

Procedures

To accomplish this review's objectives, several testing and analytical procedures were developed to provide an analysis and understanding of the allegations and potential outcomes. FCMAT reviewed, analyzed and tested business records including cash disbursements, general ledger activity, vendor payment history, financial reports including disclosures made to the bond market and sample ballots for each bond measure, board policy and administrative regulations, board meeting minutes, bid documents, contracts, County of Los Angeles election and tax records, and other relevant documents.

The district's detailed general ledger, warrant register and other reports containing detailed transaction data for the 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 (through March 14, 2018) fiscal years were exported from the PeopleSoft financial system, and obtained directly from the county office. Specific and randomly selected disbursement checks from the accounting reports were identified, and supporting documentation was requested and examined. FCMAT also obtained detailed payroll exports from the district's human resources/payroll system and conducted a review of employee payments charged to the district's building fund.

Fieldwork

Fieldwork consists of gathering information and documentation pertaining to specific allegations; establishing an audit plan, interviewing potential witnesses and assembling evidence from internal and external sources; performing various audit procedures to determine whether fraud may have occurred; evaluating the loss associated with the alleged fraud; and determining who was involved and how it may have occurred.

FCMAT visited the district on April 10-12 to conduct interviews, collect data and review documents. The team interviewed district board members, current administrative personnel, business office staff, and a representative from the Citizens' Bond Oversight Committee (CBOC) to obtain information related to general business practices and events that transpired during the period under review, including potential financial mismanagement, abuse or fraud. During interviews, FCMAT asked questions about the allegations; policies and procedures; transactions and activities; authorization levels; job duties; and the internal control structure including control activities and lines of authority and oversight of district business activities. Open-ended questions were designed to elicit information about other possible irregularities regarding the scope of the engagement.

The team's work focused on determining the presence of sufficient evidence to indicate that fraud or misappropriation of bond funds may have transpired. To investigate the allegations, the team evaluated policies, procedures and other internal control activities and tested transactions recorded by the district to verify the compliance and effectiveness of those controls. Sample testing and examination results are intended to provide reasonable but not absolute assurance on the accuracy of the transactions and financial activity and/or identify if fraud, misappropriation of funds or other illegal fiscal practices may have taken place during the period under review. Testing procedures and noted exceptions are detailed in the substantive testing section of this report.

Definitions

Fraud

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts. Occupational fraud and abuse is defined as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets." (Corporate Fraud Handbook, Prevention and Detection, 2nd Ed., 2007, by Joseph T. Wells).

Occupational Fraud

Occupational fraud includes asset misappropriation, corruption, and fraudulent financial statements. Occupational fraud occurs when an organization's owners, executives, managers or employees use their occupation to deliberately misuse or misapply the employer's resources or assets for personal benefit. The three main types of occupational fraud are asset misappropriation, corruption, and financial statement fraud.

Asset misappropriation includes cash skimming; falsifying expense reports, payroll, accounts payable, or inventory documents, and/or forging company checks. Corruption schemes involve one or more employees using their influence in business transactions to obtain a personal benefit that violates their duty to the employer or the organization; conflicts of interest fall into this category. Financial statement fraud includes the intentional misstatement or omission of material information in financial reports.

Occupational fraud is one of the most difficult types of fraud and abuse to detect. However, the most common method of detection is receiving tips from employees, customers, and anonymous sources; this accounts for 40% of all fraud detection. According to the 2018 "Report to the Nations on Occupational Fraud and Abuse prepared by the Association of Certified Fraud Examiners, Inc. (ACFE)", corruption schemes for governmental entities accounted for 38% of occupational fraud cases reported, with a median loss of $250,000.

Survey responses in the above-mentioned ACFE report indicate that in 30% of all cases, "a simple lack of controls was the main factor that enabled the fraud to occur, while another 19% of cases occurred because the perpetrator was able to override the controls that had been put in place."

Internal Control

The accounting industry defines the term "internal control" as it applies to organizations, including school agencies as follows:

> …a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. [the Committee of Sponsoring Organizations of the Treadway Commission - May 2013]

The reference to achievement of objectives fundamentally refers to an organization's work of planning, organizing, directing, and performing routine tasks relative to operations, and monitoring performance.

An organization establishes control over its operations by setting goals, objectives, budgets and performance expectations. Several factors influence internal control effectiveness, including the social environment and how it affects employees' behavior, the availability and quality of information used to monitor the organization's operations, and the policies and procedures that guide the organization. Internal control helps an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, producing reliable financial reports, and ensuring compliance with applicable laws and regulations.

Internal control is the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal control provides reasonable assurance that operations are effective and efficient, the financial information produced is reliable, and the organization complies with all applicable laws and regulations.

Internal control provides the framework for an effective fraud prevention program. An effective internal control structure includes the board policy and administrative regulations established by the governing board and operational procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees. The five integrated components of internal control and their summarized characteristics are included in the table below.

Internal Control Component	Characteristics
Control Environment	The set of standards, processes and structures providing the basis for carrying out internal control across an organization. Comprises the integrity and ethical values of the organization. Commonly referred to as the moral tone of the organization, the control environment includes a code of ethical conduct; policies for ethics, hiring and promotion guidelines; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations.
Risk Assessment	Identification and assessment of potential events that adversely affect the achievement of the organization's objectives and the development of strategies to react in a timely manner.
Control Activities	Actions established by policies and procedures to enforce the governing board's directives. These include actions by management to prevent and identify misuse of the district's assets, including preventing employees from overriding controls in the system.
Information and Communication	Ensures that employees receive information regarding policies and procedures and understand their responsibility for internal control. Provides opportunity to discuss ethical dilemmas. Establishes clear means of communication within an organization to report suspected violations.
Monitoring Activities	Ongoing monitoring to ascertain that all components of internal control are present and functioning, ensures deficiencies are evaluated and corrective actions are implemented.

The five components of internal control are supported by 17 underlying principles that help ensure an entity achieves effective internal control. Each of the five components listed above and their relative principles must be present and functioning in an integrated manner to be effective. An effective system of internal control can provide reasonable but not absolute assurance that the organization will achieve its objectives.

Control Environment

The internal control environment establishes the organization's moral tone. Though intangible, it begins with the leadership and consists of employees' perception of the ethical conduct displayed by the governing board and executive management.

The control environment is a prerequisite that enables other components of internal control to be effective in achieving the goals and objectives to prevent and/or deter fraud or illegal acts. It sets the tone for the organization, provides discipline and control, and includes factors such as integrity, ethical values and competence of employees.

The control environment can be weakened significantly by a lack of experience in financial management and/or comprehension of internal control.

Control Activities

Control activities are a fundamental element of internal control and are a direct result of policies and procedures designed to prevent and detect misuse of a district's assets, including preventing any employee from overriding system controls. Transaction control activities are implemented to reduce the risk in specific business processes. Examples of control and transaction control activities include the following:

1. Performance reviews, which compare actual data with expectations. In accounting and business offices, this most often occurs when budgeted amounts are compared with actual expenditures to identify variances, and followed up with budget transfers to prevent overspending.

2. Information processing, which includes the approvals, authorizations, verifications and reconciliations necessary to ensure that transactions are valid, complete and accurate.

3. Physical controls, which are the processes and procedures designed to safeguard and secure assets and records.

4. Supervisory controls, which assess whether the transaction control activities performed are accurate and in accordance with established policies and procedures.

5. Segregation of duties, which consists of processes and procedures that ensure that no employee or group is placed in a position to be able to commit and conceal errors or fraud in the normal course of duties. In general, segregation of duties includes separating the custody of assets, the authorization or approval of transactions affecting those assets, the recording or reporting of related transactions, and the execution of the transactions. Adequate segregation of duties reduces the likelihood that errors will remain undetected by providing for separate processing by different individuals at various stages of a transaction, and for independent review of the work.

Independent auditors' reports on internal control over financial reporting are based on an audit of financial statements performed in accordance with government auditing standards. In planning and performing independent financial audits, auditors consider internal control over financial reporting to determine audit procedures that are appropriate in the circumstances. Therefore, they may express their opinion on the financial statements, but not on the effectiveness of an organization's internal control. The auditors' consideration of internal control is not designed to identify all deficiencies in internal control that might be a material weakness or significant deficiency, which means that material weaknesses or significant deficiencies may exist that were not discovered during the audit.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and/or correct misstatements in a timely manner. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or not be detected and corrected in a timely manner.

A significant deficiency is an internal-control deficiency or combination of deficiencies that is less severe than a material weakness, yet important enough to merit attention from those charged with governance.

The following is a partial list of deficiencies and omissions that can cause internal control failures:

1. Failure to adequately segregate duties and responsibilities related to authorization.
2. Failure to limit access to assets or sensitive data (e.g. cash, fixed assets, personnel records).
3. Failure to record transactions, resulting in lack of accountability and the possibility of theft.
4. Failure to reconcile assets with the correct records.
5. Failure to detect unauthorized transactions, resulting in skimming, embezzlement or larceny.
6. Lack of monitoring or implementation of internal controls by the governing board and management, or because personnel are not qualified.
7. Collusion among employees where little or no supervision exists.

A system of internal control consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization is achieving its objectives and goals. Traditionally referred to as hard controls, these include segregation of duties; limiting access to cash; management review and approval; and reconciliations. Other types of internal control, typically referred to as soft controls, include management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct.

Although all employees have some degree of responsibility for internal controls, the governing board, district superintendent and senior management are ultimately responsible for the controls that employees under their supervision are expected to follow.

General Obligation Bond Issuance Practices

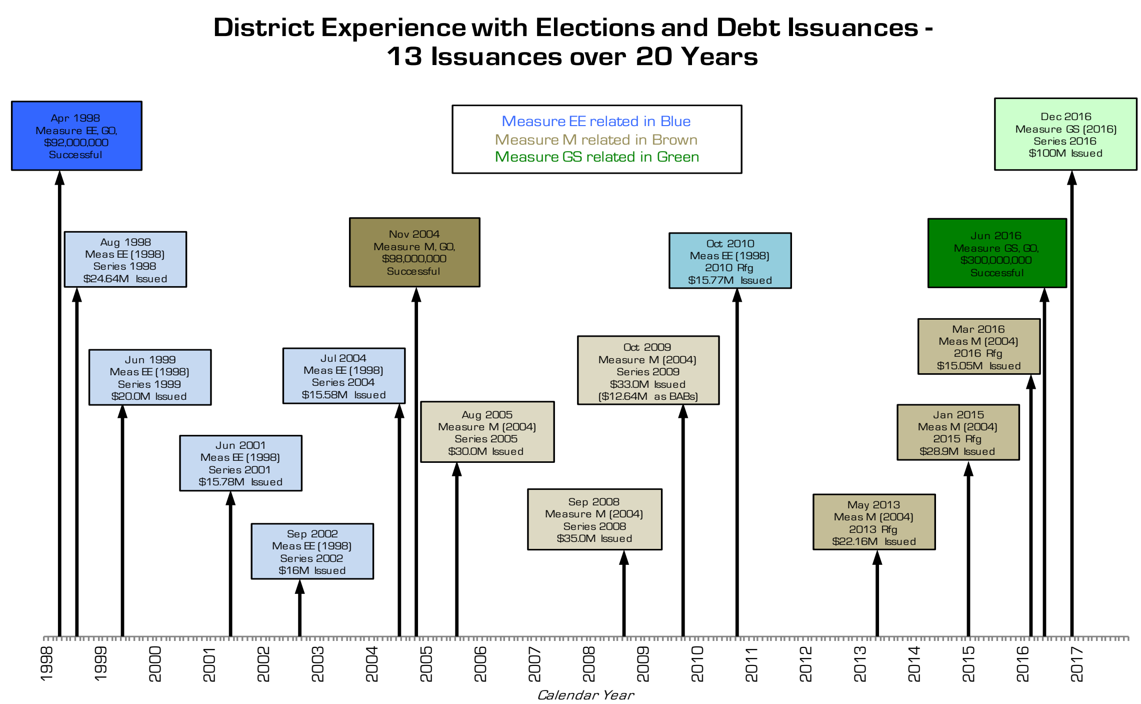
Over the last 20 years the district has passed three bond measures as shown in the table below.

Successful General Obligation Bond Measures

Election Date	Measure	Vote Required	Vote Received	Bond Authorization	Bonds Issued	Remaining Authorization
April 14, 1998	EE	2/3	74.1%	$ 92,000,000	$ 91,997,345	$ 2,655
November 2, 2004	M	55%	72.9%	$ 98,000,000	$ 98,000,000	$ -
June 7, 2016	GS	55%	78.0%	$ 300,000,000	$ 100,000,000	$ 200,000,000
				$ 490,000,000	$ 289,997,345	$ 200,002,655

Measure EE in 1998, required a two-thirds voter approval, while Measures M (2004) and GS (2016) required 55% voter approval. In each case, the voter approval received was well above the required level for passage. Essentially all of the bonds have been issued that were authorized by 1998's Measure EE and 2004's Measure M. For Measure GS, passed in 2016, $100 million of the $300 million authorized has been issued.

The district has issued general obligation bonds 13 times from these measures. In multiple instances, bonds were issued less than two years apart. The timeline below outlines the timing of issuances from 1998 through 2017.



Four of these transactions were issuances of refunding bonds. The table below presents details of each bond issuance by measure.

Measure EE, Election of 1998, $92,000,000 Authorization

Series	Date of Issue	Type	Issuance - New Money	Issuance - Refinancing	Total Issuance	Net Debt Service	Debt Service to Principal at Issuance	Principal Paid & to be Paid as of Jun 30, 2018	Debt Service Paid & to be Paid as of Jun 30, 2018	Outstanding Principal as of Jun 30, 2018	Final Maturity	Able to Call?	Initial Call Date	Date Called	Time in Escrow	Negative Arbitrage	Par Not Refunded	Next Call Date	Callable Principal	Weighted Average Callable Coupon	Next Call Premium	
1998	Aug 1998	CIBs	$13,960,000	$0	$13,960,000	$18,740,701	1.90 : 1	$13,960,000	$18,740,701	$0	Aug 1, 2010	n/a	Aug 2007	n/a	n/a	n/a	$4,935,000	n/a	$0	n/a	n/a	[1]
		CABs	$10,679,698	$0	$10,679,698	$28,040,000		$10,679,698	$28,040,000	$4,344,911	Aug 1, 2023	No	n/a	n/a	n/a	n/a	n/a	n/a	$0	n/a	n/a	
1999	Jun 1999	CIBs	$12,285,000	$0	$12,285,000	$17,096,379	1.96 : 1	$9,415,000	$14,018,724	$0	Aug 1, 2010	n/a	Aug 2008	Oct 2010	n/a	n/a	$2,490,000	n/a	$0	n/a	n/a	[2], [5]
		CABs	$7,712,854	$0	$7,712,854	$22,050,000		$7,712,854	$22,050,000	$4,121,782	Jun 1, 2024	No	n/a	n/a	n/a	n/a	n/a	n/a	$0	n/a	n/a	
2001	Jun 2001	CIBs	$13,150,000	$0	$13,150,000	$21,252,933	1.93 : 1	$4,185,000	$9,402,278	$0	Aug 1, 2011	n/a	Aug 2011	Oct 2010	n/a	n/a	n/a	n/a	$0	n/a	n/a	[3], [5]
		CABs	$2,632,827	$0	$2,632,827	$9,155,000		$2,632,827	$9,155,000	$2,632,827	Jun 1, 2026	No	n/a	n/a	n/a	n/a	n/a	n/a	$0	n/a	n/a	
2002	Sep 2002	CABs	$15,996,693	$0	$15,996,693	$33,120,000	2.07 : 1	$15,996,693	$33,120,000	$6,152,096	Aug 1, 2027	No	n/a	n/a	n/a	n/a	n/a	n/a	$0	n/a	n/a	
2004	Jul 2004	CIBs	$8,870,000	$0	$8,870,000	$12,471,379	2.14 : 1	$4,750,000	$7,200,379	$0	Aug 1, 2013	n/a	Aug 2013	Oct 2010	n/a	n/a	n/a	n/a	$0	n/a	n/a	[4], [5]
		CABs	$6,710,273	$0	$6,710,273	$20,825,000		$6,710,273	$20,825,000	$6,710,273	Jun 1, 2029	No	n/a	n/a	n/a	n/a	n/a	n/a	$0	n/a	n/a	
2010 Rfg	Oct 2010	CIBs	$0	$15,770,000	$15,770,000	$18,898,789	1.20 : 1	$15,770,000	$18,898,789	$3,380,000	Aug 1, 2020	No	n/a	n/a	2.8 years	not determined	n/a	n/a	$0	n/a	n/a	[5]
			$91,997,345	$15,770,000				$91,812,345	$181,450,873	$27,341,889												

Debt Service to Principal Ratios

Debt service of new money issuances to new money principal: 1.99 : 1

Total debt service after refinancings to new money principal: 1.97 : 1

Measure M, Election of 2004, $98,000,000 Authorization

Series	Date of Issue	Type	Issuance - New Money	Issuance - Refinancing	Total Issuance	Net Debt Service	Debt Service to Principal at Issuance	Principal Paid & to be Paid as of Jun 30, 2018	Debt Service Paid & to be Paid as of Jun 30, 2018	Outstanding Principal as of Jun 30, 2018	Final Maturity	Able to Call?	Initial Call Date	Date Called	Time in Escrow	Negative Arbitrage	Par Not Refunded	Next Call Date	Callable Principal	Weighted Average Callable Coupon	Next Call Premium	
2005	Aug 2005	CIBs	$30,000,000	$0	$30,000,000	$49,804,345	1.66 : 1	$6,780,000	$15,429,741	$0	Aug 1, 2013	n/a	Aug 2015	May 2013	n/a	n/a	n/a	n/a	$0	n/a	n/a	[9]
2008	Sep 2008	CIBs	$35,000,000	$0	$35,000,000	$63,751,413	1.82 : 1	$6,280,000	$15,688,163	$870,000	Aug 1, 2018	n/a	Aug 2018	Jan 2015	n/a	n/a	n/a	n/a	$0	n/a	n/a	[6], [10]
2009 A-1	Oct 2009	CIBs	$20,360,000	$0	$20,360,000	$37,390,819	1.84 : 1	$5,585,000	$11,141,556	$1,820,000	Aug 1, 2019	n/a	Aug 2019	Mar 2016	n/a	n/a	n/a	n/a	$0	n/a	n/a	[7], [11]
2009 A-2	Oct 2009	CIBs - BABs	$12,640,000	$0	$12,640,000	$22,232,283	1.76 : 1	$12,640,000	$22,232,283	$12,640,000	Aug 1, 2029	Yes	Aug 2019	n/a	n/a	n/a	n/a	Aug 2019	$12,640,000	4.44%	0.00%	[8]
2013 A Rfg	May 2013	CIBs	$0	$22,155,000	$22,155,000	$33,150,292	1.50 : 1	$22,155,000	$33,150,292	$18,300,000	Aug 1, 2030	Yes	Aug 2023	n/a	2.2 years	$1,148,790	n/a	Aug 2023	$11,240,000	4.92%	0.00%	[9]
2015 Rfg	Jan 2015	CIBs	$0	$28,895,000	$28,895,000	$45,720,232	1.58 : 1	$28,895,000	$45,720,232	$28,215,000	Aug 1, 2033	Yes	Feb 2025	n/a	3.6 years	$1,598,905	n/a	Feb 2025	$20,930,000	4.51%	0.00%	[10]
2016 Rfg	Mar 2016	CIBs	$0	$15,045,000	$15,045,000	$23,305,343	1.55 : 1	$15,045,000	$23,305,343	$14,820,000	Aug 1, 2034	Yes	Aug 2026	n/a	3.5 years	$819,203	n/a	Aug 2026	$11,370,000	4.08%	0.00%	[11]
			$98,000,000	$66,095,000				$97,380,000	$166,667,611	$76,665,000												

Debt Service to Principal Ratios

Debt service of new money issuances to new money principal: 1.77 : 1

Total debt service after refinancings to new money principal: 1.70 : 1

Measure GS, Election of 2016, $300,000,000 Authorization

Series	Date of Issue	Type	Issuance - New Money	Issuance - Refinancing	Total Issuance	Net Debt Service	Debt Service to Principal at Issuance	Principal Paid & to be Paid as of Jun 30, 2018	Debt Service Paid & to be Paid as of Jun 30, 2018	Outstanding Principal as of Jun 30, 2018	Final Maturity	Able to Call?	Initial Call Date	Date Called	Time in Escrow	Negative Arbitrage	Par Not Refunded	Next Call Date	Callable Principal	Weighted Average Callable Coupon	Next Call Premium	
A	Dec 2016	CIBs	$100,000,000	$0	$100,000,000	$178,351,472	1.78 : 1	$100,000,000	$178,351,472	$92,205,000	Aug 1, 2046	Yes	Aug 2026	n/a	n/a	n/a	n/a	Aug 2026	$78,310,000	4.45%	0.00%	[12]
			$100,000,000	$0				$100,000,000	$178,351,472	$92,205,000												

Debt Service to Principal Ratios

Debt service of new money issuances to new money principal: 1.78 : 1

(1) Series 1998 (1998 Election) net debt service reflects $29,914 deposited to debt service fund;
(2) Series 1999 (1998 Election) net debt service reflects $33,620 deposited to debt service fund;
(3) Series 2001 (1998 Election) net debt service reflects $34,590 deposited to debt service fund;
(4) Series 2004 (1998 Election) net debt service reflects $200,925 deposited to debt service fund;
(5) 2010 Rfg (1998 Election) refinanced Series 1999, 2001, & 2004 CIBs, reducing debt service $1,300,521;
(6) Series 2008 (2004 Election) net debt service reflects $438,831 deposited to debt service fund;
(7) Series 2009 A-1 (2004 Election) net debt service reflects $638,163 deposited to debt service fund, (Series 2009 A-1 & A-2 were sold together as one bond issuance and are presented on 2 lines to show detailed data for each series.)
(8) Series 2009 A-2 (2004 Election) issued as Build America Bonds, net debt service reflects federal subsidy equal to 35% of interest payment; (Series 2009 A-1 & A-2 were sold together as one bond issuance and are presented on 2 lines to show detailed data for each series.)
(9) Series 2005 (2004 Election) refinanced by 2013A Rfg, reducing debt service $1,224,313;
(10) Series 2008 (2004 Election) refinanced by 2015 Rfg, reducing debt service $2,343,018;
(11) Series 2009A-1 (2004 Election) refinanced by 2016 Rfg, reducing debt service $2,943,919;
(12) Series A (2016 Election) net debt service reflects $5,048,103 deposited to debt service fund.

In January 2014, the California Education Code was amended to include Section 15441.1, which states, “The ratio of total debt service to principal for each bond series shall not exceed four to one.”

This statute was applicable only to the district’s 2016 issuance of Measure GS bonds, all others being not applicable because they preceded the statute or were refunding bonds issued under authority of the Government Code. However, all of the bond issues reflect a ratio of total debt service to principal of less than three to one, with just two issues being above two to one (and by a small amount), and most being less than two to one. Furthermore, the total debt service to principal for each measure is less than two to one.

District Leadership and Public Finance Professionals

As might be expected over 20 years, the district has experienced some changes in its leadership and public finance professionals. The table below shows the individuals in district leadership and the professional firms used for each bond issuance.

All 13 bond sales used the "negotiated" method of sale, and most were negotiated without the assistance of a financial advisor. The Government Finance Officers Association recommendation as a best practice and academic research indicate that general obligation bonds should be sold at competitive sale, particularly when they are highly rated general obligation bonds. A bond rating is a grade assigned to a bond that indicates its credit quality. It considers the bond issuers financial strength and ability to pay the bonds principal and interest in a timely manner. Bond ratings affect the interest rates paid to investors. The district has held credit ratings in the "A" and "AA" categories as well as qualifying for "AAA" bond insurance on several occasions; all of which are desirable.

The Measure EE bond issuances included the firms of Stone and Youngberg as bond underwriter and Orrick as bond counsel. Stone and Youngberg do not appear to have had a separate underwriter's counsel. There was also consistency in the district's general counsel, Karns and Karabian. The district was led by three superintendents over the six-year period when the original or "new money" Measure EE bonds were issued (1998 – 2004). References to "new money" made throughout the report speak to original issuance bonds and exclude the refunding bonds. During this same timeframe, the chief business official (CBO) remained constant, Glenn Sheppard, as did two board members, Hector A. Chacon and Richard L. Adams II.

Measure EE, Electio Measure EE, Election of · Measure EE, Election of 1998, $92,000,000 Authorization

Series	Date of Issue	Type	Issuance - New Money	Underwriter	Bond Counsel	Underwriter's Counsel	Disclosure Counsel	District Counsel	Financial Advisor	Superintendent	CBO	Board President	Vice-President	Clerk	Member	Member
1998	Aug 1998	CIBs	$13,960,000	Stone & Youngberg	Orrick	n/a	n/a	Karns & Karabian	n/a	Norman Kirschenbaum	Glenn Sheppard	Frank Serrano	Richard Adams II	Hector Chacon	Thomas Calderon	Frank Gomez
		CABs	$10,679,698													
1999	Jun 1999	CIBs	$12,285,000	Stone & Youngberg	Orrick	n/a	n/a	Karns & Karabian	n/a	Magdalena Mejia	Glenn Sheppard	Richard Adams II	Hector Chacon	Frank Gomez	Frank Serrano	n/a
		CABs	$7,712,854													
2001	Jun 2001	CIBs	$13,150,000	Stone & Youngberg	Orrick	n/a	n/a	Karns & Karabian	n/a	Magdalena Mejia	Glenn Sheppard	Marcella Calderon	Edwin Chau	Hector Chacon	Richard Adams II	Frank Gomez
		CABs	$2,632,827													
2002	Sep 2002	CABs	$15,996,693	Stone & Youngberg	Orrick	n/a	n/a	Karns & Karabian	n/a	Magdalena Mejia	Glenn Sheppard	Edwin Chau	Hector Chacon	Gerri Guzman	Richard Adams II	Marcella Calderon
2004	Jul 2004	CIBs	$8,870,000	Stone & Youngberg	Orrick	n/a	n/a	Karns & Karabian	n/a	Edward Velasquez (interim)	Glenn Sheppard	Gerri Guzman	Marcella Calderon	Richard Adams II	Hector Chacon	Edwin Chau
		CABs	$6,710,273													
2010 Rfg	Oct 2010	CIBs	$0	RBC Capital	Jones Hall	Fulbrightbright & Jaworski	Jones Hall	n/a	n/a	Robert Henke (interim)	Cheryl Plotkin	David Vela	Edwin Chau	Hector Chacon	Marcella Calderon	Gerri Guzman
			$91,997,345													

Measure M, Election of 2004, $98,000,000 Authorization

Series	Date of Issue	Type	Issuance - New Money	Underwriter	Bond Counsel	Underwriter's Counsel	Disclosure Counsel	District Counsel	Financial Advisor	Superintendent	CBO	Board President	Vice-President	Clerk	Member	Member
2005	Aug 2005	CIBs	$30,000,000	Kinsell Newcomb	Burke, Williams, & Sorensen	n/a	Jones Hall	n/a	n/a	Edward Velasquez	Glenn Sheppard	Marcella Calderon	Richard Adams II	Edwin Chau	Hector Chacon	Gerri Guzman
2008	Sep 2008	CIBs	$35,000,000	RBC Capital	Orrick	Fulbrightbright & Jaworski	Orrick	n/a	n/a	Edward Velasquez	Danielle Calise	Marcella Calderon	Gerri Guzman	David Vela	Hector Chacon	Edwin Chau
2009 A-1	Oct 2009	CIBs	$20,360,000	RBC Capital	Orrick	Fulbrightbright & Jaworski	Orrick	n/a	n/a	Edward Velasquez	Cheryl Plotkin	Gerri Guzman	David Vela	Edwin Chau	Hector Chacon	Marcella Calderon
2009 A-2	Oct 2009	CIBs - BABs	$12,640,000													
2013 A Rfg	May 2013	CIBs	$0	Cabrera Capital Markets	Fulbright & Jaworski	Hawkins Delafield & Wood	Fulbright & Jaworski	Kenney & Kropff	Wolf & Co	Cleve Pell	Cheryl Plotkin	Hector Chacon	Gerri Guzman	David Vela	Benjamin Cardenas	Paul Montoya
2015 Rfg	Jan 2015	CIBs	$0	RBC Capital / Blaylock Beal Van	Orrick	Dannis Woliver Kelly	Orrick	n/a	Mission Trail Advisors	Cleve Pell	Cheryl Plotkin	Edgar Cisneros	Benjamin Cardenas	Lani Cupchoy	Hector Chacon	David Vela
2016 Rfg	Mar 2016	CIBs	$0	Piper Jaffray	Nixon Peabody	Norton Rose Fulbrightbright	Nixon Peabody	David Kinney	Mission Trail Advisors	Susanna Smith	Cleve Pell (CFO & COO) / Ruben Rojas (CBO)	Benjamin Cardenas	Lani Cupchoy	Hector Chacon	Edgar Cisneros	Joanna Flores
			$98,000,000													

Measure GS, Election of 2016, $300,000,000 Authorization

Series	Date of Issue	Type	Issuance - New Money	Underwriter	Bond Counsel	Underwriter's Counsel	Disclosure Counsel	District Counsel	Financial Advisor	Superintendent	CBO	Board President	Vice-President	Clerk	Member	Member
A	Dec 2016	CIBs	$100,000,000	Stifel / Piper Jaffray / Samuel Ramirez	Nixon Peabody	Dannis Woliver Kelly	Nixon Peabody	n/a	Mission Trail Advisors	Anthony Martinez (interim)	Ruben Rojas	Lani Cupchoy	Edgar Cisneros	Joanna Flores	Benjamin Cardenas	Hector Chacon
			$100,000,000													

Measure M in 2005 involved a different set of public finance professionals, with Kinsell, Newcomb as underwriter, Burke Williams & Sorenson as bond counsel, Jones Hall as disclosure counsel (a role that was not noted in the Measure EE "new money" issuances), and a district counsel was not noted. The superintendent was Edward Velasquez, who was interim superintendent the year before, when the final original Measure EE bonds were sold; Glenn Sheppard was still the CBO. The two board members who were present for all Measure EE original bond issues, Hector A. Chacon and Richard L. Adams II were still present. The three other board members at this time, Marcella Calderon, Edwin Chau and Gerri Guzman, were present for the last two of the Measure EE original bond sales.

From 2008 through 2010, the district issued bonds three times; "new money" bonds were issued twice for Measure M (2008 and 2009), and a refunding bond was issued for Measure EE (2010). These three issues involved one bond underwriter, RBC Capital and one underwriter's counsel, Fulbright and Jaworski. No district counsel was listed in the official statements; and the bond counsel role was combined with disclosure counsel. For the two Measure M issues (2008 and 2009), Orrick served in this combined capacity, but for the Measure EE refinancing (2010), this combined role was filled by Jones Hall.

The fact that Orrick did not serve as bond and disclosure counsel for the Measure EE refunding is unusual. Having served as bond counsel for all of the prior Measure EE bond issues, that were refinanced together in 2010, Orrick likely had all of the historical Measure EE documents, which would have had to have been provided to Jones Hall. During this period, Edward Velasquez was superintendent, and there were two chief business officials, Danielle Calise, followed by Cheryl Plotkin. Four of the five board members involved in all three bond issues were involved in prior bond issues: Hector A. Chacon, Marcella Calderon, Edwin Chau and Gerri Guzman. Richard L. Adams II was present for two of the three, and then David Vela was present for the third bond issue.

From May 2013 through December 2016, the district issued bonds four times using six different underwriters. Three Measure M refundings were underwritten by the following different firms in order: Cabrera Capital Markets, RBC Capital along with Blaylock Beal Van, and Piper Jaffray. These three refundings, in 2013, 2015, and 2016 refinanced original Measure M bonds sold in 2005, 2008, and 2009, respectively. Therefore, RBC underwrote only one of the two refundings that related to original bonds it underwrote. The fourth bond issue, the original issue of Measure GS bonds, involved three underwriters: Stifel, Piper Jaffray and Samuel Ramirez. There is an obvious lack of correlation between the underwriters and underwriter's counsel (as was the case when RBC served as underwriter and Fulbright and Jaworski as its underwriter's counsel on three consecutive bond issuances). These four bond issuances used six underwriters, and only one is involved in more than one issuance.

Three law firms served as underwriter's counsel in the four bond issuances. In temporal order, these were: Hawkins, Delafield & Wood, Dannis Woliver Kelly, Norton Rose Fulbright, and then Dannis Woliver Kelly again. Of these three firms, the firm that served twice, Dannis Woliver Kelly represented five of the six underwriting firms utilized during this period. For each of the four bond issues, three law firms served in the combined role of bond and disclosure counsel: Fulbright and Jaworski, Orrick, and Nixon Peabody (twice). In addition, two of the four bond issuances noted a district counsel, although there were two different firms: Kenny and Kropf and David Kinney. The district used a financial advisor for all four bond issues, initially Wolf & Company, and then Mission Trail Advisors for the subsequent three bond issues. During this three-year period, a total of 16 different professional firms was noted. Three superintendents were listed in the four Official Statements during these three years: Cleve Pell, Susanna Smith and Anthony Martinez (interim) and eight board members: Hector A. Chacon, Gerri Guzman, David Vela, Benjamin Cardenas, Paul Montaya, Edgar Cisneros, Lani Cupchoy, and Joanna Flores.

From May 2013 through December 2016, for three of the four bond issues sold, the two top administrators, Cleve Pell and Susanna Smith, were the same, albeit with varying titles as shown in the table below.

District Administrators, per Official Statements from GO Bonds Issued since May 2013

Date of Issue	District Administrator	Bond Series
May 2013	Cleve A. Pell, Superintendent Susanna Contreras Smith, Superintendent Arthur P. Revueltas, Deputy Superintendent Cheryl Plotkin, Assistant Superintendent - Business Services Deborah De La Torre, Assistant Superintendent - Instructional Services Jill Rojas, Assistant Superintendent - Human Resources Michael Cobarrubias, Assistant Superintendent - Pupil & Community Services	2013 A Rfg. Measure M (2004 Election)
January 2015	Cleve A. Pell, Superintendent of Schools Susanna Contreras Smith, Superintendent of Education Arthur P. Revueltas, Deputy Superintendent Cheryl Plotkin, Assistant Superintendent - Business Services Dr. Anthony Martinez, Assistant Superintendent - Instructional Services Jill Rojas, Assistant Superintendent - Human Resources	2015 Rfg. Measure M (2004 Election)
March 2016	Susanna Contreras Smith, Superintendent of Schools Cleve A. Pell, Chief Financial and Operations Officer Ruben Rojas, Chief Business Officer Arthur P. Revueltas, Deputy Superintendent Dr. Anthony Martinez, Assistant Superintendent - Instructional Services Jill Rojas, Assistant Superintendent - Human Resources	2016 Rfg. Measure M (2004 Election)
December 2016	Anthony Martinez, Ph.D., Interim Superintendent of Schools Ruben Rojas, Chief Business Officer Angel E. Gallardo, Ed.D., Assistant Superintendent - Human Resources Anthony Martinez, Ph.D., Assistant Superintendent - Instructional Services	Series A, Measure GS (2016 Election)

Changes in public finance professionals can correlate with administrative leadership changes although this does not appear to be the case at the district. There is no indication that a public finance team fell into disfavor and was replaced and there were no RFPs seeking bond finance firms provided by the district. The number of different professionals involved and the assignments (particularly among attorneys) raises the question of whether firms were being given an opportunity to "play," which brings up the question of "pay to play." The information accessible to FCMAT was insufficient to prepare a complete analysis of campaign contributions necessary to determine the existence of any specific financial/legal professionals or firms as campaign contributors. Further, by following what may have been a "deal by deal" approach to financing, taxpayers were burdened with millions of dollars of unnecessary costs that would have been avoided through a holistic approach, discussed later in this report.

Financial Structure Observations

Measure EE

Five issues (of six) were utilized to access the Measure EE bond authorization, and each of the five were issued two years or less after the prior issuance. Because issuance costs are incurred with each borrowing, minimizing the number of issuances can be an advantage. Further, typically applicable Internal Revenue Code (please see 26 CFR 1.148-2(e)(2)) requires that each bond issue would be intended to cover no more than approximately three years of expenditures (specifically that 85% would be spent within three years). This raises the question of whether additional planning for facilities project expenditure and/or bond issuance could have resulted in less frequent issuances, something led to deviation from a designed plan, or a combination of the two. The table below shows Measure EE bond issuances that occurred close enough in time to have been combined to reduce four issuances to two.

Measure EE, Election of 1998, $92,000,000 Authorization

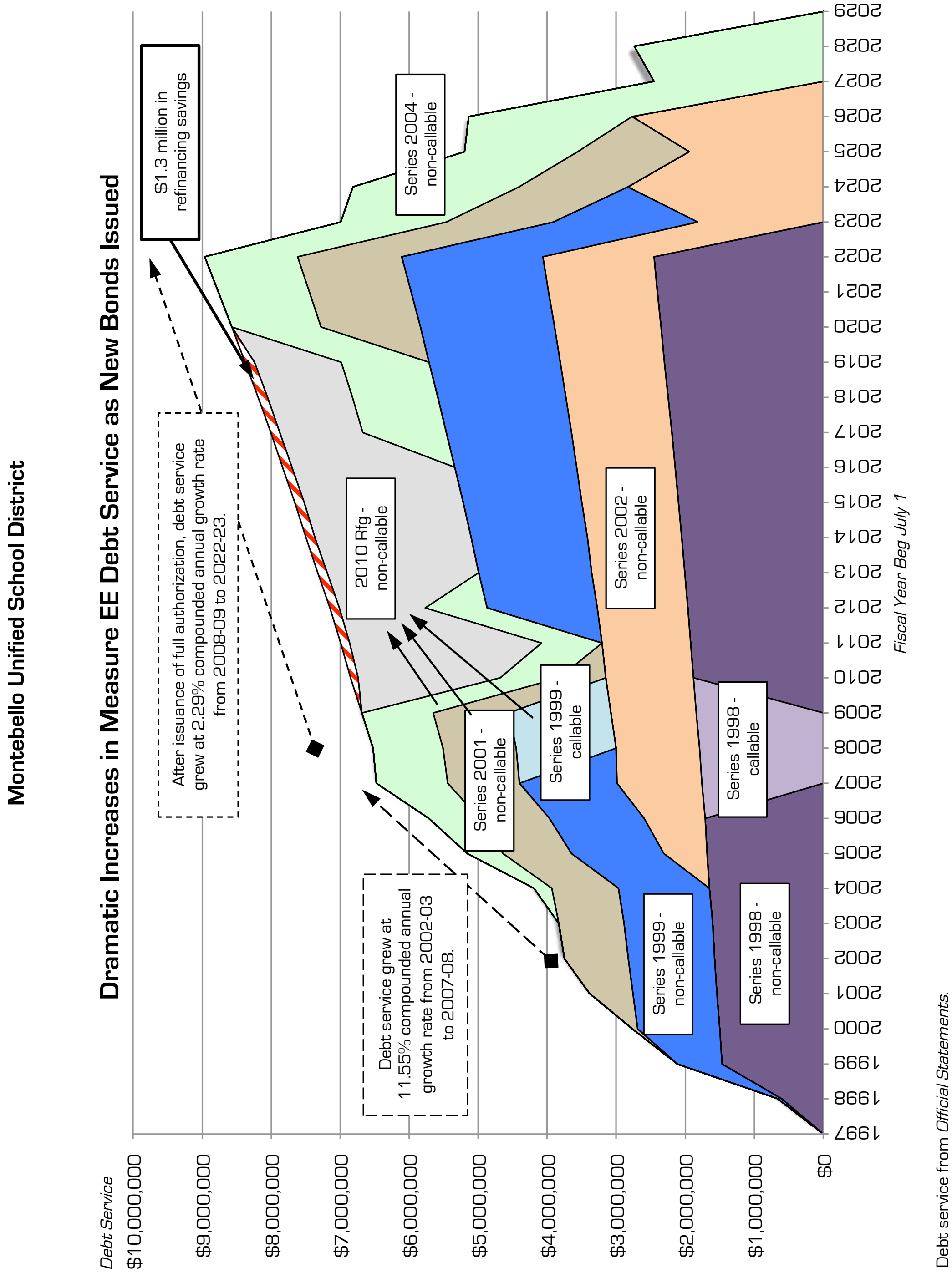
Series	Date of Issue	Type	Issuance New Money
1998	Aug 1998	CIBs	$ 13,960,000
		CABs	$ 10,679,698
1999	Jun 1999	CIBs	$ 12,285,000
		CABs	$ 7,712,854
2001	Jun 2001	CIBs	$ 13,150,000
		CABs	$ 2,632,827
2002	Sep 2002	CABs	$ 15,996,693
2004	Jul 2004	CIBs	$ 8,870,000
		CABs	$ 6,710,273
2010 Rfg	Oct 2010	CIBs	$ -
			$ 91,997,345

Issuances could have potentially combined

Issuances could have potentially combined

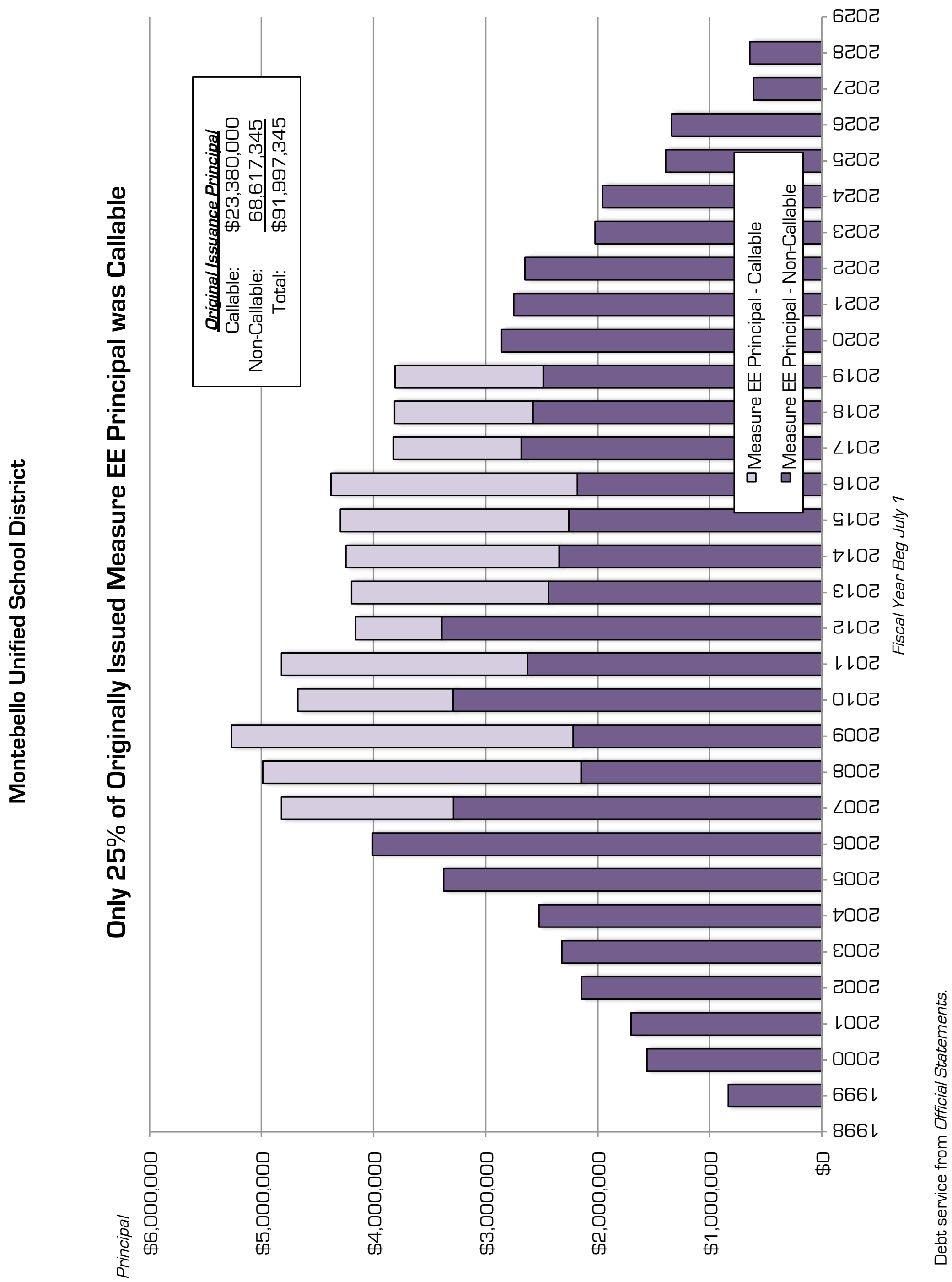
The district took a cautious or almost belated approach to refinancing since some bonds were left outstanding past their call dates while a consolidated refinancing occurred in 2010 (this was the sixth Measure EE bond issue). FCMAT requested project schedules and timelines that would otherwise explain the district's approach to utilization of construction financing strategies, but they were not provided. This suggests the district lacked a holistic plan for utilizing Measure EE in terms of expected cash flow or that the plan could not be maintained.

The chart below demonstrates that with each new issuance of bonds, the pace at which debt service grew accelerated significantly. Each bond issuance does not appear to have been well structured to anticipate subsequent series.

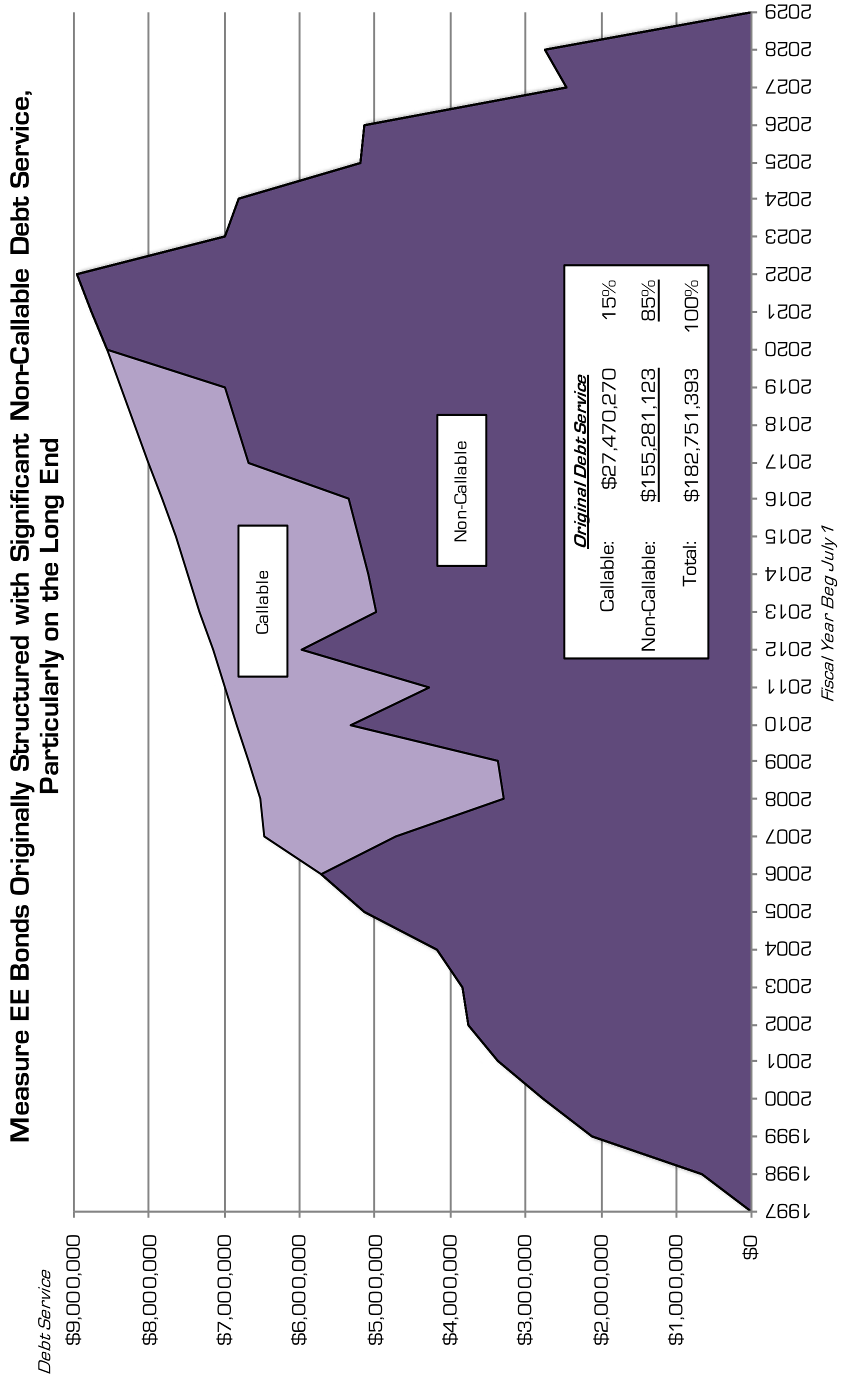


With respect to the repayment structures used, all five of the district's "new money" Measure EE bond issues included noncallable capital appreciation bonds. (Subsequently, the Education Code was amended to include Section 15144.2 prohibiting noncallable capital appreciation bonds with maturities longer than 10 years.)

The chart below shows that of the $91,997,345 in original principal, just 25% was callable.

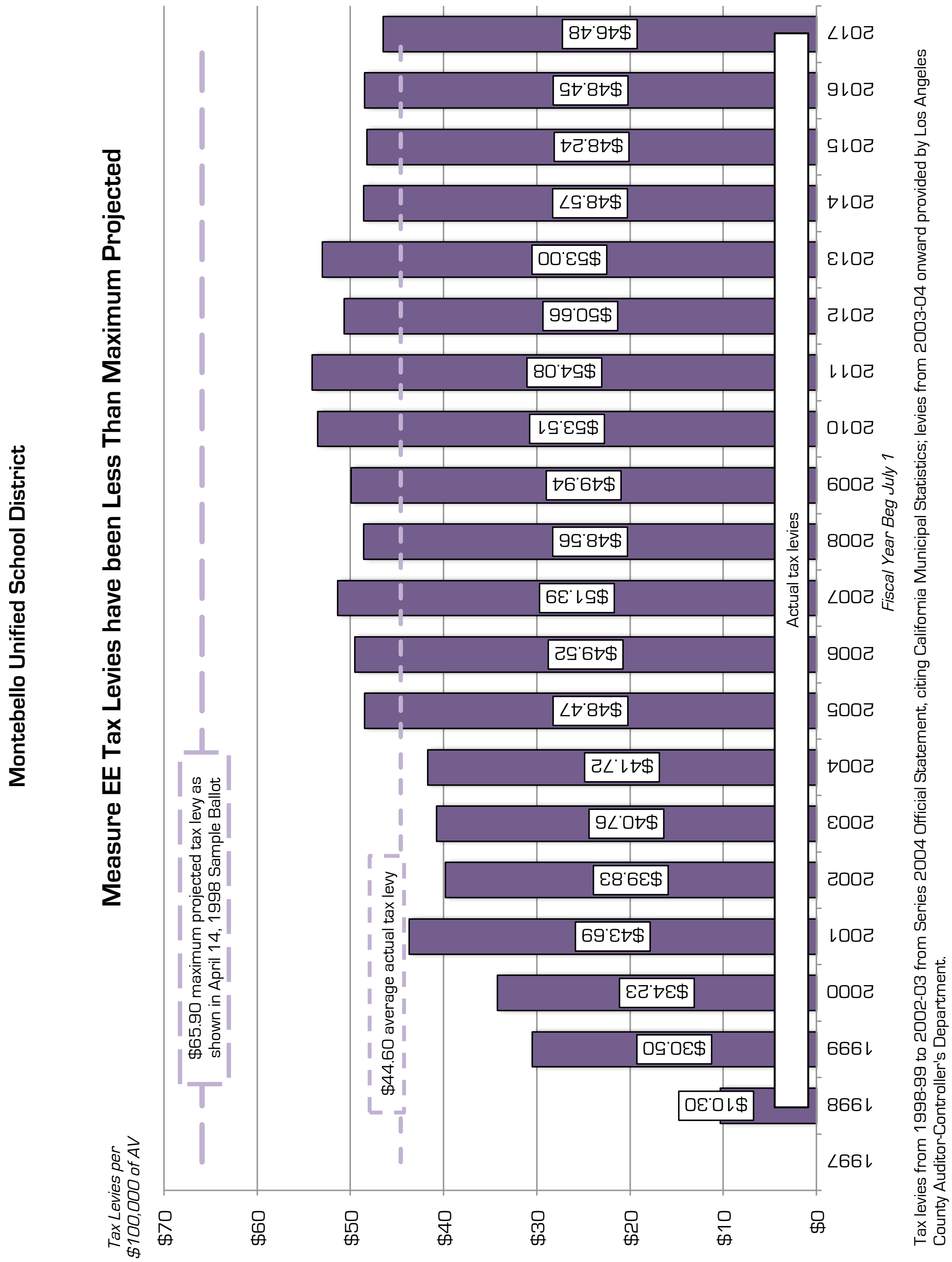


Longer maturity bonds usually carry the highest interest rates, higher still in this case because many of the maturities were capital appreciation bonds that generally carry even higher interest rates. The chart below demonstrates the effect of this approach. The 75% of noncallable principal generates 85% of the debt service, because of the use of capital appreciation bonds and their associated terms. The amount of noncallable debt service, $155 million, is significantly higher than the callable portion of $27 million such that the district's opportunities for refinancing were limited.



Debt service from *Official Statements*.

Measure EE tax levies have been less than the highest tax levy presented in the "Voter's Pamphlet for the Special Election held on April 14, 1998" as shown in the chart below.



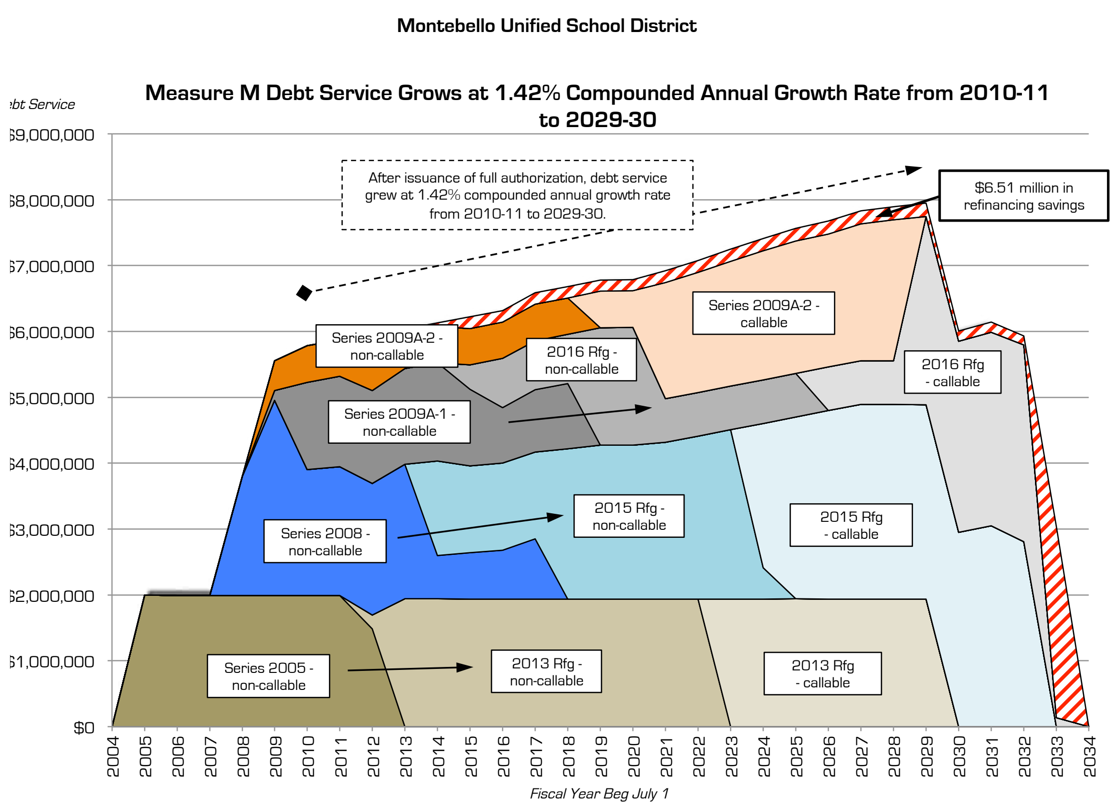
Measure M

Three bond issuances (of six) were utilized to access the Measure M bond authorization over a period of slightly more than four years. The second issuance followed the first by three years, while the third followed the second by a little more than one year. It is uncertain whether further consolidation would have been beneficial since the 2009 issuances took advantage of a new opportunity provided by the American Recovery and Reinvestment Act of 2009 by issuing $12.64 million of the $33 million issued in 2009 as taxable "Build America Bonds," presumably to take advantage of lower-cost borrowing.

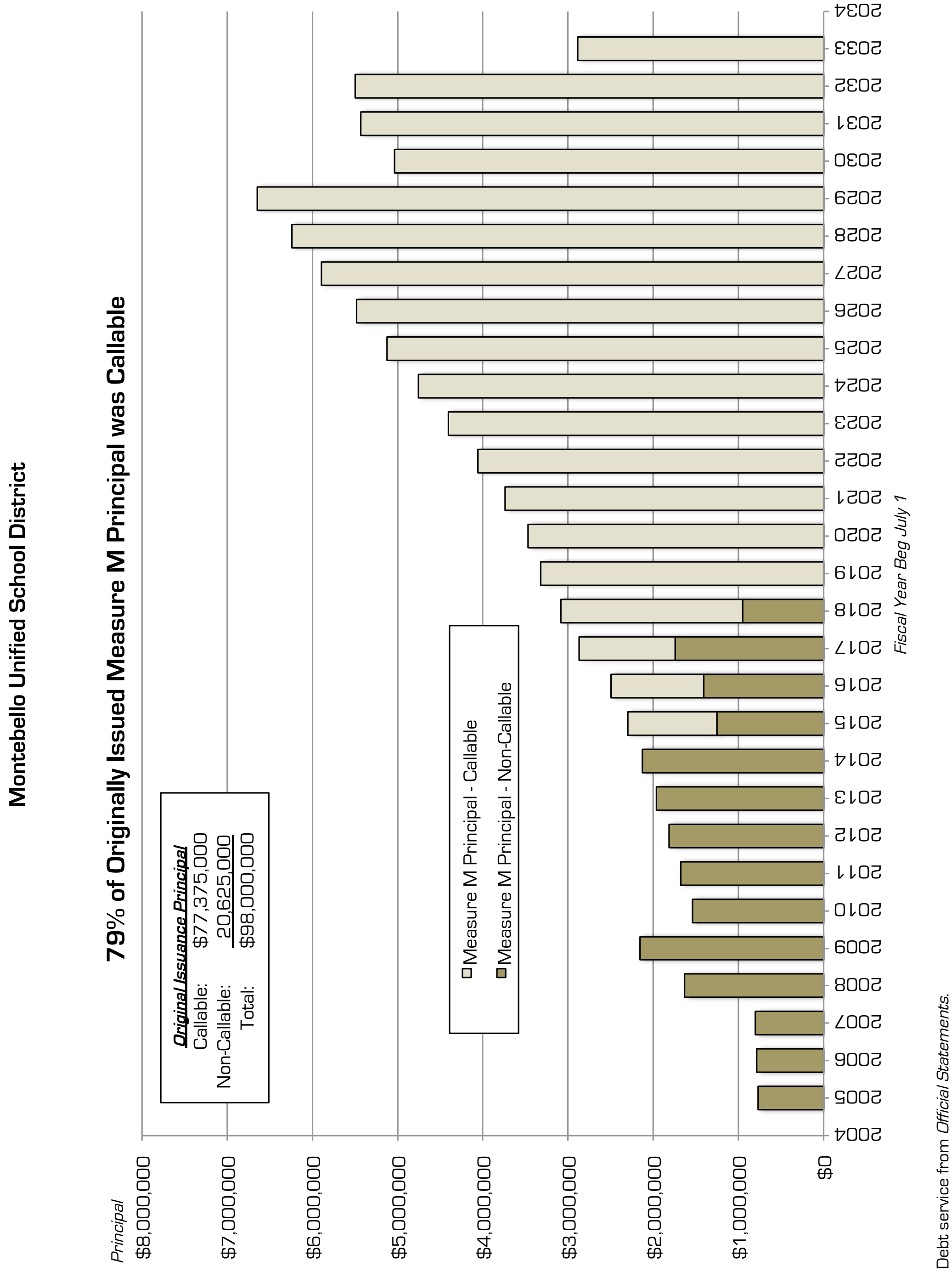
The Education Code amendments previously cited (Education Code Sections 15441.1 and 15144.2) became effective at the beginning of 2014, limiting finance practices that were considered sufficiently widespread and questionable to require statewide reform. The period leading to the reform effort overlaps with the period in which the original Measure M bonds were issued. All of the Measure M bonds issuances had 10-year call options, and there were no capital appreciation bonds.

With respect to the three refunding issues between 2013 and 2016, the frequency of issuance and the timing will be discussed later, in the section titled "Refunding Bond Practices."

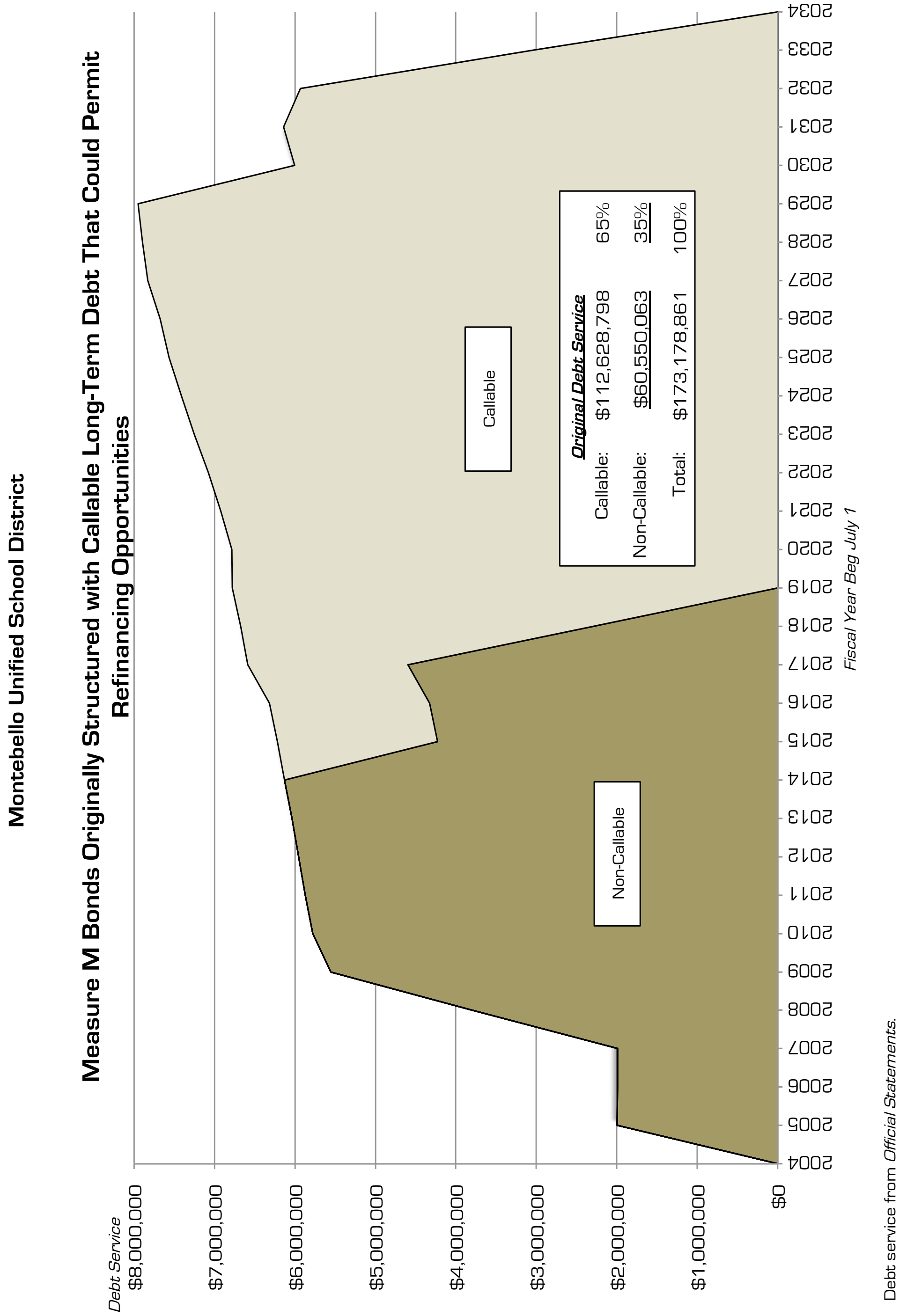
The second Measure M bond issuance was structured with some overamortization, presumably in anticipation of the third series (the first issuance does not appear to have reflected this approach), and while initially debt service grew significantly since 2010-11, it has reflected a compounded annual growth rate of 1.42%. In addition, Measure M, with a similar size as Measure EE, has benefited significantly more from refinancing. For Measure EE, $1.3 million in nominal refinancing savings was generated on $92 million of bonds issued, while Measure M has generated $6.51 million in nominal refinancing savings on $98 million of bonds issued.



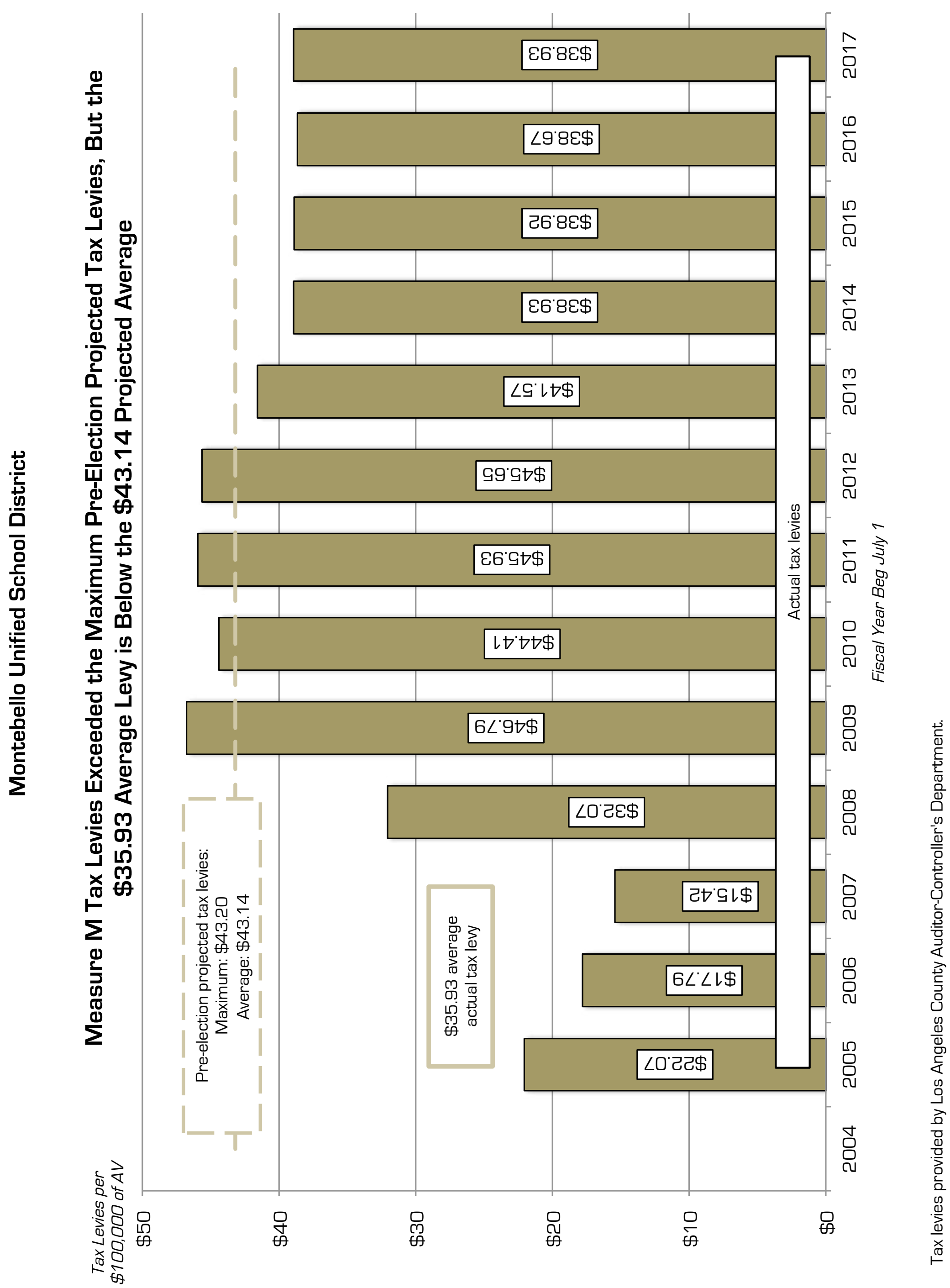
One of the reasons that refinancing has been more effective for Measure M than E is that a much higher amount of the bonds issued was structured with call options. The chart below shows that 79% of the original principal was structured as callable (with Measure EE it was 25%) and the noncallable bonds are in the shorter maturities.



When we look at the effect of this structure, we can see, as per the chart below, that 65% of the original debt service was callable.



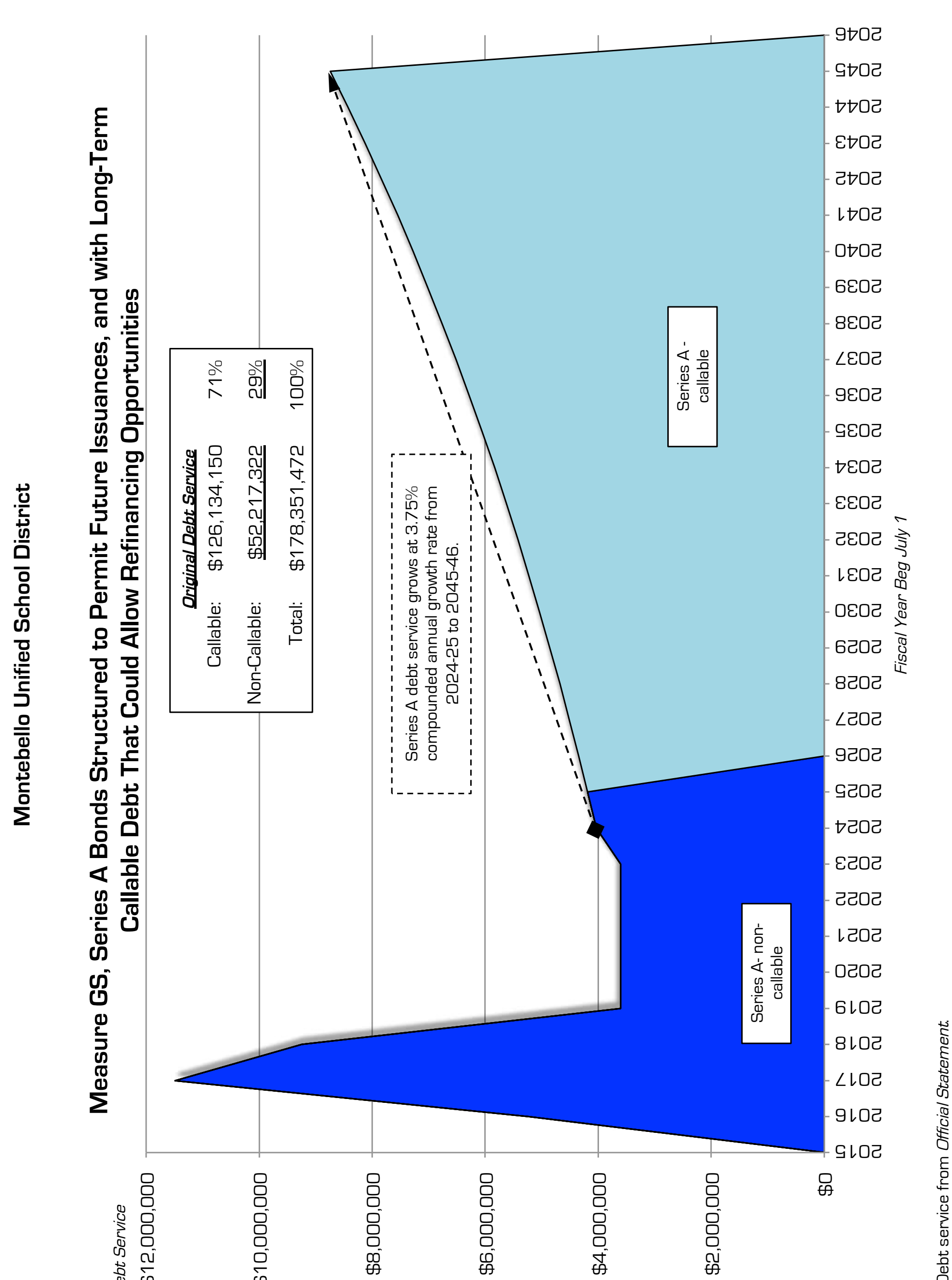
The chart below shows the Measure M tax rates.



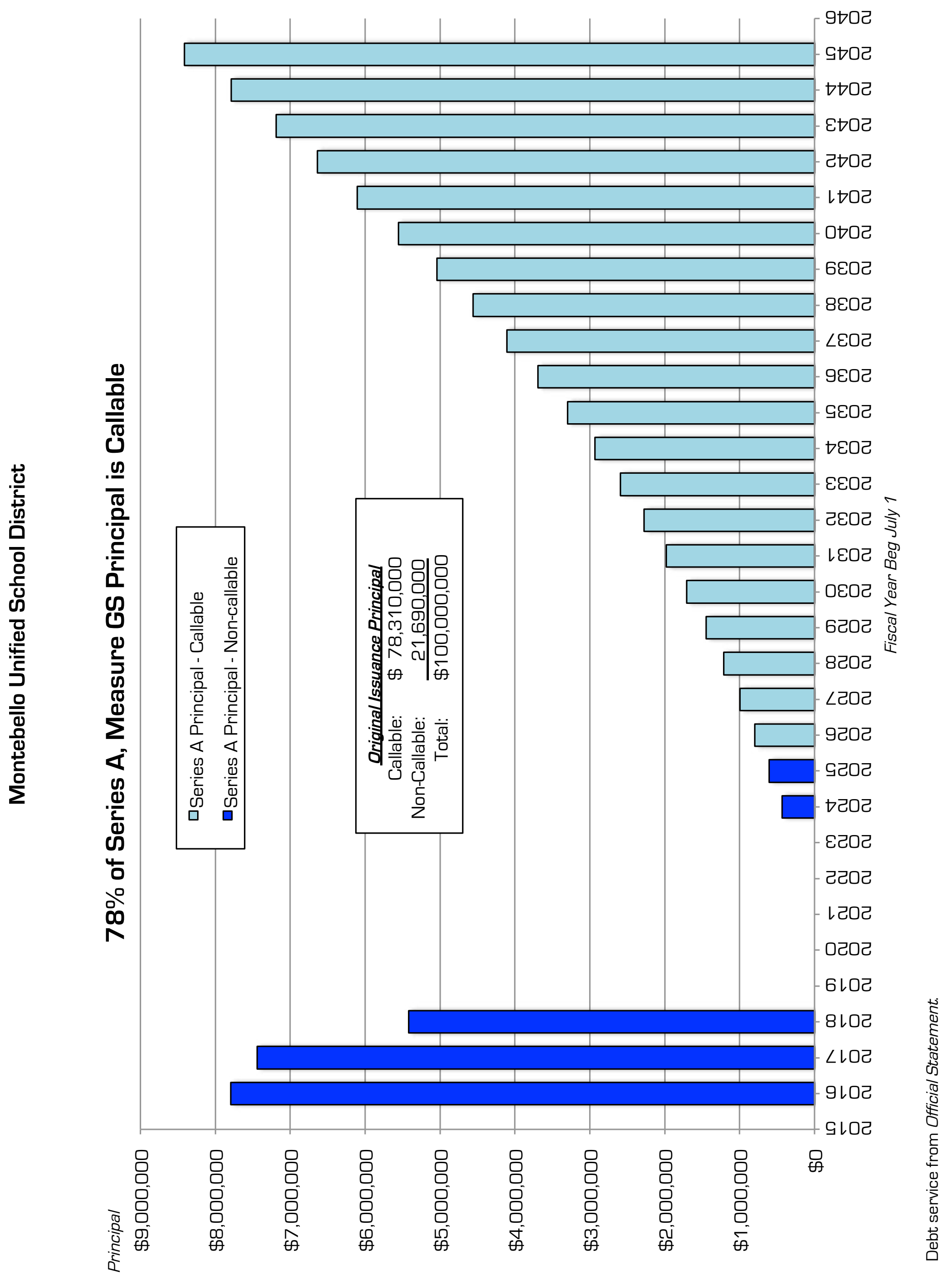
Measure EE authorized $92 million in bonds, the total expected debt service is $180 million, and the 2017-18 tax rate was $46.48 per $100,000 of assessed value. Measure M authorized $98 million in bonds, total expected debt service is $167 million, and the 2017-18 tax rate was $38.93 per $100,000 of assessed value.

Measure GS

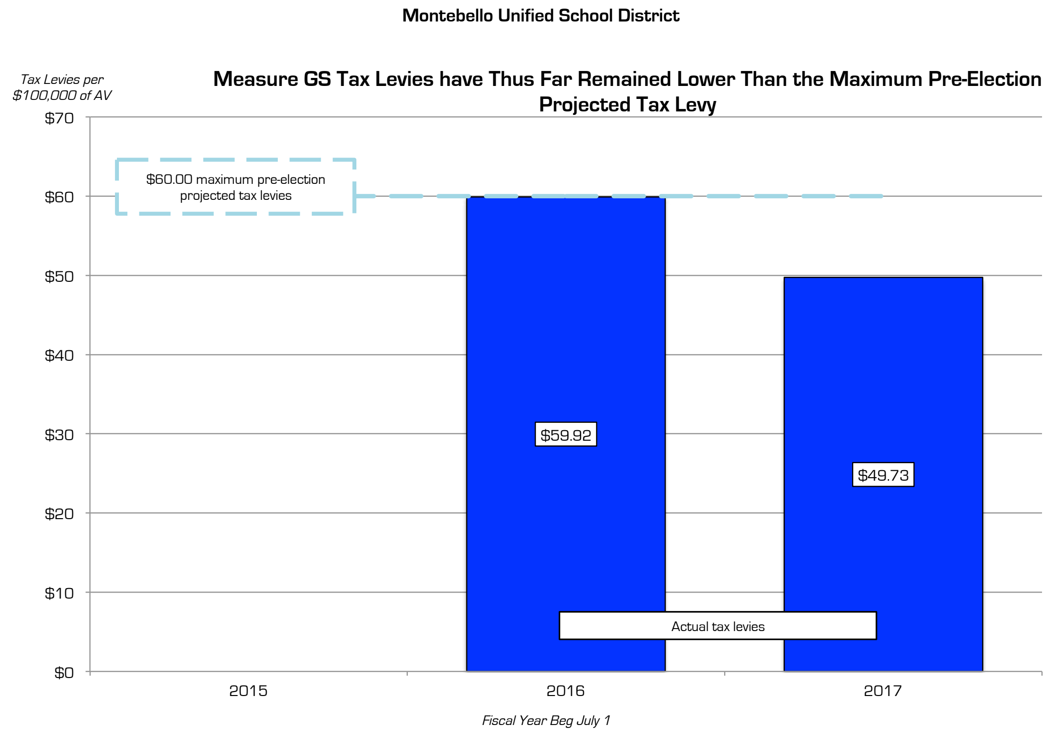
The district has issued one series of bonds authorized by Measure GS, and has a similarly low-debt service to principal ratio (when compared to the statutory limit) as are most of the district's bond issues. The structure includes call options for the longer bond maturities, does not utilize capital appreciation bonds and appears to over-amortize principal early in anticipation of subsequent issuances. This can be seen in the chart below.



A review of the principal structure shows how the bond maturities are set up with short-term higher principal amounts and call options. There are no principal maturities in 2019-20 through 2023-24, possibly because of a strategy to allow more flexibility in structuring the second series.



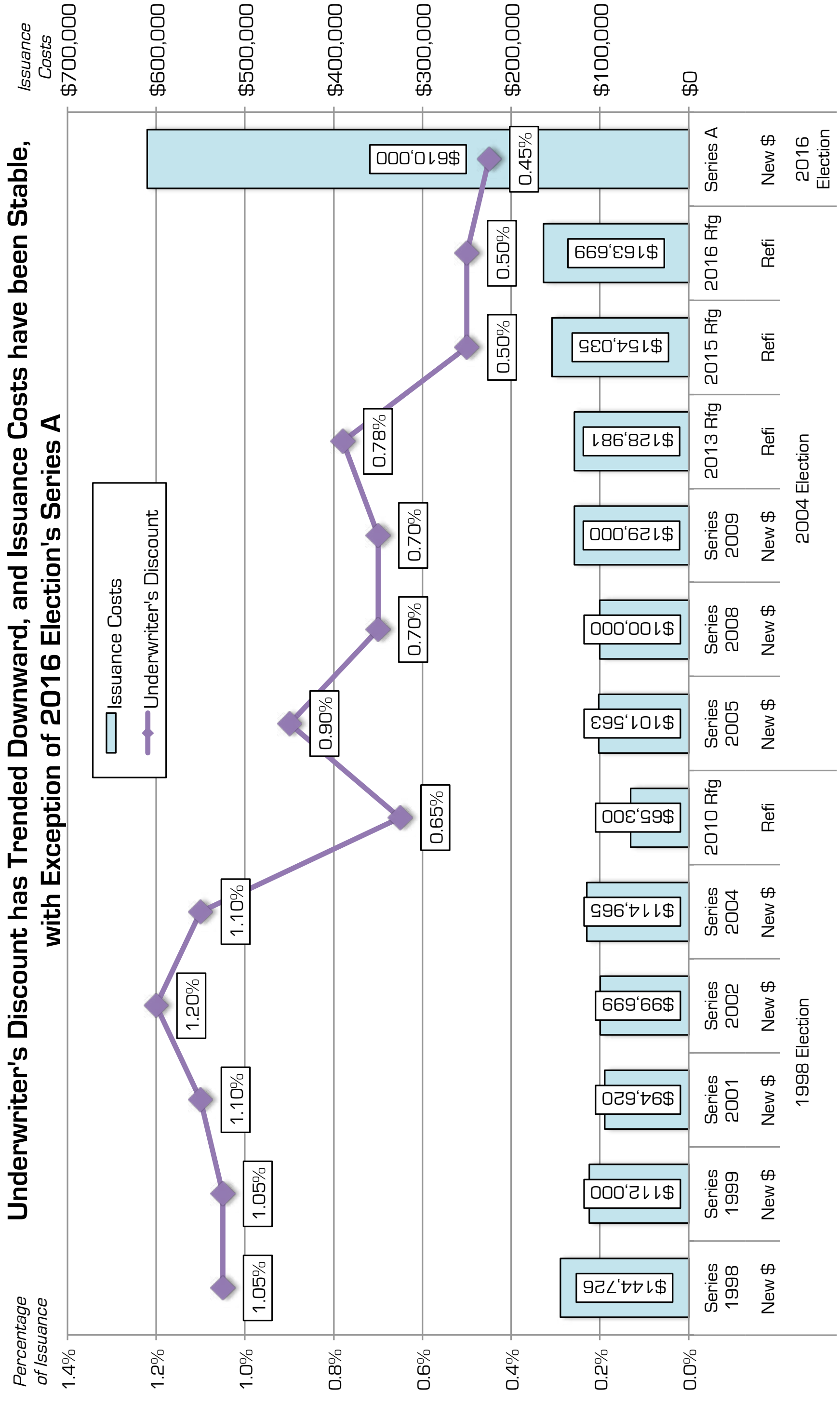
With just two years of taxation, taxes have remained below the $60 maximum projected levy. However, unless the district requested that the county levy taxes based on an estimated debt service schedule for 2018-19 or otherwise collaborated with the county to stabilize tax rates in 2018-19 the tax rate will fall even further than 2017-18's levy of $49.73 per $100,000 as shown in the chart below.



Tax levies provided by Los Angeles County Auditor-Controller's Department.

When a public agency issues bonds, there are up-front and ongoing costs. The ongoing costs are the annual debt service and administrative costs of having outstanding bonds. The up-front costs include the discount paid to the underwriter to purchase the bonds from the issuer and resell them to investors and the costs of issuance. Costs of issuance typically include the costs for legal counsels (bond and disclosure), financial advisor (if one is used), credit rating, bond insurance and other expenses necessary to prepare the bonds for market. The costs of issuance for the first series of Measure GS bonds was high in comparison to past issuances related to Measure EE and Measure M. The chart below shows that underwriter's discount has decreased and at 0.45% is consistent with the current market. According to The Bond Buyer's 2016 in Statistics Annual Review, underwriter's discounts averaged 0.492% for education bonds (which reflects a decline from 0.723% in 1998). Therefore, the district's costs for bond underwriting have declined from significantly above market to just below. However, the district's costs of issuance, which are a fixed dollar amount, were significantly higher (at $610,000) for the 2016 Measure GS bond issuance than they had historically been, and these costs were already rising.

Montebello Unified School District



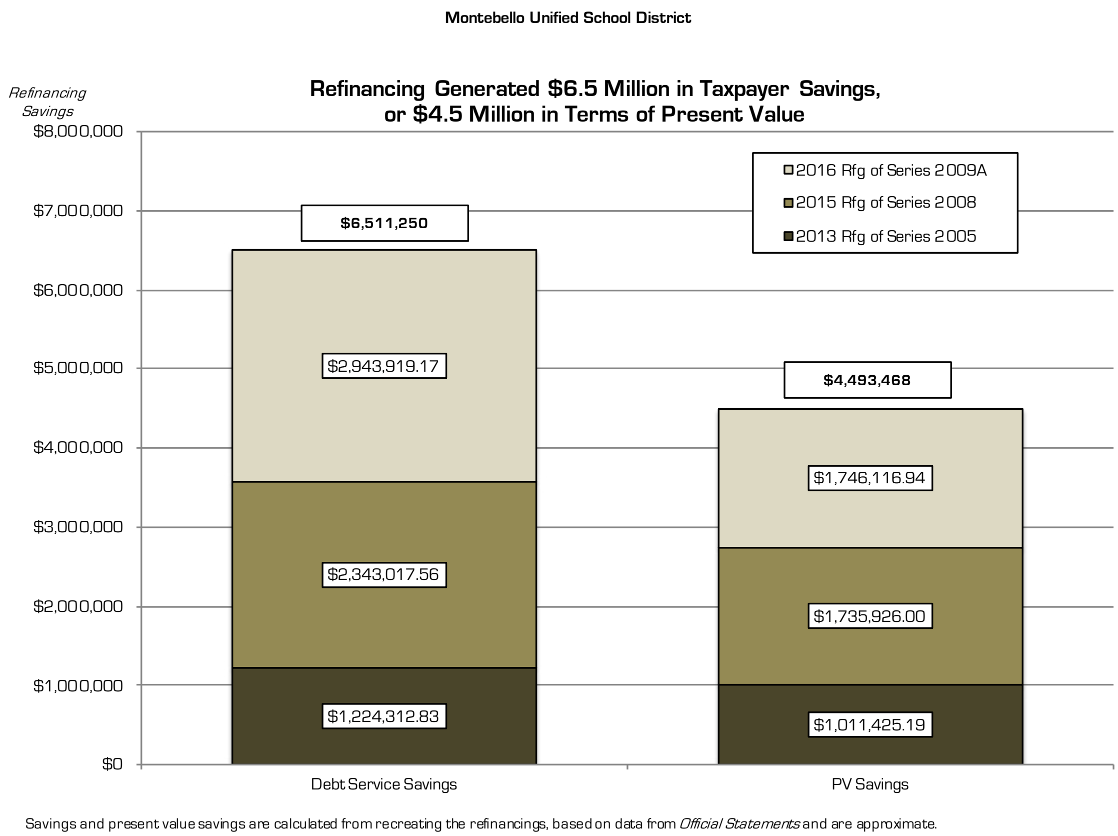
GO Bond Issuances

Cost breakouts from *Official Statements* and California Treasurer's website (www.debtwatch.treasurer.ca.gov/government/cda-all-data/yng6-vaxy/data).

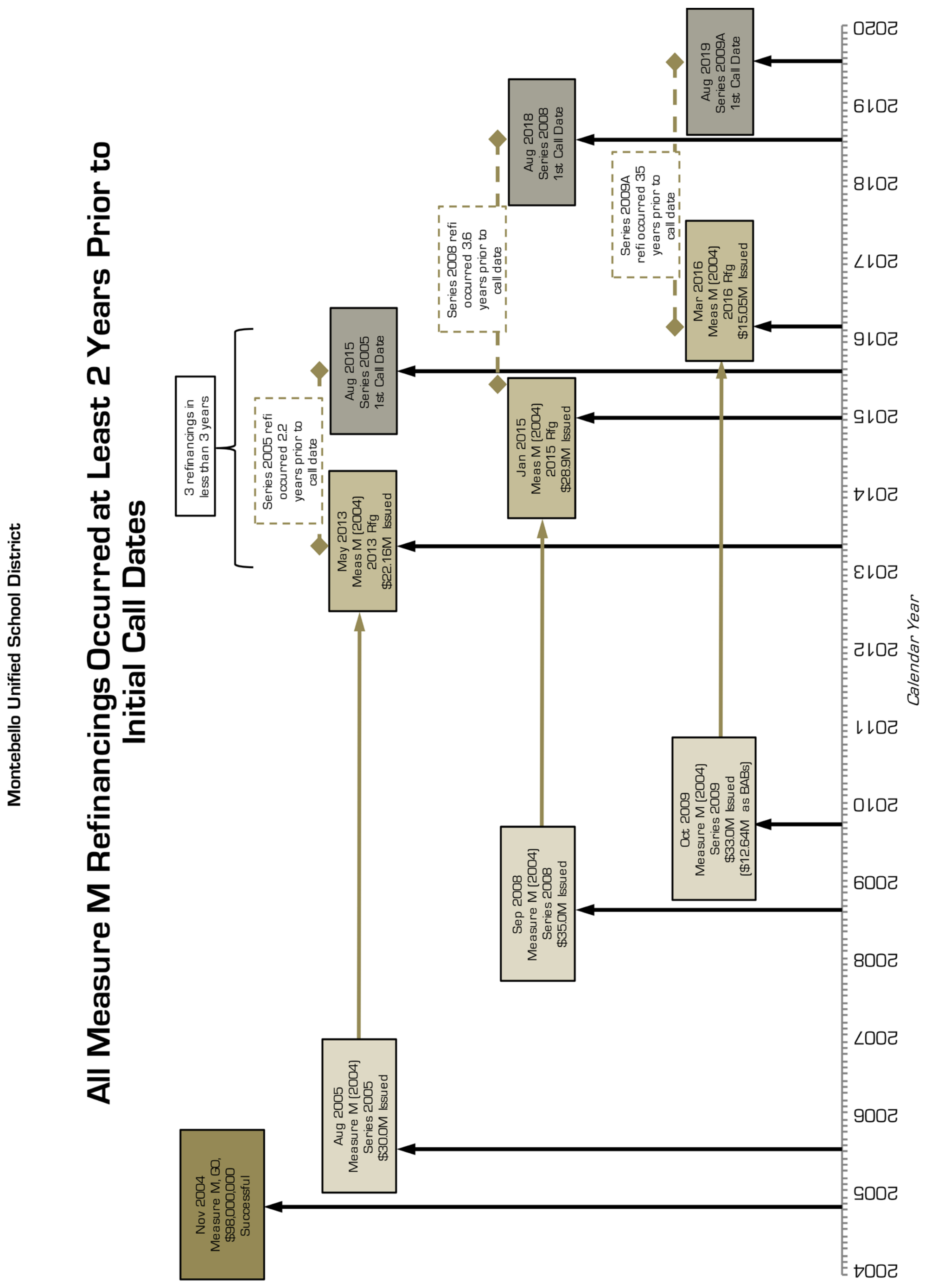
Refunding Bond Practices

Both Measures EE and Measure M, have utilized refunding to lower debt service. In the case of Measure EE, $1.3 million was saved via the 2010 issuance of refunding bonds to refinance bonds from the 1999, 2001 and 2004 series. Refinancing potential was limited by the amount of noncallable bonds included in the original repayment structures of these three series, and the 1998 series. The original bond issuances for Measure M in 2005, 2008 and 2009 were structured with much more of the bonds subject to call, creating the opportunity for more refinancing.

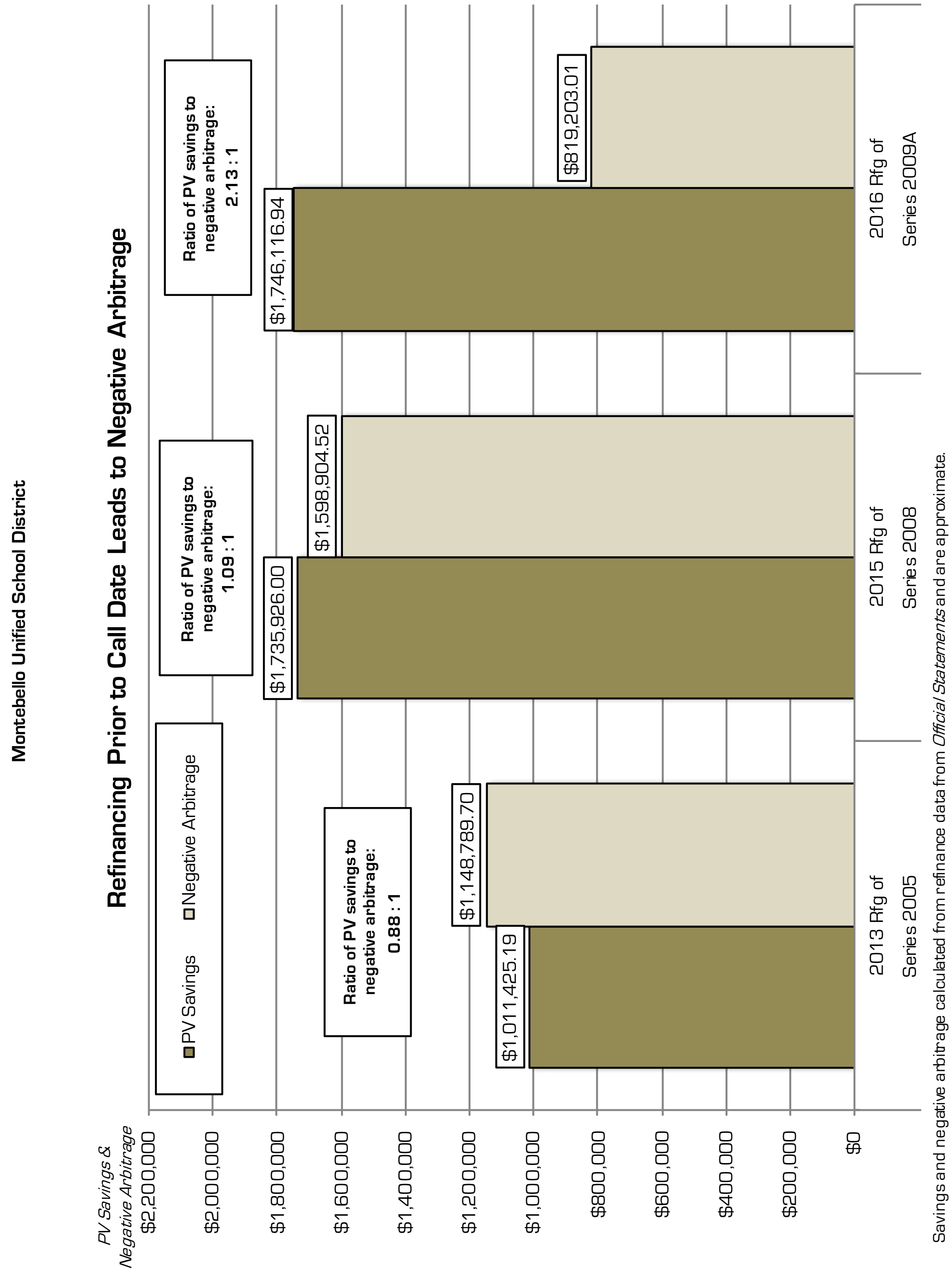
As mentioned previously, the three Measure M refunding bond issuances resulted in savings of $6.5 million. In the chart below, the estimated present value of the $6.5 million in nominal savings is shown as just under $4.5 million. A key question with refinancing is when to take action. Reviewing the present and not the nominal values can allow for a reasonable comparison of cash flows that might occur at different times.



As the chart below shows, each of the Measure M refunding bond issuances occurred before the call dates of the bonds to be refinanced. This means the proceeds of the refunding bonds had to be held in escrow until the call dates, when escrow proceeds were used to call the identified bonds. In the interim, the escrow account paid the interest on the bonds to be called so that the district no longer had any responsibility for these bonds.

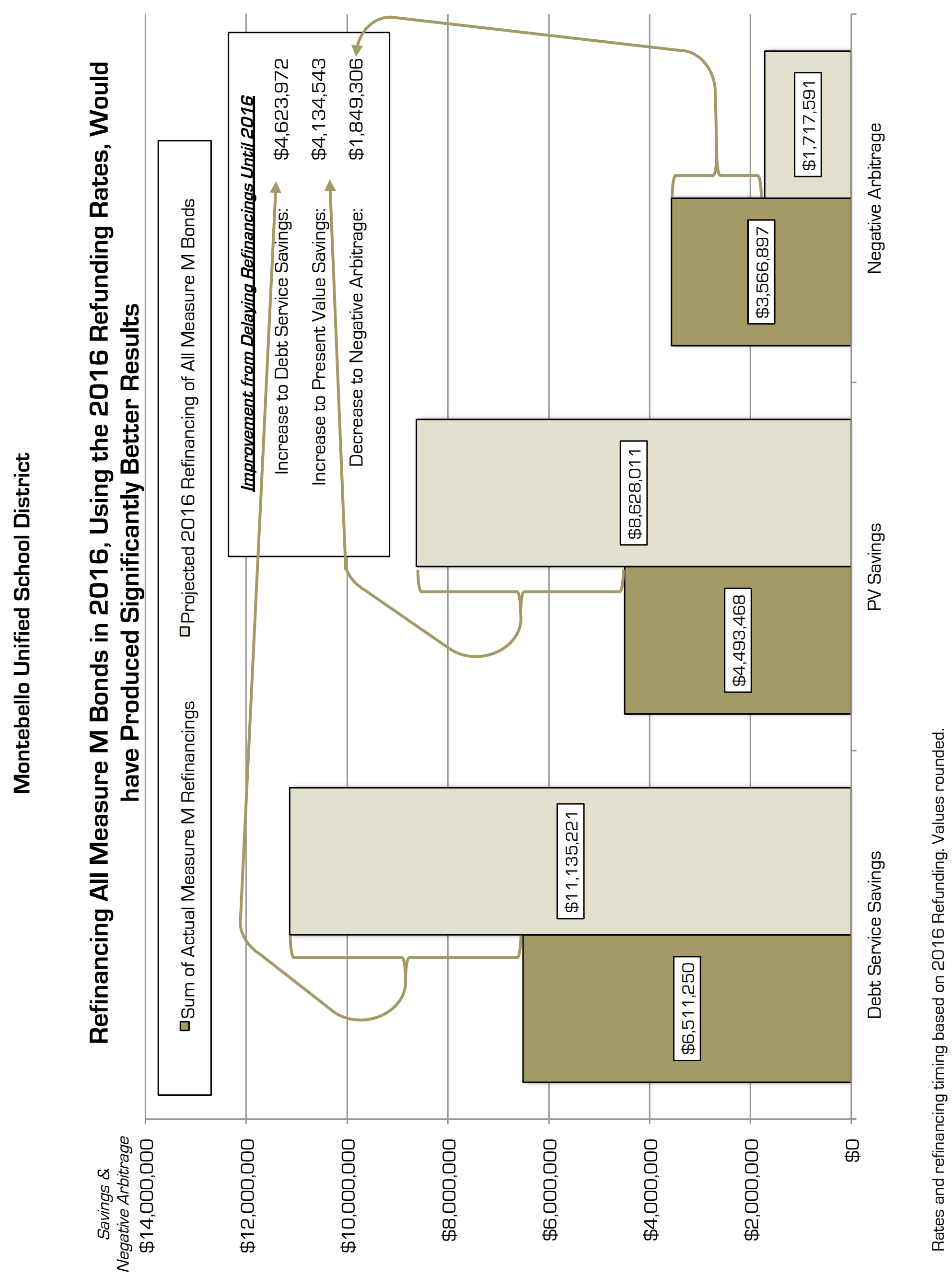


When a liability has been completely provided for via an escrow with "risk-free" investment (U.S. Treasury securities), it is considered defeased. Because the short-term investment in the escrow is often lower than the rate on the bonds being refinanced, more funds have to be deposited in the escrow than those owed on the bonds (interest due until the call date and the call price). When escrowed funds are invested below the issuer's borrowing rate, the difference is called "negative arbitrage." Negative arbitrage is a cost, which reduces savings from the refinancing.



Because all three refinancing bond issuances were so far ahead of the call dates, there was significant negative arbitrage. One way to measure this is by reviewing the ratio of negative arbitrage and savings. Some public agencies would not consider a transaction where the potential gains are the same as the cost as a compelling financing opportunity. In the case of the Measure M refundings, the 2013 and 2015 refundings carry a relatively high cost for negative arbitrage, and further, the refinancings were three transactions in four years. Some consolidation may have been valuable because of issuance costs.

To test this possibility, FCMAT estimated the savings if the district had refinanced all three original Measure M bond issuances with one refunding bond in 2016 (similar to refunding done for Measure EE, where three original bond issuances were refinanced with one refunding bond issuance. The chart below shows that had the district consolidated the Measure M refunding effort into one in 2016, on a nominal basis, taxpayers would have saved $11.1 million rather than $6.5 million, a difference of $4.6 million in nominal dollars (a present value difference of more than $4.1 million). While refinancing for savings is an effective strategy, in the case of Measure M, it was done inefficiently (and in a manner that differed from the practices followed with Measure EE). As a result, the district incurred three times the costs of issuance, the cost of significant negative arbitrage, and almost $5 million in unnecessary debt service for taxpayers.



Bond Market Disclosure

Because the district instituted the role of disclosure counsel for Measures M and GS, FCMAT tested the district's bond market disclosure practices by performing some sample research into filings in the Municipal Securities Rulemaking Board's Electronic Municipal Market Access or "EMMA" online system.

The Official Statements for two of the Measure M refunding bond issuances (2013 and 2015) disclosed errors in prior disclosure filings, including failures to file complete annual disclosure reports by the required deadlines. Such failures would also require a "Notice of Failure to File" to be posted on EMMA in connection with the appropriate bond issues to inform investors of those bonds. However, the notices could not be located on EMMA. As a result, potential investors of the refunding bonds are made aware of a poor track record in bond market disclosure; however, the investors in the bonds for which there was a failure of disclosure may not have been informed (and possibly not provided with the missing information or notice that it was late).

Findings and Recommendations

Bond Issuances

The district's voters have strongly supported district bond measures. With 2016's successful Measure GS, Measure GS will result in 1.5 times the local taxpayer investment in school facilities than in the prior 18 years. All of the district's original general obligation debt service combined has a ratio of debt service to original principal of less than two to one, which is half of the current statutory limit.

The district has issued bonds 13 times in 20 years, which indicates the costs of issuance are greater than necessary. It has utilized only the negotiated method of bond sale instead of a competitive sale as indicated by the type of bonds (general obligation) and the credit rating (A, AA or "AAA-insured"). This raises concern of mismanagement or potential for "pay to play" schemes.

After many years of relatively stable costs of issuance, the district is experiencing increases, and the 2016 Measure GS bonds had a cost of issuance that was more than three times the amount paid by the district one year earlier, albeit for a larger borrowing.

The district's public finance professionals have changed frequently, the roles filled have varied, and too many different firms may have been involved to provide the best overall bond financing strategy advice. The district has engaged four different law firms to serve as disclosure counsel over the last eight years, but it does not appear to comply with bond market disclosure requirements.

The district has used a financial advisor for the last few years, a Government Finance Officers' Association recommended best practice. Changes in district leadership do not appear to correlate with those of the public finance team. Given the lack of evidence of requests for proposals, it is not clear how public finance professionals are selected or maintained. It does not appear that the district followed a holistic approach to managing Measure M nor is positioned to have one with respect to Measure GS. The district should conduct an RFP process to engage a financial advisor and seek recommendations on how to manage Measure GS and all outstanding bonds from Measures M and EE in accord with Government Finance Officers' Association Best Practices to avoid repeating the consequences of the past including inconsistent and excessively low tax rates (if debt is paid off slower, it costs more), unnecessarily high debt service and lack of compliance with securities rule requirements.

The district has utilized refunding bonds to lower costs. Although this is a recommended Government Finance Officers' best practice, the district has not followed the association's detailed best practice recommendation, which includes consideration of timing, efficiency (minimizing negative arbitrage). This includes providing for future refunding via call options and monitoring refinancing opportunities. Further, the district's approach to refunding, while beneficial, has produced substantially less taxpayer savings than was possible. If the district had handled the Measure M refundings as it did the Measure EE refundings (three original "new money" issues refinanced together in one issue), it would have saved another almost $5 million.

The district's bond structuring with Measure EE included questionable practices that were subsequently prohibited (i.e. long dated noncallable capital appreciation bonds) although even before the State law changed in 2014 Measure M did not, and both Measures M and GS have less costly and more flexible repayment structures than Measure EE).Measure EE refundings (three original "new money" issues refinanced together in one issue), it would have saved another almost $5 million.

Trend Analysis

The team examined bond fund financial activity to determine whether expenditures of bond funds complied with the bond authorization or if any expenditures appeared to be outside the bond funds' authorized purpose. The review focused on authorization and did not examine any campaign promises that may have been made to voters in campaign materials, ballot arguments, and related materials.

As previously noted, the district has outstanding bonds from the following three bond measures:

- Measure EE, a two-thirds voter-approval bond measure held in a special election on April 14, 1998 and authorizing $92 million in bonds
- Measure M, a 55% voter approval bond measure held in the general election on November 2, 2004 and authorizing $98 million in bonds
- Measure GS, a 55% voter approval bond measure held in the primary election on June 7, 2016 and authorizing $300 million in bonds

The authorized expenditures of bond funds are governed by three sources:

- California Constitution Article XIII A
- The bond ballot measure
- The bond project list (for a 55% voter approval bond measure only)

<u>The California Constitution, Article XIII A</u>

The California Constitution, Article XIII A defines the allowable purposes for the expenditure of bond funds under both a two-thirds voter-approval bond measure and a 55% voter approval bond measure. For a two-thirds voter-approval bond measure, Section 1(b)(2) authorizes the following purposes, "…the acquisition or improvement of real property…"

For a 55% voter approval bond measure, Section 1(b)(3) authorizes the following purposes:

> …the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities…

Section 1(b)(3)(A) further specifies the authorized purposes under a 55% voter approval bond measure:

> …proceeds from the sale of the bonds (are to) be used only for the purposes specified in Article XIII A, Section 1(b)(3), and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

<u>Bond ballot measure</u>

The bond ballot measure describes the authorized purposes of the particular measure.

Measure EE asked voters to approve the following on April 14, 1998:

> In order to raise funds for school modernization and districtwide projects such as structural repair and improvements to existing schools; upgrading lighting, heating, plumbing and electrical systems, including for computer technology; safety and security improvements, including for seismic safety; replacing deteriorated roofs; and constructing new classrooms, libraries, and schools; shall the Montebello Unified School District be authorized to issue up to $92,000,000 of bonds for acquisition and improvement of real property at interest rates within the legal limit?

Measure M asked voters to approve the following on November 2, 2004:

> To make the District eligible for $73,000,000 of State matching funds, and to raise funds for projects including acquisition of real property, and expansion/upgrading of facilities, including security, communications, heating/cooling systems, science labs, libraries and cafeterias, needed to improve student instruction and safety, shall the Montebello Unified School District be authorized to issue up to $98,000,000 in bonds subject to accountability measures, with interest rates at or below the legal limit?

Measure GS asked voters to approve the following on June 7, 2016:

> To repair/upgrade neighborhood schools and improve education for each student by: upgrading computer/science labs, libraries, career/vocational education programs; fixing leaky roofs, bathrooms, drinking fountains, plumbing, wiring, improving earthquake safety standards/fires safety/school security; and repairing/constructing/acquiring facilities, sites/equipment; shall Montebello Unified School District issue $300 million in bonds at legal rates, requiring audits, citizens' oversight, no money for administrators' salaries/pensions, and funds used locally?

Bond project list

Under a 55% voter approval bond measure, California Constitution, Article XIII A, Section 1(b)(3)(B) requires that the measure include "a list of the specific school facilities projects to be funded."

Under Measure M, the bond project list is three pages. It largely echoes the Constitution in providing for "acquisition, construction, rehabilitation, renovation and equipping" of school facilities. The list prioritizes schools that have approved applications for State matching funds, followed by pending applications, additional priority school projects, district-wide facility upgrades, other construction projects involving replacement of portable classrooms with permanent construction and the construction of Head Start Offices, and joint use facilities.

Under Measure GS, the bond project list is five pages long and describes the renovation and repair of existing school facilities and a variety of upgrades and equipment related to safety and security, energy efficiency, water conservation, and technology. The list does not provide any specification of particular school sites, implying the improvements would occur districtwide.

Analysis of Expenditures

The district could not demonstrate that it maintains comprehensive multiyear tracking of bond expenditures by bond measure and project. FCMAT requested accounting records differentiating expenditures between bond measures and projects, project lists and schedules for the period under review, but none were provided. Financial management and monitoring of bond proceeds used are clearly lacking.

Given the expansive language of the bond project lists, and lack of restrictions beyond those specified in the Constitution, this review's purpose is to ensure the bond funds were spent on facilities and equipment and not on administrator and teacher salaries and benefits, and other school operating expenses.

FCMAT analyzed expenditures for the bond funds recorded in the district's financial records exported and provided by the county office. The bond funds were held by the district in fund 21 (building fund). While fund 21 provides for the segregation of bond funds from other sources of funds, the bond funds were not segregated by individual bond measure in the financial systems. The data exported by the county office from financial systems for the period July 1, 2013 through March 15, 2018 included the following:

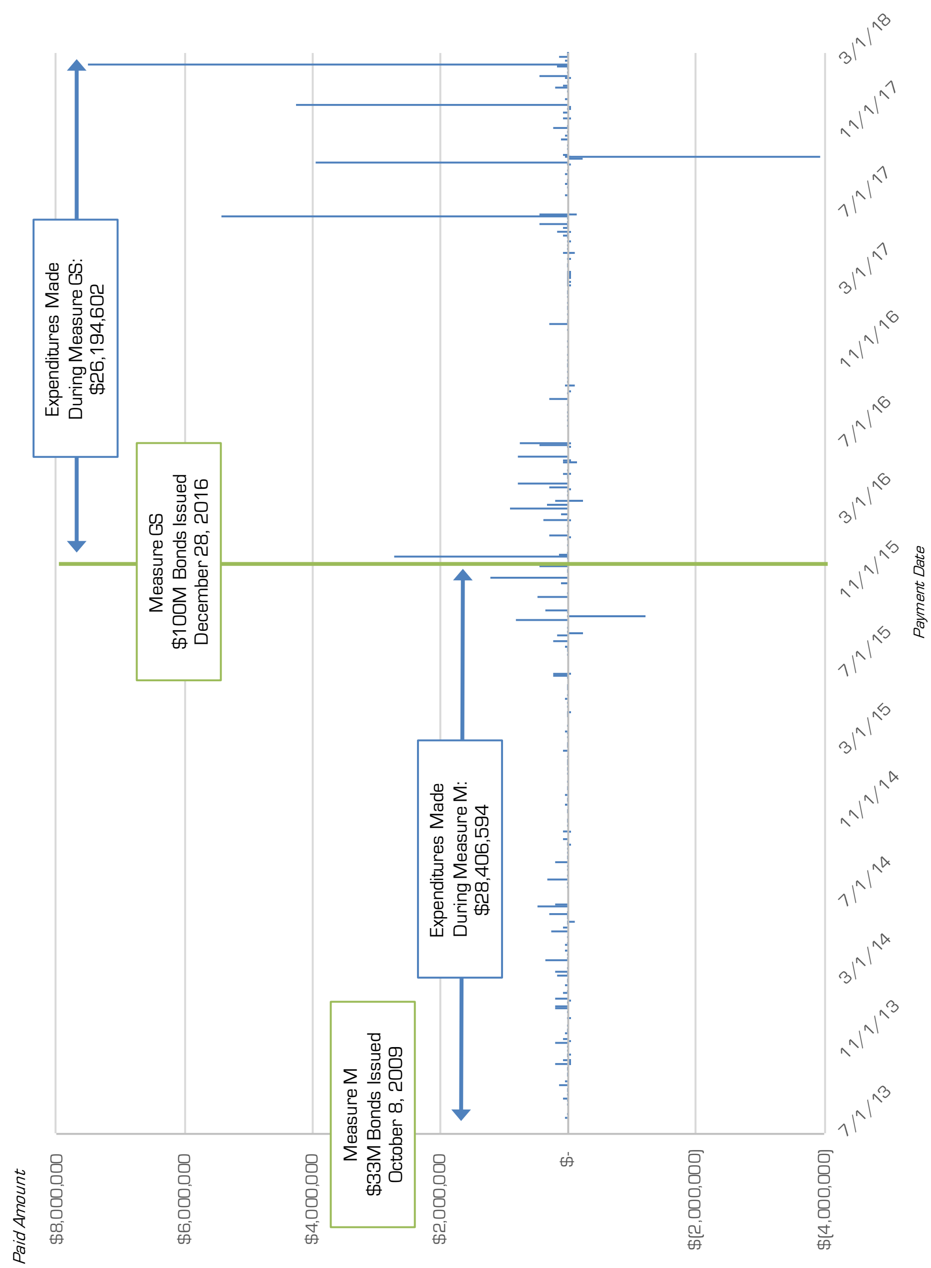
Vendor payment history data set (1,210 vendor invoices totaling $43,799,367)

- Full detail general ledger data set (2,631 transactions totaling $54,601,196)

The recording of expenditures, as provided for by the California School Accounting Manual, includes two types of codes used to review trends and provide insight into whether the expenditures relate to facilities or operations:

- Function codes (the activity of the expenditure)
- Object codes (the type of item purchased or service obtained)

The timing of the bond issuances in relation to the expenditures indicates that Measure M and Measure GS are shown in the chart below.



Both the vendor data set and full general ledger data set were subjected to a series of data visualization tests involving the two types of codes (function codes and object codes) to determine whether the bond expenditures made were coded in financial transactions to facilities and equipment. For many of the larger and unusual transactions that were flagged by the data visualization tests, the underlying transaction documents were also reviewed (as further noted in this report) to confirm the nature of the expenditures.

Analysis of Expenditures Made Through Payments to Vendors

The team reviewed vendor payment transactions recorded in the vendor data set by SACS function code. The number of transactions represents the number of unique vendor invoices paid. In the vendor data set, the function codes were almost entirely coded to "Plant Services" as shown below.

Vendor Payments by Function

Function Codes	Description	# of Transactions	Dollars Spent
1000-1999	Instruction	0	-0-
2000-2999	Instructional-related Services	0	-0-
3000-3999	Pupil Services	0	-0-
4000-4999	Ancillary Services	0	-0-
5000-5999	Community Services	0	-0-
6000-6999	Enterprise	0	-0-
7000-7999	General Administration	0	-0-
8000-8999	Plant Services	1,198	$ 37,862,773
9000-9999	Other Outgo	12	$ 5,936,594
Total		**1,210**	**$43,799,367**

"Plant Services" includes facilities acquisition and construction, so this coding is consistent with the bond measure authorization.

Additionally, 12 transactions were coded as "Other Outgo." Of these, 10 amounting to $26,500 were for payments to a bond arbitrage and rebate calculation vendor. Such calculations are common since, should the bond funds earn any arbitrage, the arbitrage must be related to the Internal Revenue Service in accordance with federal regulations (Internal Revenue Code Section 148). The other two transactions were for the repayment of debt. One $464,100 transaction was for the repayment of a certificates of participation (COP) financing that was originally issued in 1997 and later refinanced in 2010, and another $5,445,994 transaction was to repay a lease-purchase financing that was issued in 2015.

The repayment of the COP financing originally issued in 1997 occurred on June 5, 2017 when the district paid $464,100 to the Bank of New York Mellon Trust Co. The repayment of lease-purchase financing issued in 2015 occurred on July 7, 2017 when the district paid $5,445,994 to Bank of America. Given the timing and amount of the repayments, they appear to have come from Measure GS bond funds.

As shown below, the repayment appears to have been planned as the fiscal year 2017-18 budget notes:

> Voters approved $300M GO Bond as of 2016. Issued first series in Winter 2016. District is in process of issuing $30M for solar energy purposes as of Summer 2017. District recovery plan includes LED Lease (capital) and COPs all paid by GO Bond Series A as of 2017-18.

The explanation does not correlate to the Measure GS bond project list and instead states that repayment was made because the district recovery plan included it. This suggests that it was not made because it was authorized by the bond measure, but because it was needed to improve the district's fiscal position. The bond project list for Measure GS does not specify the repayment of debt or include any similar language (financing, certificates of participation, lease-purchase, lease payment, etc.). Therefore, the connection of the debt repayment to the bond measure is questionable.

With respect to the lease-purchase financing issued in 2015, the district's most recent audit report and the underlying transaction documents indicate that the purpose of the financing was to pay for an LED lighting retrofit project. The Measure GS bond project list identifies the replacement of lighting systems with energy efficient systems as a project. Engine Services (formerly known as Opterra) included lighting upgrades at Bell Gardens Elementary School in their scope of work identified as "Bo d Funded Measures" for 2018. Assuming that the lighting project identified in the bond project list includes the new project (at Bell Gardens Elementary School) and the previous project undertaken with the 2015 lease-purchase financing (at other district sites), the repayment of the lease-purchase financing would likely be an authorized expenditure.

Concerning the certificates of participation financing originally issued in 1997, the Official Statement from the transaction identifies the following projects:

1997 Lease-Purchase Financing Projects

Project	Cost
Multi-zone AC equipment	$ 1,900,000
Chiller air handling equipment	$ 1,042,000
Classroom lighting	$ 1,750,000
Swimming pool covers	$ 28,300
Telephone switching equipment	$ 200,000
Miscellaneous mechanical equipment	$ 402,000
	$ 5,322,300

The Measure GS bond project list identifies the replacement of air conditioning, ventilation, and lighting equipment with energy efficient systems as a project, along with the upgrade and expansion of telecommunications equipment. Engie Services included heating, ventilation and air conditioning (HVAC) upgrades at five school sites and lighting at one school site, in the scope of work identified as "Bond Funded Measures" for 2018. Assuming the bond project list includes new projects as well as those undertaken with the 1997 lease-purchase financing, the repayment of the lease-purchase financing would likely be an authorized expenditure.

However, the timing of repayment (20 years after the financing was originally undertaken) raises an additional question about whether this was an allowable use. The term of the Measure GS bond issued in December 2016 was 30 years, meaning that the energy efficiency and telephone equipment installed in 1997 were financed over a combined 50 years.

Internal Revenue Code Section 148-1(4)(i)(B)(2) provides that the term of the bond must have, "…a weighted average maturity that does not exceed 120 percent of the average reasonably expected economic life of the financed capital projects."

The maximum term of the Measure GS bond issued in December 2016 was 30 years, with more than 70% of the principal maturing in 10 years or later. Therefore, a significant percentage of the financed capital projects should have a useful life of at least eight years (10 ÷ 120%), and much of that, a useful life approaching 25 years (30 ÷ 120%) Following the issuance of Measure GS's 2016 bonds, most of the major expenditures to date have been for debt repayment and energy equipment (as highlighted in yellow below), all of which have relatively short useful lives.

Table of Major Expenditures

Vendor	Amount Paid	Purpose
Engie Services U.S. Inc.	$9,966,948	Energy equipment (lighting, HVAC, solar, storage)
Bank of America	$5,445,994	2015 debt repayment (lighting)
Opterra Energy Services	$4,242,437	Energy equipment (lighting, HVAC, solar, storage)
DelTerra Group	$1,087,332	
Masters Contracting Corporation	$526,974	
The Bank of New York Mellon Trust Co.	$464,100	1997 debt repayment (energy/telephone equipment)

Only about a quarter of the bond funds from Measure GS's 2016 bonds appear to have been spent to date; this is an estimate since the district was unable to provide any documentation accounting for the proceeds and use of each bond. The remaining three-quarters, if spent on projects with relatively long useful lives, could reach the threshold required of an average of 25 years. As a result, the district would need to use its remaining funds toward long-lasting projects in order to satisfy the Internal Revenue Code.

The team prepared an analysis of expenditure by vendor/payee. Below are the top 25 vendors or payees, ranked by total paid amount and by number of payments.

Rank	Vendor / Payee	Number of Payments	Total Amount Paid
1	Engie Services U.S. Inc.	2	$ 9,966,948
2	Bank of America	2	$ 5,445,994
3	Opterra Energy Services	1	$ 4,242,437
4	Masters Contracting Corporation	9	$ 3,886,246
5	Construct 1 One, Corporation	14	$ 3,381,787
6	OHNO construction	12	$ 2,941,680
7	Evergreen Energy Solutions, LLC	9	$ 2,009,273
8	Del Terra Group	15	$ 1,087,332
9	Astroturf LLC	2	$ 863,377
10	Harik Construction, Inc.	9	$ 743,384
11	Beynon Sports Surfaces Inc.	5	$ 590,961
12	Field Turf USA Inc.	3	$ 481,941
13	The Bank of New York Mellon Trust Co.	2	$ 464,100
14	Dell EMC	1	$ 449,747
15	HMC Architects	55	$ 440,944
16	Best Contracting Services, Inc.	3	$ 425,752
17	Los Angeles Air Conditioning, Inc.	9	$ 397,113
18	Orbach Huff Suarez & Henderson LLP	58	$ 308,152
19	Excel Inspection Services, Inc.	28	$ 282,661
20	Construct 1 One, Corp.	3	$ 261,653
21	GKK Works	26	$ 224,447
22	Oceanstate Development, Inc.	3	$ 195,675
23	New Horizons Contracting, Inc.	29	$ 194,080
24	Sky Blue Environmental, Inc.	39	$ 185,820
25	GDL Best Contractors, Inc.	7	$ 184,581

Rank	Vendor / Payee	Number of Payments	Total Amount Paid
1	Orbach Huff Suarez & Henderson LLP	58	$ 308,152
2	HMC Architects	55	$ 440,944
3	Eastern Group Publications, Inc.	50	$ 20,877
4	Titan Environmental Solutions, Inc.	49	$ 114,165
5	ARC Document Solutions, Inc.	42	$ 3,080
6	Sky Blue Environmental, Inc.	39	$ 185,820
7	Sandy Pringle Associates Inspection	39	$ 95,820
8	U.S. Bank N.A.	38	$ 9,500
9	New Horizons Contracting, Inc.	29	$ 194,080
10	Excel Inspection Services, Inc.	28	$ 282,661
11	GKK Works	26	$ 224,447
12	Koury Engineering & Testing, Inc.	23	$ 22,439
13	American Reprographics Company LLC	20	$ 2,100
14	Harrington Geotechnical Engineering, Inc.	19	$ 107,923
15	Orbach Huff & Suarez LLP	17	$ 99,767
16	Los Cerritos Community Newspaper Group	17	$ 10,012
17	A-1 Steel Fence Co., Inc.	16	$ 42,540
18	American Reprographics Company dba	16	$ 2,402
19	Del Terra Group	15	$ 1,087,332
20	United Paving Co.	15	$ 158,294
21	MATCO Tech	15	$ 128,200
22	Construct 1 One, Corporation	14	$ 3,381,787
23	Converse Consultants	14	$ 40,589
24	Haley & Aldrich, Inc.	14	$ 22,522
25	Henry Woo Architects, Inc.	13	$ 67,940

The largest vendors or payees identified in connection with transactions coded to the building fund (fund 21), beyond the banks associated with the debt repayment, appear consistent with a facilities program.

The payments for Engie Services (formerly known as Opterra) were large and few (three payments totaling approximately $14.2 million for Engie and Opterra combined), and as a result, were reviewed in greater detail. The underlying transaction documents related to the payments appear to be proper invoices that were sent as progress was completed on the project at the following levels: 15%, 43%, and 52%. The documents identify two projects: a group of energy measures at 10 sites identified as "Proposition 39 Funded Measures" with a budget of approximately $5.7 million, and a separate group of energy measures at 20 sites identified as "Bond Funded Measures" with a budget of approximately $28.1 million. Only the latter appear to have been paid with bond funds.

Evergreen Energy Solutions also was one of the top-paid vendors, receiving approximately $2 million. The underlying transaction documents for the payments describe the scope as "energy conservation measures at Montebello Gardens Elementary School, Montebello Intermediate School, Bell Gardens High School, and District Administration Office."

While the Evergreen Energy Solutions payments are not unusual in isolation, the district has committed a significant amount on energy projects in a short amount of time.

Below is a summary of these commitments:

Project	Year	Amount
Masters Contracting – Lease-Purchase LED Lighting	2015	$ 6,800,000
Evergreen Energy Solutions – Measure M Lighting	2015	$ 2,900,273
Engie/Opterra – Proposition 39 Funded Measures	2017	$ 5,730,231
Engie/Opterra – Measure GS Bond Funded Measures	2017	$ 28,090,167

This high level of expenditures on multiple projects by multiple vendors presents the potential for duplication in the scopes of work. However, based on a review of the underlying transaction documents from these the energy projects, the scopes do not appear to be redundant. A summarized table of projects is attached as Appendix A to this report.

When analyzed by object code, the total value of vendor payments were primarily coded to "Capital Outlay" as shown below.

Distribution Vendor Payments by Object Code

Object Codes	Description	# of Transactions	Dollars Spent
1000-1999	Certificated Personnel Salaries	0	-0-
2000-2999	Classified Personnel Salaries	0	-0-
3000-3999	Employee Benefits	0	-0-
4000-4999	Books and Supplies	28	$ 246,717
5000-5999	Services and Other Operations	625	$ 4,762,449
6000-6999	Capital Outlay	555	$ 32,880,107
7000-7999	Other Outgo	2	$ 5,910,094
Total		**1,210**	**$ 43,799,367**

All payments to vendors were coded to supply, service, capital outlay and other outgo object codes, series 4XXX-7999. No payments to vendors were coded to salary or benefit object codes, series 1XXX-3999 "Salaries" and "Employee Benefits."

A review of the vendors for the 28 transactions coded to object code series 4000-4999 "Books and Supplies" indicated they were primarily for equipment such as information technology items, sports supplies, furniture, etc., which are appropriate under both the Measure M and Measure GS bond project lists. As a result, none of these transactions warranted further scrutiny.

A review of the vendors for the 625 transactions coded to "Services and Other Operations" indicated they were primarily for equipment rentals (construction equipment, fencing, etc.) and professional services (legal, environmental, construction management, architects, etc.). One vendor, the Grand Prix Association of Long Beach, is not typically associated with a school facilities project. A review of the underlying transaction documents found this was for the temporary rentals of grandstand equipment.

A review of the vendors for 555 transactions coded to "Capital Outlay" includes land, facilities, and equipment; this coding is consistent with the bond measure authorization.

The two transactions coded to "Other Outgo" were for the two debt repayments discussed previously: the repayment of a COP financing originally issued in 1997 and the repayment of a lease-purchase financing issued in 2015.

Full Data Set of Expenditures – Review of Object Codes

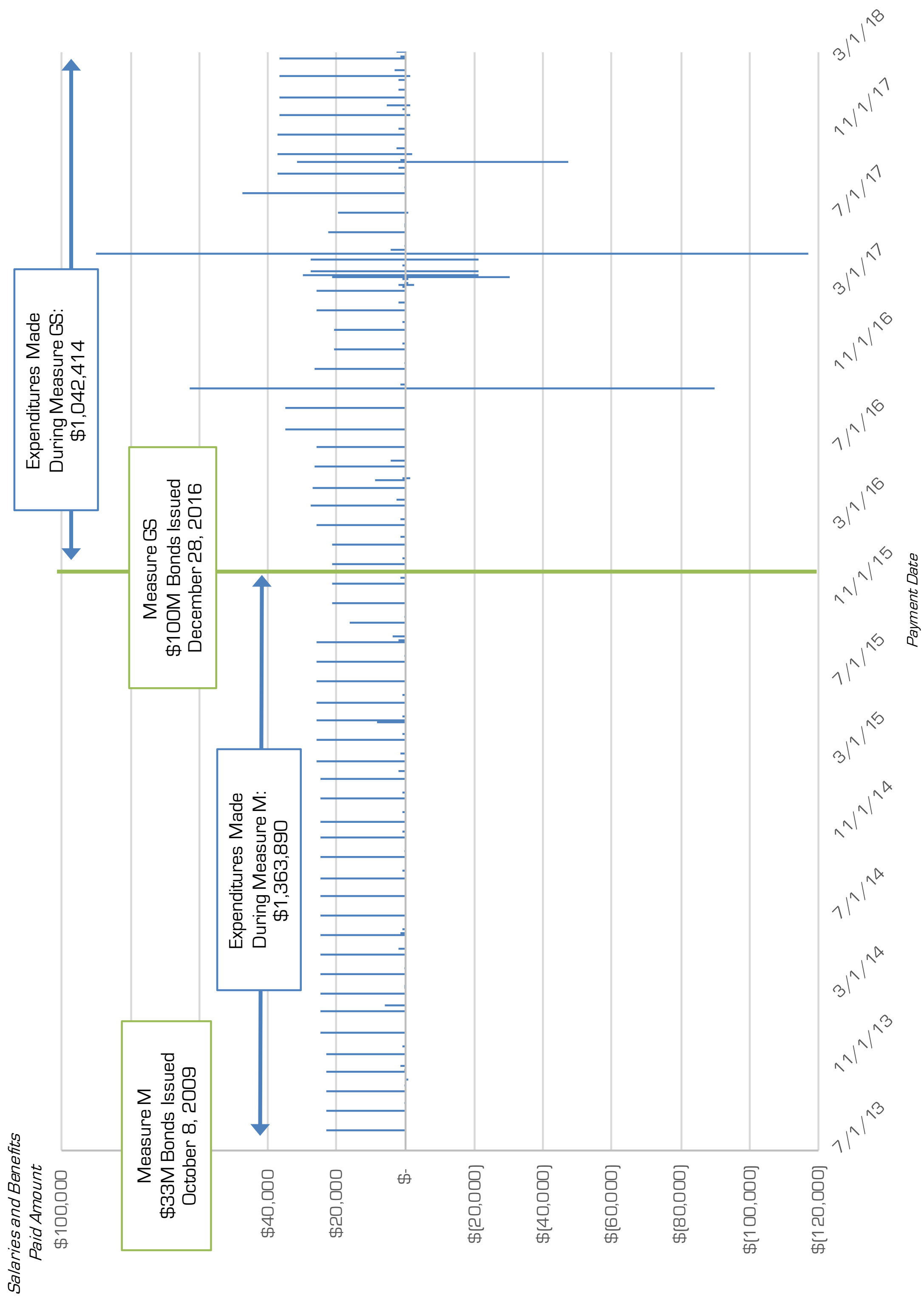
In the detailed general ledger "full data set," the vast majority of additional transactions related to "Classified Personnel Salaries" and "Employee Benefits," total nearly $3.5 million for salaries and benefits combined, and as shown below:

Distribution of Expenditures by Object Code

Object Codes	Description	# of Transactions	Dollars Spent
1000-1999	Certificated Personnel Salaries	0	-0-
2000-2999	Classified Personnel Salaries	302	$ 2,406,304
3000-3999	Employee Benefits	911	$ 1,079,031
4000-4999	Books and Supplies	34	$ 265,541
5000-5999	Services and Other Operations	749	$ 8,691,231
6000-6999	Capital Outlay	631	$ 36,248,996
7000-7999	Other Outgo	4	$ 5,910,094
Total		**2,631**	**$ 54,601,197**

Because the district cannot spend bond funds on school operating expenses, it can use bond funds to pay for classified salaries and benefits only when classified personnel is directly working on the bond program. In effect, the district is paying for "in-house" services that would otherwise be performed by a consultant or contractor in advancing the bond program. The connection of the classified personnel to the bond program must be supported by evidence, such as timesheets, that provides documentation that such personnel worked on the bond program and justifies the amount of bond funds that were expended. Further analysis of salaries and benefits charged to the building fund (21) are addressed in the substantive testing section of this report.

The bond expenditures toward classified salaries were also analyzed over time, as shown below.



Analysis of Expenditures Made Through Payments to Employees

The $1.36 million spent on classified salaries during Measure M are especially concerning, because they do not appear to vary with actual work performed on the bond program. Instead, they appear to be relatively consistent expenditures of just over $30,000 per month for 42 months.

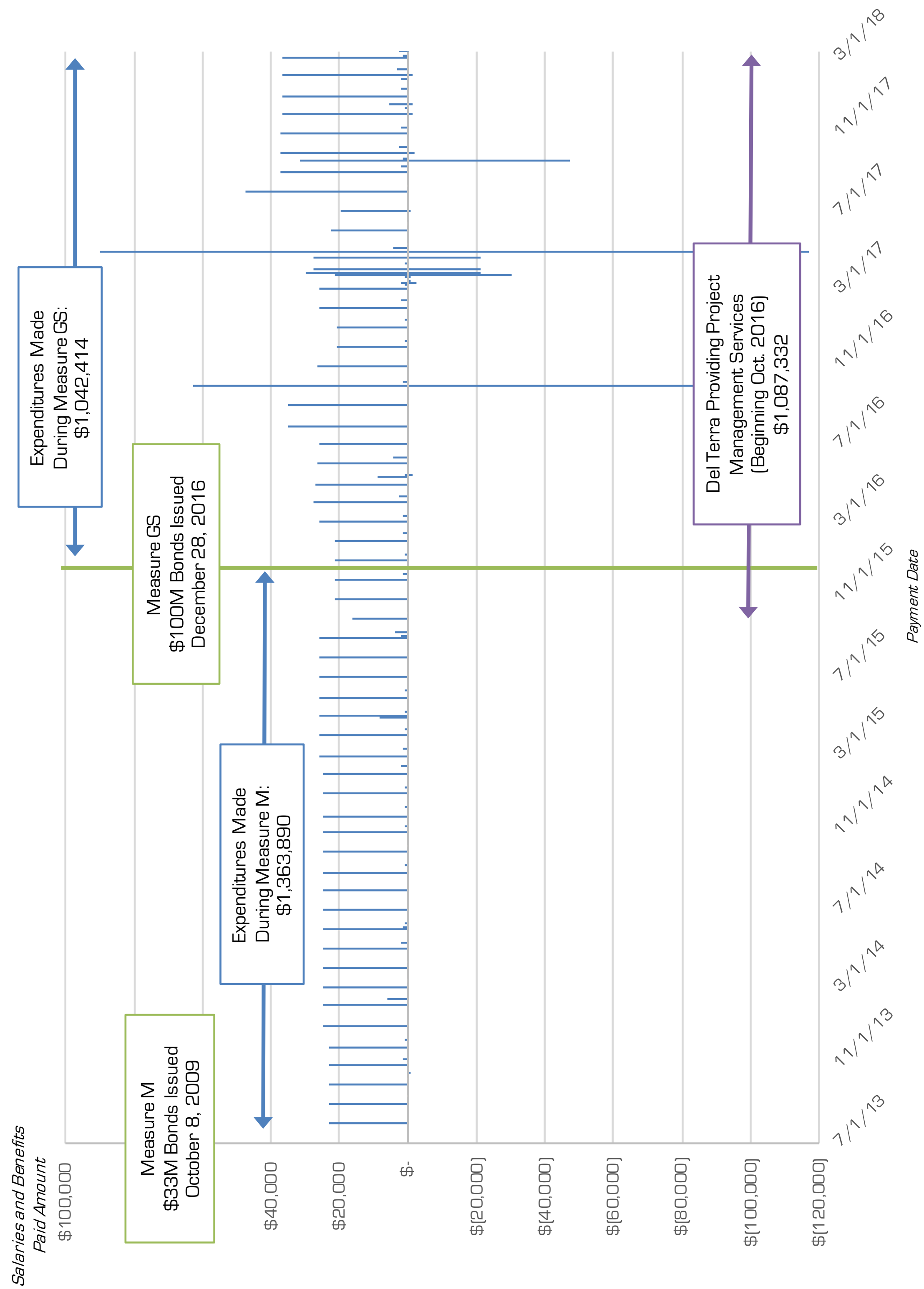
The $1.04 million spent on classified salaries during Measure GS fluctuate more, but some of this appears to be the result of mistaken expenditures that the district will reclassify out of the bond fund. The expenditures do not vary much as would be expected based on actual work performed over the 15 months reviewed, which is also concerning.

As previously noted, the justification for using bond funds to pay personnel is that the employees are directly working on the bond program, and in effect, the district is paying for "in-house" services that would otherwise be performed by a consultant or contractor in advancing the bond program. In 2014, the Attorney General issued an opinion, 2004 Office of Attorney General Report No. 04-110 which states:

> 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 the construction projects authorized by a voter approved bond measure.

In August 2016, the district entered into a program management contract with the DelTerra Group and various construction management contracts with other firms. This occurred as the bond program was transitioning from Measure M to Measure GS. Del Terra was presumably to provide a significant amount of bond program administration and oversight that would no longer be provided by district staff; however, interviews with facilities staff indicate that their duties remained unchanged.

The expenditures toward salaries and benefits using bond funds is shown again below, now with an overlay of the timing when DelTerra provided program management services.



Particularly concerning is that no significant adjustment was made for the amount of bond funds used toward salaries and benefits, even with the added project management services. This raises a question about the redistribution of duties previously conducted by district staff and the specific contracted services of DelTerra in providing project management, administration, and oversight.

Substantive Testing

Payroll

Payroll transactions are processed through an automated human resources system (HRS) that is not integrated with the district's PeopleSoft financial system. HRS payroll transactions post to the general ledger accounts in summary totals for each pay period. The detail of employee payroll transactions in HRS cannot be modified once payroll is finalized. Any corrections to payroll entries must be made through journal entries, which are posted to the general ledger. FCMAT reviewed detail general ledger exports for each fiscal year and verified the content of each to the school district's unaudited actuals report to ensure its completeness.

FCMAT received detailed payroll transaction extracts from the HRS system for all employee payroll transactions coded to the district's building fund (fund 21) for fiscal years 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 through March 2018. Based on the employees listed in this extract FCMAT then requested exports from the HRS system for each employee inclusive payments charged across all funds to determine the actual distribution of wages to the building fund. FCMAT also identified and reviewed general ledger journal entries to determine if the district subsequently reallocated wages out of the building fund.

FCMAT's review of payroll transactions processed through the HRS payroll system identified wages for multiple employees in four positions with split allocations between the general fund (01) and the building fund (21). While multiple employees had the same position assignment, the same salary and benefit distribution was applied to the wages for all employees assigned to that position as shown in the following table.

Fiscal Year	2013-14		2014-15		2015-16		2016-17	
Position/Fund	1	21	1	21	1	21	1	21
Facilities Project Coordinator	30%	70%	30%	70%	30%	70%	30%	70%
Facilities Project Coordinator	30%	70%	30%	70%	30%	70%	30%	70%
Facilities Project Coordinator	30%	70%	30%	70%	30%	70%	30%	70%
Facilities Project Coordinator	30%	70%	30%	70%	30%	70%	30%	70%
Hazmat Coordinator	50%	50%	50%	50%	50%	50%	50%	50%
Hazmat Coordinator	50%	50%	50%	50%	50%	50%	50%	50%
Facilities Development Assist.			10%	90%				
Facilities Development Assist.	10%	90%	10%	90%	10%	90%	10%	90%
Facilities Development Assist.					10%	90%		
Accountant	50%	50%	50%	50%	50%	50%	50%	50%

FCMAT's review of general ledger journal entries found that the estimated salary and benefit distribution percentages for each employee were never adjusted to reflect the actual activities of those employees throughout the year or at year end. No adjustments were present to increase or relieve amounts charged for employee time to the bond fund. While allocating wages based on an estimate of time committed to a particular program or project is acceptable for budget purposes, the actual time directed towards bond projects of each employee must be accounted for, and the allocated wages must be adjusted based on actual work performed.

FCMAT requested documentation demonstrating an accounting of each employees' actual time for work performed on bond projects, but staff was unable to provide it. Inquiries with district staff indicated they had no knowledge of any time accounting activities. A review of general journal entries adjusting salary and benefit amounts coded to the building fund only identified one entry to abate wages paid by the amount received for workers compensation payments and multiple reclassifying entries. The reclassifying entries reviewed were solely associated with reclassifying expenditures from object codes 2999 and 3999, which are system default accounts used to post payroll transactions coded to invalid object account codes, to valid account codes in the 2XXX and 3XXX object code series. No entries were observed in the building fund adjusting salary and benefits charged, which were based on estimated allocations, to amounts reflecting time spent on actual work performed on bond related projects.

To address its deteriorating financial condition, the district was required to submit a fiscal stabilization plan alongside its 2016-17 adopted budget. Additionally, it filed a qualified certification at both the first and second interim reporting cycles during the 2016-17 fiscal year. To reduce the financial burden on the general fund, the district's stabilization plan identified the layoff of various staff throughout the district to maintain financial solvency, including some positions from the Maintenance, Operation and Facilities Development Department (MOFD). FCMAT was provided with various communications and a copy of a staffing realignment plan prepared by the former MOFD director, dated April 2017, intended to save MOFD positions from layoff by reallocating 2017-18 employee salaries and benefits from the general fund to the building fund. Minutes from the governing board's April 6, 2017 meeting indicate that the superintendent discussed a fiscal stabilization plan; however, no specific details are included. While FCMAT could not determine whether the governing board approved this plan, layoff notices were rescinded in May, suggesting board authorization.

FCMAT was provided with communications and two documents as support for the district's rationale to redistribute wages to the building fund. These communications included one from the district's legal counsel to district administrative staff regarding the use of bond funds for salary and benefit costs, which included the 2004 Office of Attorney General Report No. 04-110. Further guidance from the district's legal counsel to the former director of MOFD demonstrated that while the attorney general opinion, issued in November 2004, indicated districts are permitted to pay some or all of the salaries of certain district employees from bond proceeds, clear criteria must be met. These are as follows:

- Those employees are engaged in administration, management, or inspection of bond-financed projects.
- The district maintains careful records, subject to audit, as to how much of those employees' time is actually spent.

Without bond-funded projects, these employees would not have had to perform the work for which they were compensated, and each employee's time must be tracked and documented daily to create an audit trail. Similar to employees whose wages are multifunded and include proceeds from federal sources, percentage allocations can be used for budget purposes, but only wages for actual time can be charged. If a percentage allocation is used to simplify the payroll process, the allocation of wages must be adjusted after each pay period to reflect the actual time spent performing those duties, which must be documented.

In the email noted above, the district states that a tracking mechanism has been set up for all planning, inspections, and management of bond projects. However, when FCMAT requested the supporting documentation for the November 2017 payroll, the district could not provide any. As noted earlier, MOFD staff indicated no system for tracking actual employee activities was in place.

FCMAT's review of wages charged to fund 21 for the 2017-18 fiscal year identified a considerable increase in the number of positions and/or percentages allocated to that fund . The table below summarizes the positions, original salary allocations for payroll prior to May 31, 2018 and the revised salary allocations as of May 31, 2018.

2017-18 Distribution of Salaries

Position (# of Positions)	Previous Allocation		Revised Allocation	
	Fund 01 General Fund	Fund 21 Building Fund	Fund 01 General Fund	Fund 21 Building Fund
Plummer (2)	65%	35%	100%	0%
G. Electrician	60%	40%	100%	0%
Carpenter (3)	70%	30%	100%	0%
HVAC Technician	65%	35%	100%	0%
G. Locksmith (2)	70%	30%	100%	0%
G. Painter	60%	40%	100%	0%
Sr. Welder Fabricator	75%	25%	100%	0%
Electronic Equipment Tech	65%	35%	100%	0%
G. Sr. Painter	60%	40%	100%	0%
G. Glazier	75%	25%	100%	0%
G. HVAC Technician	65%	35%	100%	0%
Hazardous Materials Coordinator	0%	100%	0%	100%
Hazardous Materials Coordinator	0%	100%	0%	100%
Facilities Dev Assistant (2)	0%	100%	0%	100%
Facilities Departmental Finance Manager*	0%	100%	n/a	n/a
Accountant/Sr. Accountant	0%	100%	0%	100%
Facilities Project Coordinators (4)	0%	100%	0%	100%
Facilities Project Supervisor	0%	100%	0%	100%

** This position was vacant during our fieldwork time, no revised distribution was provided.*

The district had a fiduciary duty to ensure that all expenditures charged to the bond fund were directly associated with work performed on bond projects. The district was unable to demonstrate the following:

- Salary and benefit budgets for the building fund were developed based on reasonable estimates, routinely monitored and revised to reflect updated projections of actual work to be performed throughout the year.
- Actual employee time was tracked and monitored to ensure that the amount charged to the building fund was actually representative of the actual time spent by each employee whose salaries and benefits were charged to the building fund;
- Amounts charged through the payroll based on estimates were revised to reflect actual time spent working on bond projects throughout the year or prior to the close of each fiscal year.

- By ignoring these responsibilities the district has failed in their duties to ensure that charges of salary and benefits were appropriate and that bond funds were not used for administrative activities. Furthermore, the adjustment of salaries and benefits budgets for positions historically primarily charged to the district's general fund for routine repair and maintenance work to completely funded from bond funds is an intentional misuse of bond funds.

During interviews, staff from the Human Resource Department reported that they were evaluating all salary and benefit payments coded to the building fund in the 2017-18 fiscal year, and that any payments that could not be clearly tied to bond projects would be reclassified out of the building fund.

FCMAT was provided with personnel request forms for several positions that authorize the reallocation of wages for those positions from the building fund back to the general fund effective July 1, 2017. FCMAT identified changes in the payroll distributions for transactions processed in the HRS for the 2017-18 fiscal year beginning with the May 31, 2018 payroll. The general ledger did not have any journal entries reclassifying wages charged to the building fund from July through March 2018. The district should ensure that all payroll charged to the building fund (21) is documented and substantiated based on actual work performed on bond projects throughout the year. All necessary adjustments should be made before the close of the fiscal year, and the county office should verify this information. Further, moving forward, the district should ensure adequate supporting documentation that identifies all work performed by each employee and demonstrates the division of time attributable to bond-funded projects is gathered and retained to support the positions and wages charged to the building fund.

FCMAT selected payroll transactions from the November and April payroll cycles in each fiscal year to identify any overtime paid to employees. The team also reviewed detailed payroll reports for each employee and the account code charged as well as all backup supporting the journal entries processed during the months requested.

A review of select payroll transactions identified wages for overtime charged to the district's bond funds. FCMAT requested all documentation of the activities supporting this allocation of wages. Although some backup documentation listed activities tied to bond projects for Measure M and GS, most involved work related to regular emergency situations arising through daily operations. For items reviewed, the actual time reported on the timesheets was charged at the same percentages as the employee's regular payroll allocations rather than to the account appropriate for the purposes identified when the overtime was approved. This is another indication that demonstrates wages charged to the building fund were not monitored and some or all may not be an appropriate use of bond funds. Failure to reclassify these unsubstantiated or misclassified expenditures out of the building fund would constitute a misuse of bond funds.

Bids, RFP and other Contracting Practices

FCMAT obtained from the county office detail general ledger and vendor history report exports from the district financial system for the 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 (through March 14, 2018) fiscal years and performed the following procedures:

- *A*nalyzed data in the vendor history reports and selected individual transactions for review.
- Requested from the district all supporting documentation for each selected transaction.

- Reviewed documentation for each transaction to determine the following:
- Whether authorization was obtained and documented in advance of the expenditure.
    1. If the expenditure was appropriate, in accordance with district policy, allowable by law, and if applicable, appropriate expenditure for bond funds.
    2. Whether goods or services were received and an obligation was incurred.
    3. If transactions were processed accurately and in a timely manner, and properly recorded.

The district was asked for lists of bids and requests for proposal (RFPs) for each fiscal years under review and FCMAT was initially provided typed lists for 2015-16, 2016-17, and 2017-18. These lists appear to be maintained by the Procurement Department and record bids and RFPs for various departments. After a second request, the district provided handwritten lists for all years. The typed and handwritten lists matched for the years in common. The district also provided Facilities Department bid lists for the 2012-13, 2013-14, and 2014-15 fiscal years. The Procurement Department should assign and track all bid and RFP numbers, and this appears to have occurred. Staff confirmed that the standard procedure is for Procurement to assign and track bid and RFP numbers, but during the tenure of the former CBO and former facilities director, many items bypassed the standardized procedures and were handled by the business office.

FCMAT selected 13 vendors from the vendor history report for testing bidding, selection and contracting procedures and documentation. The district struggled to gather complete documentation for all vendor transactions and bids selected for review, ultimately providing limited support. Five different types of selection processes applied to the vendors selected: public bidding, emergency resolution, “piggyback” contracting, RFPs and energy conservation contracting.

- Public Bidding: Public bidding is commonly known as the lowest bidder process, and selection is made based on the lowest responsive and responsible bidder according to Public Contract Code 20111.

  Public bids must be advertised, and if a job walk is conducted, a sign-in sheet should confirm attendance. Legal advertisements indicate that the district’s practice is to have mandatory job walks. Because these are mandatory, the sign-in sheet is a required item in bid documentation, showing that the bidder attended and was therefore eligible to bid.

  Bids are opened, read aloud and the bidder name and amount is entered on the opening list. Bids consist of a form including a subcontractors list, a bid bond and other required forms. When the governing board awards a bid, an agreement is signed, and the awarded bidder (contractor) provides a performance bond, payment bond, and insurance certificate. If the project is for public work, the district completes form PWC-100 to register it with the Department of Industrial Relations (DIR) to track the payment of prevailing wages. The district issues a notice to proceed to the contractor. After completion of the work, the district governing board approves a notice of completion that is filed with the county of jurisdiction.

- Emergency Resolution: Emergency resolutions allow an exception to public bidding for emergency conditions when a prescribed approval process is followed. Conditions commonly qualifying as “emergencies” generally include situations with a risk of immediate harm to persons or property or disruption of the educational process. For example, the failure of a water well pump affecting the delivery of water to a school site would be an emergency.

When an emergency situation occurs the district is permitted to select a contractor of its choice, no advertisement, mandatory job walk, or bid is necessary; however, county superintendent review and approval is required. All other requirements remain, including board approval, a signed contract, a performance bond, a payment bond, an insurance certificate, a PWC-100, a notice to proceed (optional) and a notice of completion.

- Piggyback: "Piggyback" contracting is the use of a public bid previously awarded by another agency. For piggyback bids, the district would be responsible for approving the use of the contract and all activities thereafter. The original bid and award must include a provision allowing for piggyback by others in sufficient quantities. A piggyback is not applicable to public works bids where labor is involved. Before approval of a contract, a copy of all the original bid documents from the awarding agency should be obtained. For the purposes of this audit, the original awarding agency documents were not tested.
- Requests for Proposal (RFP): RFPs are used for professional services (such as architectural and construction management services) and other services for which the selection is based on criteria such as professional competence, experience, best value, etc., and is not required to be based on lowest cost.

  RFPs may be advertised generally or targeted to a selected number of firms. RFPs are generally used to procure professional services. (There are exceptions allowed by law, when public works [construction] vendors may be selected without public bidding, for example "Energy Services Contracts" under Government Code Section 4217.12.) All selection process documents, proposal, board approval, signed contract, and insurance certificates are required file documentation.
- Energy Conservation Contracts: Energy conservation contracts require a finding that the cost of the energy measures will be less than the cost of energy without the measures, and are not required to be bid.

Bid File Documentation Testing

File documentation of all procurement activities is required. Education Code Section 35250 states that the governing board of every school district shall… (b) keep an accurate record of the receipts and expenditures of school moneys. FCMAT requested bid/selection file documents for 13 vendors/bids. In every case, documentation was missing, not provided or other exceptions were noted, often numerous. This volume of exception may indicate that the district does not have a comprehensive bid/selection documentation process or does not follow one. At the very least, it indicates improper retention of documentation and calls into question whether required legal procedures were consistently followed and the legality of executed contracts and payments.

The table below summarizes the total number of occurrences observed in each area of exception and the percentage of occurrence for the bid/RFP packages reviewed by FCMAT.

Exception # / Description		Frequency of Occurrences # / %	
1	Listed on bid# assignment list	1	7.69%
2	Advertisement	4	30.77%
3	Job walk sign-in sheet	5	38.46%
4	Bid opening list/board memo	2	15.38%
5	Bid form	5	38.46%
6	Bid bond	4	30.77%
7	Subcontractor list	3	23.08%
8	RFP Selection documents	1	7.69%
9	Board award	6	46.15%
10	Signed Agreement	5	38.46%
11	Performance Bond, Payment Bond	5	38.46%
12	Insurance	5	38.46%
13	PWC-100	7	53.85%
14	Notice to Proceed	6	46.15%
15	Notice of Completion	5	38.46%
NE	No exceptions (NE) noted	0	0.00%

Details of bid/selection file documentation exceptions noted by FCMAT are attached as Appendix B to this report.

While all areas of exception raise concern, those with a high percentage of occurrence point to significant process and/or recordkeeping deficiencies in district procedures.

Emergency Resolution Testing

The district was requested to provide all emergency resolutions approved for fiscal years 2013-14 to 2017-18. The records for 13 emergency resolutions were provided, as follows:

2013-14 – 0

2014-15 – 0

2015-16 – 5

2016-17 – 2

2017-18 – 6 (through January 2018)

The emergency resolution process is authorized by Public Contract Code Section 20113. During an emergency, to avoid danger to persons or property or to enable school classes to continue, a district may contract for labor and materials without advertising for or inviting bids, with the unanimous approval of the governing board and county superintendent. The county office requires districts to complete and submit for approval a fill-in-the-blank form resolution. As a best practice, the file record of an emergency board resolution should minimally include the following documents to properly document the action:

1. An internal memo memorializing the details of the emergency and requesting the approval of an emergency resolution.
2. A letter of request to the county office documenting the emergency situation.
3. A proposal for the work to be performed.

4. The county office "Governing Board Resolution for Emergency Resolution – Public Project" form, completed by the district and signed by the clerk of the governing board as submitted to the county office.

5. The board minutes of the resolution approval.

6. The finalized county office "Governing Board Resolution for Emergency Resolution – Public Project" form approved by the county superintendent of schools.

None of the cases included a governing board signature, board minutes, or county office approval in documentation provided. Six of the 13 had no request letter to the county office, and 10 of 13 had no proposals. This suggests a significant deficiency in the approval process or recordkeeping or both, which may indicate that the required legal procedures are not consistently followed.

A summary of deficiencies in the records noted by FCMAT is attached as Appendix C to this report.

The descriptions of the "emergency" condition for several of the resolutions reviewed by FCMAT call into question whether the condition was really an emergency, or the emergency resolution process was used to avoid bidding requirements. District staff reported that the district sometimes uses emergency resolutions even when the situation is not a true emergency.

FCMAT's review of documentation supporting emergency resolutions recorded by the district identified the following:

- Resolution 4 (2015-2016): The letter to the county office concerning this resolution references only Montebello Intermediate School and cites inadvertent disturbance of materials containing asbestos as the condition necessitating an emergency resolution; however, the resolution also references Montebello Gardens Elementary School. The documentation supporting the work performed provided gives no explanation for the inclusion of Montebello Gardens Elementary or the nature of emergency for this school site. (The board minutes documenting the reason were subsequently discovered in the payment file for Emergency Resolution 9 [2015-16].)
- Resolution 4 (2015-2016) Revision/Addendum: Adds Eastmont Intermediate School asbestos and mold remediation/abatement and demolition of four portable classrooms. Molds could conceivably have been discovered, and the remediation of both mold and asbestos concurrently could have been an economical way to proceed. However, the demolition of the four portable classrooms included in this emergency resolution are unlikely to meet the criteria of an emergency. This could have been managed by fencing off the area surrounding the classrooms and then following the normal bid process. The documentation provided gives no explanation of the reasons for including demolition work in the emergency resolution.
- Resolution 9 (2015-2016): approved the removal of a "stockpile" of 5,000 cubic yards of soil that was described as being "accessed and disturbed" by students. The stockpile was created during the construction of Schurr High School sports field and track. The reason this service was needed is unclear based on the explanation. Disposal of any excess soil should have been included in the contract with the project contractor. If for some reason, the project contractor could not timely remove the soil, the costs for another contractor to do so would typically be back-charged to the project contractor. The district should further investigate whether contracting for this work was duplicated and if a credit was received.

- Resolution 9 (2015-2016) Amendment: Changed the originally approved contractor, Camarena Land Clearing (Camarena), to a different contractor, Barraza and Sons (Barraza). Multiple allegations of illegal actions concerning this resolution and amendment were made during FCMAT interviews. The first allegation was that at the direction of the former facilities director, the contractor for the sports field and track project, Ohno Construction, did part of the work to move the soil referenced in the preceding bullet point. Subsequent to that work, the direction was allegedly rescinded, and therefore the contractor was not paid. The second allegation was that Camarena actually performed the soil removal work, but was either not registered with the Department of Industrial Relations or could not obtain payment and performance bonds or both and therefore could not be paid. Barraza was allegedly substituted as a sham contractor to receive payment and pass it through to Camarena, possibly at a profit.

  Documents located in the payment file substantiate the allegation of deficiencies in bonding and/or Department of Industrial Relations registration. The board minutes approving Camarena indicate that a bond would be required, and the estimated project cost was $120,000. The district would have known that the soil removal was a public work requiring the payment of prevailing wages, and any estimate or proposal should have been based on prevailing wages. The district staff could not locate any record of a proposal for soil removal from Camarena. The initial proposal from Barraza for the removal of the soil was for $120,000, with a notation of additional price items: “bond cost to be determined by surety” and “prevailing wages $5,300.” Barraza then provided an additional proposal to include the cost of bonds and prevailing wages for $8,100. Facilities staff alleged, that Barraza was chosen by the former facilities director because of connections to the former CBO, but this could not be confirmed.

  In addition, documents indicate that the proposal from Barraza was back-dated. The proposal was dated September 9, 2015, but was not accepted until October 6, 2015. The additional proposal for bonds and prevailing wages was dated October 9, 2015. The original board approval of Emergency Resolution 9 (15-16) listing Camarena was September 17, 2015. This indicates that the emergency board resolution would not have been changed prior to posting or via a verbal correction at the board meeting if it was known that Barraza and not Camarena was the contractor.

  There is a serious conflict between the proposal/agreement documents and invoice documents provided by Barraza. Barraza signed a contract with the district to perform the work and included a signed subcontractor’s list that stated there were “No subcontractors,” meaning that Barraza itself would do the work. However, as part of its invoice to the district, Barraza submitted a “Conditional Waiver and Release on Progress Payment.” This form is typically signed by a contractor, referred to as “the claimant,” which is Barraza, to release its rights to file a stop notice and other remedies against “the customer,” which is the district conditioned upon receipt of payment. However, the customer listed is Camarena. This would indicate that Barraza understood its relationship as performing services for Camarena.

Requests for Proposal (RFP) Testing

The district's Procurement Department issues tracking numbers for RFPs and maintains a list of these numbers by fiscal year. The RFP tracking list for 2012-13 shows that the Facilities Department issued RFP solicitations for architectural services and inspector services that year.

In 2016, RFPs were issued for architect, inspector, construction manager, and program manager services. None of these RFPs were listed on the procurement RFP list, and they were not assigned a sequential tracking number. It was reported by staff that the CBO and prior facilities director independently conducted the RFP process and bypassed the standardized practices that would have involved Facilities and Procurement personnel.

Documentation reviewed by FCMAT shows that on July 8, 2016, the Business Services Department posted notices on the California Association of School Business Officials (CASBO) website for four RFP solicitations for the following services: architectural and engineering, inspector of record, program management, and construction management. All four RFPs had a due date of July 21, 2016, providing approximately nine business days for responses to be submitted. Although all records concerning all RFP solicitations were requested from the district, only the program management solicitation documents could be located.

FCMAT's review of documentation confirmed that each of the firms submitting RFP responses for program management, construction management, architect, and inspector services were required to complete a hard copy prequalification application packet. However, no records of the evaluation and scoring of the prequalification application packets could be located.

The president/CEO of DelTerra completed the prequalification application packet for DelTerra , located at 13181 Crossroads Parkway, Suite 540, City of Industry, CA. The president/CEO also signed the prequalification packet as being true and correct under penalty of perjury on July 29, 2016. Section B of the packet, titled "Firm Specifics" contains the question "Has any corporate officer or owner of the firm worked for any other firms in the past five years?" The response from DelTerra was "No." However, Purchase Order #P906750, dated May 19, 2015, to Evergreen Energy Solutions, LLC (Evergreen) is addressed to DelTerra's CEO/president at the same address and suite number as DelTerra. The ownership of DelTerra and Evergreen, and the relationship of the companies, is an untruthful statement.

Responses received to the July 8, 2016 RFP solicitation were as follows:

Architectural and engineer	27
Inspector of record	5
Contract management	15
Program management	4
Total	51

The content accompanying responses was voluminous and would be time consuming to thoroughly review. The records indicate that all responses were reviewed on August 2, 2016, and three individuals, assigned the letters A, B, and C, evaluated them. These individuals signed confidentiality and conflict-of-interest certifications for the inspector of record, construction management, and program management RFPs. No certifications records were provided for the architectural and engineering evaluators. Adequately reviewing 51 responses in one day would be difficult given the thickness of the response paperwork. Doing so would require each response to be reviewed in approximately nine minutes assuming an eight-hour day with no breaks.

According to the records reviewed by FCMAT, interviews for architectural and engineering services were held on August 5, 2016 and interviews for construction management and program management occurred on August 8, 2016. No records were found indicating interviews for inspectors of record. No records were found showing the time schedules for the architectural and engineering, construction management and program management interviews.

The number of firms interviewed was as follows:

Architectural/Engineering	12
Construction management	8
Program management	4

Two panels of four individuals each interviewed the architectural and engineering firms, each panel handling six firms. Four individuals, assigned letters A-D by the district, interviewed the construction management and program management firms. To distinguish each individual who participated as a panel member FCMAT assigned a unique number, one through nine in the table below. The records for one panel list two individuals were assigned the letter D by the district. The composition of the panels is illustrated in the table below. The purpose of this analysis is to demonstrate that the interviews could not be performed concurrently by the same individuals.

Firms	**Panels**	**Panel Members**			
		A	**B**	**C**	**D**
6	A/E – 1	1	3	6	8
6	A/E – 2	2	4	7	9

Firms	**Panels**	**Panel Members**				
		A	**B**	**C**	**D^1**	**D^2**
8	CM	1	4	6	8	9
4	PM	2	5	6	8	

Additional documentation on the RFP solicitation is contained in a memorandum from the former superintendent to the board of education dated August 13, 2016. According to that document, each interview was 45 minutes long. The composition of the program management and construction management panels overlap, indicating that the interviews were consecutive, not concurrent. While 12 interviews of 45 could be accomplished in nine hours with no breaks, FCMAT finds it unlikely. With five-minute breaks between interviews and a one-hour lunch, this would result in an 11-hour day, which is still short and unrealistic. If the interviews were conducted in this manner, the quality of the decisions would be questionable.

While parts of the process are documented in significant detail, a number of important records are missing or contain irregularities. For example, the prequalification evaluation/scoring, interview schedules, inspectors of record RFP submittal evaluations and interview scoring, and architect interviewer certifications were not located.

The time frames were unrealistic and short, including nine business days for RFP response submittal, one day for review of 51 RFP responses, and 12 interviews of 45 minutes conducted in one day.

The CBO and former facilities director conducted the process independently, bypassing established procedures and without the involvement of procurement and facilities staff, who would usually play a role.

All these factors raise the question of whether the process was thorough, complete, and genuine. Instead, it appears to have been performed for the sake of documentation, with other factors involved in choosing the selected firms. District staff reported that the facilities personnel ordinarily responsible for conducting these tasks were not asked for input on the architect selection. When they asked to review or provide input, the former MOFD director refused. Additionally, architects that were used on other projects were not informed of the RFP.

Vendor Payment Transaction Testing

FCMAT selected 45 transactions for testing to determine if the invoicing and payment documentation was sufficient and complete.

The team requested invoices and all other supporting documentation for each payment transaction selected. The district provided documentation for 44 of the 45 transactions. The testing criteria were as follows:

- The supporting documentation demonstrated a complete and appropriate procurement and payment process.
- The payment represented a true and accurate obligation of the district.
- The payment amount was accurate.
- The timing of the payment was appropriate.
- District established payment procedures were followed.

Each transaction was traced to supporting documentation including:

- A purchase order
- Agreements/proposals
- An invoice
- A schedule of values
- A payment Log

The table below summarizes the total number of occurrences observed in each area of exception and the percentage of occurrence for the vendor payment transactions reviewed by FCMAT. The detailed results of the vendor payment transaction testing are attached as Appendix D to this report.

Exception # / Description		Frequency of Occurrences # / %	
1	Invoice detail inadequate/inaccurate	6	13.33%
2	Approval signatures missing	16	35.56%
3	No Schedule of Values/backup	18	40.00%
4	Purchase Order date after invoice date	8	17.78%
5	Handwritten changes without initial	3	6.67%
6	Invoice & PO descriptions/$ conflict	4	8.89%
7	No PO copy OR PO not signed/dated	20	44.44%
8	Accepted proposal & PO in conflict	1	2.22%
9	NOC filed if retention payment	3	6.67%
10	Payment history tracking sheet	20	44.44%
11	No Invoice	2	4.44%
NE	No Exceptions Found	5	11.11%

While all areas of exception raise concern, those with a high percentage of occurrence point to weaknesses in district procedures, either in verification before payment, recordkeeping, or both, as opposed to random errors.

While the reason is unclear, the district has a process of transferring at least some bid file records from the Facilities Department to the Accounts Payable Department at the time of the final payment. The accounts payable supervisor provided much of the documentation requested by FCMAT. Original construction file documents should not be forwarded for retention with accounts payable records because hard-copy accounting records may be destroyed after three years, and facilities files often need to be kept for longer periods. Instead, copies of documents sufficient to verify payment requests should be provided to Accounts Payable before the first invoice. This would include a copy of the signed contract and board approval. The Facilities Department should retain the notice of completion (applicable to construction contracts only) as well as copies of the invoice(s) for retention. The bid file documents and copies of all invoices should remain with Facilities.

Contract Administration and Program Management

The district contracted with DelTerra for program management services. The proposal from DelTerra, submitted through the RFP process, contains a "Sample/Draft Staffing Plan." This plan details the potential hours per month and billing rates for 16 people. The table below shows January of each year over the proposed five-year term, as a sample of the number of individuals, hours, billing rates, and costs proposed.

Sample/Draft Staffing Plan

	Title	Rate	January 2017		January 2018		January 2019		January 2020		January 2021	
			Hours /Mo.	Monthly	Hours /Mo.	Monthly	Hours /Mo.	Monthly	Hours /Mo.	Monthly	Hours /Mo.	Monthly
1	Program Director/Program Executive	180	80	14,400	80	14,400	80	14,400	20	3,600	20	3,600
2	Deputy Program Director/Sr. Program Mngr.	180	80	14,400	80	14,400	80	14,400	80	14,400	80	14,400
3	BOT Comm. Mngr.	150	20	3,000	20	3,000	20	3,000	20	3,000	20	3,000
4	Sr. Project Mngr.	160	160	25,600	160	25,600	80	12,800	80	12,800	80	12,800
5	Project Coordinator	100	160	16,000	160	16,000	160	16,000	160	16,000	80	8,000
6	Program Controls Mngr.	165	100	16,500	80	13,200	80	13,200	80	13,200	80	13,200
7	Project Controls	120	160	19,200	100	12,000	80	9,600	80	9,600	80	9,600
8	Document Controls Manager	110	160	17,600	160	17,600	100	11,000	100	11,000	100	11,000
9	Program Design Mngr. /Sr. Design Mngr.	150	160	24,000	120	18,000	40	6,000	40	6,000	40	6,000
10	Design Coordinator	140	100	14,000	120	16,800	80	11,200	80	11,200	0	-
11	Asst. Project Manager	125	160	20,000	120	15,000	80	10,000	80	10,000	40	5,000
12	Dir. of Construction/Sr. Constr. Mgr.	160	120	19,200	80	12,800	80	12,800	80	12,800	40	6,400
13	Sr. Constr. Management Support	140	40	5,600	120	16,800	120	16,800	120	16,800	40	5,600
14	Construction Management Support	130	60	7,800	120	15,600	120	15,600	120	15,600	80	10,400
15	Construction Management Support	130	0	-	120	15,600	120	15,600	120	15,600	80	10,400
16	Scheduler	130	120	15,600	160	20,800	80	10,400	80	10,400	80	10,400
			1680	**$232,900**	1800	**$247,600**	1400	**$192,800**	1340	**$182,000**	940	**$129,800**

The proposal lists a maximum fee of 4% of Measure GS, based on "hourly rate and staffing." The "Sample/Draft Staffing Plan" totals to a cost of $12,007,800 over a five-year term, slightly more than 4% of $300 million (the total amount of the Measure GS bond).

Exhibit F of the Proposal lists five key personnel titles and the names of the individuals that would be filling each position. The key personnel positions listed include the following:

- Program director/program executive
- Deputy program director/sr. program manager
- Program design manager/sr. design manager
- Sr. project manager
- Director of construction/sr. construction manager

The sample/draft staffing plan shows the program director/program executive as devoting 80 hours per month or half-time to this project. Exhibit F names the president/CEO of DelTerra as the program director/program executive. Assigning a chief executive half-time to any one project is unusual. This is also inconsistent with the staffing matrix information provided below, where January 2017 shows no work performed by this position.

Exhibit C of the signed agreement with DelTerra provides for compensation not to exceed 4.5% of campus projects funded [from] the following sources:

> "Proposition GS, Other Bond Funds, Facility Funds, State/Federal Matching Funds for Modernization and New Construction available for capital projects" and including "other allocated funds as identified by the District."

Four percent is allocated for basic services and an additional one-half of one percent is allocated for additional services. Additional services are specified to be on an hourly basis and an hourly rate schedule is provided.

During FCMAT interviews, staff indicated that invoices DelTerra submitted to the district initially contained little to no supporting documentation; bills were reportedly a single sheet. After prompting by the district, the volume of supporting documentation increased significantly, but much of it did not necessarily support specific activities or the work performed during the billing cycle. The number of items included in the documentation attached to the bills does not necessarily equate to the volume of work provided by DelTerra. District staff reported that the volume of documentation now provided is designed to be overwhelming and discourage a thorough review.

FCMAT's review of DelTerra payments found that documentation lacked the detail necessary to clearly demonstrate the specific work performed, the date it was done, and the individual who did the work and billing rate. Without this information, the invoice documentation is insufficient and the invoice should not have been paid.

When questioned, district staff responsible for approving DelTerra invoices did not know exactly how many people from the firm provide services under the program management services agreement. While the names of four individuals were provided, staff was unsure of the exact job titles. District management personnel also indicated that while they see that DelTerra performs some services, they question whether the tasks are sufficient to justify $91,108 monthly.

DelTerra's agreement lists various responsibilities in Section 2.1 "General Summary of Manager's Basic Services." These basic services are referred to as the basis for compensation in Section 4.1.1.

Section 4.1.1 reads as follows:

> In exchange for the full, timely and complete performance of all of the requirements of this Agreement, the District shall pay Manager in accordance with the Agreement. Manager's fee for Program Management services for the Campus Projects included in the Proposition GS Program shall be as set forth in Exhibit C to this Agreement. In addition, District shall reimburse Manager for eligible expenses described in section 4.2.1.

Exhibit C then reads as follows:

> Not to exceed 4.5% of Campus Projects…to be allocated as follows: 4% for Basic Services and an additional one-half of one percent (.05%) for Additional Services. Additional Services – Hourly basis…

Based on the invoices reviewed, DelTerra appears to interpret the contract terms as a fixed percentage fee for basic services unrelated to the number of hours provided and apply the not-to-exceed provision only to additional services. However, in its proposal, DelTerra implied that fees of 4% would be justified by particular staffing levels at particular billing rates. The teams' observations are characteristic of a "bait and switch" scheme, where one is led to believe that he or she will receive a particular item or service for a specific price, but a less desirable or lower quality item or service is provided. The district was led to believe there would be a specific staffing plan, and the 4% fee was based on a substantial level of staffing, with most personnel working full-time and at particular billing rates. If the work did not justify that staffing level or that level was not provided, the amount invoiced would presumably be less. However, DelTerra's invoices are submitted for the same amount each month, and the firm has not provided a staffing plan or shown any correlation between work and billing. It is also unclear why the district did not require an accounting of hours to support each billing as a proper business practice.

In Section 5.1, the agreement provides as follows:

> The Parties shall mutually agree in writing, which shall become an addendum to the Agreement, on the format and additional required content of Payment Applications sufficient to identify and verify adequate progress in support of each Payment Application and the billings hereunder. Within thirty (30) days of the full execution of this Agreement Manager shall provide a proposed payment schedule to district for district's review and approval, which approval shall not be unreasonably withheld.

There is no documentation to confirm that the district and DelTerra agreed that marking check-boxes on a task list and providing exhibits attached to monthly billings was appropriate documentation for payments of $91,108 per month; however, FCMAT believes this documentation is insufficient. The agreement provides that DelTerra "shall maintain complete and accurate books and records…to verify the…charges for services under this Agreement." DelTerra should be required to produce records of original entry that substantiate all billings.

It is a best practice and industry standard to have all significant contracts reviewed by legal counsel before execution. FCMAT found no indication that the district's legal counsel reviewed this agreement, and it is unclear why the district would agree to language that does not correlate services provided with fees paid. Because of the discrepancies in the district's RFP process for program management services and agreement terms that are unbusinesslike and highly favorable to DelTerra, the practices and motives for entering into this contract are suspect.

Payment of unsubstantiated invoices may constitute a gift of public funds and/or a false claim scheme. These schemes as defined by Government Code Section 12651 include the situation where the entity "knowingly presents or causes to be presented a false or fraudulent claim for payment or approval." Entities that present false claims are liable to the district for triple damages, the costs of a civil action to recover the damages, and a civil penalty of between $5,500 and $11,000 per occurrence.

DelTerra's January and February 2017 billings include a spreadsheet: "MUSD Bond Measure GS – DelTerra PM Services – Fee Schedule v.4" that provides a breakdown of fees by month, bond phase, and whether the work is programming or oversight of construction management services. The table below summarizes this information.

Budget	Estimated Project Budget	PM Fee: 4%	Duration, Program End	
Measure GS	**$ 300 M**	**$12,000,000**	Sept 2016 - Aug 2021, 60 mos.	Per Month
PM Programming - Phase 1	$ 100 M	$2,200,000	Jan 2017 - Dec 2018, 24 mos.	$91,667
PM Programming - Phase 2	$ 100 M	$2,200,000	24 mos. (TBD)	
PM Programming - Phase 3	$ 100 M	$2,200,000	24 mos. (TBD)	
PM Fee: CM Oversight		$5,400,000	Nov 2018 - Aug 2021, 34 mos.	$158,824
On Call Services (.5%)	**$ 300 M**	**$1,500,000**	60 mos.	

Oddly, in February 2017, just two months after the issue of the first series of Measure GS bonds ($100 million of the $300 million authorized) the district took action to sell its second series of Measure GS bonds. This strategy of selling $30 million of Measure GS bonds structured as Qualified Zone Academy Bonds and Clean Renewable Energy Bonds did not proceed. DelTerra then revised the spreadsheet in March 2017, retitled "MUSD Bond Measure GS – DelTerra PM Services – Fee Schedule v.4." It is summarized below.

Budget	Estimated Project Budget	PM Fee: 4%	Duration, Program End	
Total PM Fee (4.5%): Phase 1	**$ 99,390,000**	**$4,472,550**	Sept 2016 - Aug 2021, 60 mos.	Per Month
PM Programming - Phase 1	$ 99,390,000	$2,186,580	Jan 2017 - Dec 2018, 24 mos.	$91,108
PM Fee: CM Oversight	$ 99,390,000	$1,789,020	TBD	
Total PM Fee (4.0%): Phase 1	**$ 99,390,000**	**$3,975,600**	Sept 2016 - Aug 2021, 60 mos.	
State Matching Funds				
Other Funds				
On Call Services (.5%)	**$ 99,390,000**	**$496,950**	60 mos.	

The district did not pay DelTerra's January, February, and March 2017 invoices until June 2017. DelTerra revised its initial January and February invoices from $91,667 each, to the new amount of $91,108 shown in the March 2017 spreadsheet. March 2017 was billed at the new amount. No documentation supporting the revisions was present.

FCMAT requested from the district DelTerra's staffing plans supporting the amounts charged for program management services, but the district did not provide them. No detailed staffing documentation accompanied the contractor's invoices, making it unclear what level of staffing (positions/individuals, hourly rates, and number of hours) justifies the monthly billing amount of $91,108. While two line items are for program management services, one for programming and a second for oversight of construction managers, DelTerra was not on the list of approved vendors for construction management services; only services for programming have been submitted and paid. District staff also reported that DelTerra has not performed any construction management services and that these activities are overseen by staff employed in the district's facilities project coordinator positions.

To substantiate the monthly amounts invoiced by the contractor, the district should obtain documentation supporting the actual contracted work performed during the billing cycle including dates, positions, and the staff involved as well as each specific project. The billing packages reviewed by FCMAT did include a task matrix indicating generalized tasks upon which various personnel worked. An excerpt of the matrices accompanying DelTerra's January 2017 and January 2018 invoices are shown below.

January 2017		1	2	3	4	5	6	7
	Task Description	Program Director	Sr. Prgm Mngr	Sr. Project Mngr	Sr. Design Mngr	Prgm Controls Mngr	Sr. Constr Mngr	Doc Controls Mngr
2.1.1	Program Management							
	- Provide program management services during all phases...		X		X		X	

January 2018		1	2	3	4	5	6	7	8	9
	Task Description	Program Director	Sr. Prgm Mngr	Sr. PM - DR	Sr. PM - DF	Sr. PM - WP	Sr. Design Mngr	Prgm Controls Mngr	Sr. Constr Mngr	Doc Controls Mngr
2.1.1	Program Management									
	- Provide program management services during all phases...	X	X	X	X	X	X		X	

Although each matrix includes job titles, it does not list the names of the individuals providing the services, hours worked and the billing rates necessary to substantiate the services provided during the billing cycle to the amount invoiced.

The matrices and billing documentation reviewed by FCMAT indicate more activities occurred each month in the second half of 2017 than in the first six months; however, no change was made in the amounts billed by DelTerra.

During a review of documentation FCMAT found that many backup items for DelTerra's invoices included portions of work product produced by other external parties. For example, DelTerra obtained and analyzed proposals from various vendors, such as school funding consultants and construction project tracking software. Proposals from two providers for each of these circumstances (and DelTerra's analysis) were provided as support for services performed and billed by DelTerra in the January 2017 invoice. These analysis activities require a few hours at most and do not justify the work performed in the January 2017 bill. This clearly demonstrates that the documentation supporting monthly invoices is inadequate and that those reviewing and approving those charges lack the experience necessary to authorize the payments.

DelTerra also includes minutes of meetings prepared by architects. While it is important for DelTerra to provide documentation of such activities, copies of these minutes do not substantiate specific work performed by DelTerra.

The district previously contracted with DelTerra for construction management services for Bell Gardens High School and other projects. This relationship was terminated in a December 23, 2005 letter from the then district superintendent to DelTerra for the stated reason of cost savings, but district staff indicated that the real reason was performance problems. The letter states the district determined to handle construction management with in-house personnel and that "a certain amount of contention as to whether some portion of the [DelTerra] invoices may not be allowable for a number of reasons." It further stated that "rather than engaging in any long-running and costly dispute resolution procedure" "all outstanding invoices and requests for payment" would be resolved by a full and final payment of $1,067,000. The document suggests a pattern of questionable billing practices by DelTerra concerning the district. Many staff in the Facilities Department questioned the district's subsequent engagement with DelTerra because of the problems arising in the previous contract.

District staff described an instance where DelTerra obtained and presented a project proposal that was filled with errors and required repeated corrections and price increases. District staff indicated they were reluctant to point out these errors because of the perception that DelTerra would complain to the current superintendent. Reports from staff indicate that they perceive that interaction with DelTerra has contributed to an atmosphere in which district staff is constrained from properly focusing on the district's needs and/or best interests.

The district's oversight of the contract terms and agreements is extremely weak. Contract terms, services actually provided and monthly invoices submitted by DelTerra appear to have little correlation. No accounting of the fees related to services performed by DelTerra could be provided. The district should require DelTerra to immediately provide substantiating documentation for all prior and current monthly invoices, detailing the names and job titles of the persons providing services, the hours worked on the program management contract, the billing rate of each individual, the subtotal for each individual, and the total cost of all services.

DelTerra should also be required to provide the original entry time-tracking documentation the company uses to verify substantiating documentation. If the totals do not substantiate the amounts billed, DelTerra should be required to reimburse the district for all unearned amounts. The district should consider withholding future payments until substantiating documentation is provided, subject to the recommendation of legal counsel.

The formal and informal roles and responsibilities of district staff and DelTerra's program management staff should be examined and revised to provide proper authority to district staff.

Energy Conservation Contracts

Energy conservation contracts are a type of service, financing, and/or facilities contract governed by Government Code Sections 4217.10 - 4217.18. Various types of agreements may be given different titles such as energy services, energy/facility financing, energy lease, power purchase, energy generation, energy performance, etc. Government Code Section 4217.12 covers the type of agreement for facilities and equipment as follows:

> **4217.12.** (a) Notwithstanding any other provision of law, a public agency may enter into an energy service contract and any necessarily related facility ground lease on terms that its governing body determines are in the best interests of the public agency if the determination is made at a regularly scheduled public hearing, public notice of which is given at least two weeks in advance, and if the governing body finds:
>
> (1) That the anticipated cost to the public agency for thermal or electrical energy or conservation services provided by the energy conservation facility under the contract will be less than the anticipated marginal cost to the public agency of thermal, electrical, or other energy that would have been consumed by the public agency in the absence of those purchases.
>
> (2) That the difference, if any, between the fair rental value for the real property subject to the facility ground lease and the agreed rent, is anticipated to be offset by below-market energy purchases or other benefits provided under the energy service contract.
>
> (b) State agency heads may make these findings without holding a public hearing.

Government Code 4217.16 specifies that a competitive selection process may be used for the evaluation and selection of an entity to provide the energy services as follows:

> **4217.16.** Prior to awarding or entering into an agreement or lease, the public agency may request proposals from qualified persons. After evaluating the proposals, the public agency may award the contract on the basis of the experience of the contractor, the type of technology employed by the contractor, the cost to the local agency, and any other relevant considerations. The public agency may utilize the pool of qualified energy service companies established pursuant to Section 388 of the Public Utilities Code and the procedures contained in that section in awarding the contract.

Although not required, the best practice is to use a competitive selection process. The district has entered into a number of energy conservation-type contracts. FCMAT requested documentation of the selection process used for these contracts. No documentation was provided, and staff indicated that they were not aware if any such process had been used.

The district entered into such a contract with Masters Contracting Corporation on February 6, 2015 to design, install, and monitor LED lighting and controls at Wilcox Elementary, Eastmont Intermediate, and Montebello High schools for $4,682,573. The agreement contained warranty language in Exhibit G requiring Masters to provide manufacturers' warranties to the district, in this case for a period of 10 years. If a manufacturer's warranty was less than 10 years, Masters agreed to provide the balance of the warranty. This warranty provision exceeds typical expectations, with language that is fair and protective of the district and provides a high level of value. It contrasts markedly with the warranty language contained in the agreement for similar services with Evergreen Energy Solutions, a company under the same ownership as DelTerra.

In March 2015, the district entered into an energy performance agreement with Evergreen Energy Solutions and Envenium, Inc. The agreement provided for light-emitting diode (LED) lighting and controls systems at Montebello High, Eastmont Intermediate, and Wilcox Elementary schools for $2,009,273 funded from Measure M. Under the agreement, Evergreen provided consulting services to design the lighting project plans and obtain approval of the plans as necessary from the Division of State Architect (DSA) Envenium would install the lighting. The agreement with Evergreen also provided energy monitoring and an energy savings guarantee.

The contract also provided that Evergreen would purchase LED lighting products from Feexer Supply, Inc. Exhibit G to the agreement is a warranty from Feexer and a Chinese lighting manufacturer.

The California Government Code requires the materials used in public works contracting to be American made, pursuant to the following sections:

> **4303**. The governing body of any political subdivision, municipal corporation, or district, and any public officer or person charged with the letting of contracts for (1) the construction, alteration, or repair of public works or (2) for the purchasing of materials for public use, shall let such contracts only to persons who agree to use or supply only such unmanufactured materials as have been produced in the United States, and only such manufactured materials as have been manufactured in the United States, substantially all from materials produced in the United States.
>
> **4304.** Every contract for the construction, alteration or repair of public works or for the purchase of materials for public use shall contain a provision that only unmanufactured materials produced in the United States, and only manufactured materials manufactured in the United States, substantially all from materials produced in the United States shall be used in the performance of the contract.
>
> Any person who fails to comply with such provision shall not be awarded any contract to which this article applies for a period of three years from the date of the violation.
>
> **4305. T**he name of the person failing to comply, together with a report of the facts constituting the violation, shall be posted by the governing board or person who let the contract in at least three public places in the county in which the contract was made.

District staff confirmed that the LED fixtures first provided by Feexer were not USA-manufactured, and therefore not usable for the project. Both the district and Evergreen should have known that use of non-USA products violated California Government Code.

Palettes of the non-USA fixtures are still outside Eastmont Intermediate and reportedly other district locations. FCMAT requested documentation demonstrating how this matter was handled and resolved, but the district did not provide it.

The agreement with Evergreen was amended at least three times. The third amendment apparently provided a change of warranty exhibit, but the district did not provide it. It is possible that this warranty Exhibit was to incorporate USA-made products. The original agreement's warranty language makes Evergreen and Enveniam responsible for a one-year defective workmanship warranty, and Feexer responsible for providing a 10-year LED-products warranty. The language further provides that if Feexer fails to honor the 10-year product warranty during the one-year workmanship warranty period, Evergreen and Enveniam are entitled to obtain replacement products at the district's cost.

Under a typical construction contract, the contractor provides a complete materials and labor warranty for a period of one year, and a manufacturer's warranty for a specified period of time depending on the particular material. The Masters contract provided a reliable 10-year products warranty, either by the manufacturer or by Masters. By contrast, the Evergreen/Envenium agreement left the district open to potential additional costs because of defective products if Feexer refused to honor its warranty.

Since the district did not produce documentation on how the non-USA products issue was handled, it is unknown whether the district received the contracted value or additional costs were incurred to obtain products that met the legal requirements. In addition, Evergreen should have disposed of the unusable lighting instead of leaving several pallets of this material at district sites, likely necessitating that the district pay for removal.

During construction in August 2015, personnel working for Enveniam disturbed asbestos-containing building materials at Montebello Intermediate and contaminated another site by using the same equipment. The district had to utilize an emergency resolution to contract with environmental firms to clean up the contamination and abate the remaining asbestos. The district engaged in a lawsuit against Enveniam and Evergreen to recover the costs of this mitigation and was still engaged in the lawsuit when DelTerra, was selected as its program manager. Enveniam is a Georgia-based company and displays various commercial corporate logos on its website as clients, and staff commented that Enveniam workers' license plates were from out of the state. A competitive selection process would likely have located firms with greater knowledge and experience with California public schools, possibly preventing the serious mistakes made under this contract.

It is suspicious that the contract entered into with Masters Contracting in February 2015 provided an exceptional and protective warranty, while the contract with Evergreen/Enveniam entered into in March 2015 did not. This raises the question of whether legal counsel reviewed and approved the agreements, or other factors were involved.

The pattern of engaging with companies affiliated with one another through shared ownership for contracts with terms that are less than advantageous to the district is concerning. Equally concerning is the existence of a potential conflict of interest where the program manager is paid on the basis of construction costs and one component of the construction costs is a contract with a related company of the program manager. It is reasonable to expect a district to make alternative arrangements with the knowledge of such relationships.

Nonbid Contractor Services

Public Contract Code Section 20111 provides that public projects, including construction services and painting/repainting need not be bid if the value of the work is less than $15,000. However, maintenance and minor repainting work is subject to a higher bid limit of $90,200. Minor repainting would be less than a whole facility or less than a whole building/structure.

The district engaged a painting contractor to paint the exterior of the Ford Park Adult School through a series of four purchase orders that were issued. The table below illustrates the rooms/area covered by each purchase order.

Ford Park Adult School - Exterior Painting

Invoice Date	9/3/13	9/11/13	9/23/13	9/24/13
Requisition	180466	1777471	177469	171186
Purchase Order	305754	305823	305822	Unknown
Room/Area	1	9	17	25
	2	10	18	26
	3	11	19	27
	4	12	20	Administration
	5	13	21	Restrooms
	6	14	22	3 Metal Containers
	7	15	23	Interior of RRs
	8	16	24	Cost
Cost Per Req/Invoice	**$ 14,920**	**$ 13,500**	**$ 14,700**	**$ 14,875**
Total	**$ 57,995**			

Based on the detail contained in each purchase order and invoice, the entire school appears to have been repainted, which would make the work as a whole subject to the $15,000 bid limit. The district divided the work into multiple smaller sections, with each section costing less than $15,000 to avoid the bid process.

Public Contract Code Section 20116 declares it illegal to split work into smaller portions to avoid the requirements for public bidding as shown below.

> **20116.** It shall be unlawful to split or separate into smaller work orders or projects any work, project, service, or purchase for the purpose of evading the provisions of this article requiring contracting after competitive bidding.

Construction Management Service Contracts

Through the RFP process, four firms were selected for construction management services for Measure GS projects; FCMAT did not identify any assignments of any firm to particular projects. During interviews, district staff stated that they have not used these services because they believe district staff can perform construction management in-house. All construction management is handled in house and overseen by facilities project coordinators who report to the MOFD director.

Other Matters of Questionable Activity

Favored Awards

At the end of 2016, the former CBO reportedly initiated an effort to make a favorable impression with the community by painting eight campuses in 30 days. The Facilities Department indicated this timeline was too short and unrealistic, but Facilities staff rushed to prepare for bidding. The eight sites were divided into three bids, and the bid time period was set at two weeks, which would typically be considered too short for thorough coverage and likely to result in higher bid prices.

Only AJ Fistes and GDL Best submitted bids, and both had done work for the district. AJ Fistes was the apparent low bidder on each of the bids; however, minor, waivable bid irregularities arose. The three bids combined from GDL Best were $1.5 million higher than the total of the AJ Fistes bids. Facilities staff reportedly pushed to waive the minor irregularities and award the bid to AJ Fistes; however, the former CBO and former facilities director determined to award GDL Best.

This decision seems to be against the district's best financial interests. In a situation with few bidders and large discrepancies, the district would typically reject all bids and rebid the work. Facilities staff reported that the former facilities director claimed to have discussed this with the director of procurement, but that the director denied being consulted. AJ Fistes submitted a bid protest and later filed a lawsuit, and the county office questioned the bid award. Facilities staff reported that the former CBO claimed in a letter to the county office that the painting was necessary because of an emergency involving lead paint. However, that was not the reason originally given by the CBO to Facilities staff.

District staff reported that the district decided to renovate the sports field at Shurr High School with artificial turf. Synthetic turf products are often purchased under the California Multiple Award Schedules (CMAS) process. CMAS vendors previously submitted bids to the state, and product pricing is established for those agencies who elect to use that process. Districts are allowed to utilize the CMAS process without direct bidding because it is a form of piggyback contracting. For similar products, a best practice is to request proposals from several vendors to compare products, terms, pricing, and warranties. The district invited representatives of Field Turf, AstroTurf, and SprinTurf to make 15-minute presentations, and the former facilities director asked a Facilities staff person to take Astro Turf on a brief tour of the Shurr High School field site. During the tour, the AstroTurf representative took measurements and made notes. The former facilities director later directed the Facilities staff person to use AstroTurf without obtaining proposals from the three vendors, and the Facilities staff person later learned that the former CBO was featured on the AstroTurf website as a spokesperson. The Facilities staff person confronted the former CBO about this and met with the former facilities director, stating this was an inappropriate way to use public funds. Approximately a week later, the former CBO's picture was removed from the AstroTurf website.

Artificial turf was installed at Bell Gardens High School, but was vandalized, with a large square removed. A Facilities person contacted an AstroTurf representative, who stated the firm would repair the material at no charge. When the Facilities staff person informed the former CBO that the repair could be made for free, the former CBO advised him to offer AstroTurf $5,000 for the work; however, the Facilities staff person did not do so.

The purchase contract for the artificial turf at one of the fields included an eight-year warranty, but the former CBO directed a facilities staff person to set up a three-year maintenance service contract "to spend the rest of the [project] contingency."

Bond Oversight and Reporting

To ensure bond funds are spent as outlined in the district's bond measure, school districts that pass bonds subject to EC 15278 et seq. are required to appoint members to an independent citizens' bond oversight committee. The committee's role is to actively review and report on the expenditure of bond funds ensuring that their use correlates with the bond project list and bond resolution and to advise the public on whether the district's bond construction program is run in compliance with law.

EC 15280(b) states the following:

> All citizens' oversight committee proceedings shall be open to the public and notice to the public shall be provided in the same manner as the proceedings of the governing board of the district. The citizens' oversight committee shall issue regular reports on the results of its activities. A report shall be issued at least once a year. Minutes of the proceedings of the citizens' oversight committee and all documents received and reports issued shall be a matter of public record and be made available on an Internet Web site maintained by the governing board of the district.

While committees are required by law to report to the public on the results of its activities at least once a year, they should meet more frequently to acquire adequate knowledge and understanding of active projects and use of funds. Most committees do not review detailed bond finances; Education Code 15278(c) provides areas that they may review.

The district is required to provide committee members with copies of the financial and performance audits by March 31 of each year for activities through the preceding June 30. Committee members are also required to issue a report to the taxpayers describing the bond construction program activities annually. The annual financial and performance audit reports and the annual report are to be posted on the district's website.

Common weaknesses of bond oversight committees and its members include the following:

- It may be difficult to recruit and retain members.
- Members may lack qualifications and have limited training and understanding of their role and responsibilities.
- Committee members may not perform the work necessary for adequate oversight.
- Committee members may rely too heavily on required annual financial and performance audits.
- Committees may fail to provide annual reports or provide them in a timely manner.
- Committees may disband early, before all bond proceeds have been spent.

Education Code 15282 requires that the citizens' bond oversight committee include no fewer than seven members with at least one active member from each of the following categories:

- A senior citizen organization
- A bona fide taxpayers' association
- A local business representative
- A parent/guardian of an enrolled student

- A parent/guardian of an enrolled student who is active in a parent teacher organization
- Members at large

When a member resigns from the committee, the district should seek a replacement from the same category. The district has struggled to maintain a fully seated and active citizens' bond oversight committee.

As of March 2018, the district had a fully seated committee with eight representatives, including one from each mandatory category.

FCMAT requested the following materials, but the district did not provide them:

- Annual meeting schedules for each year under review
- A list of committee members for each year under review
- All committee annual reports for the period under review
- All presentations, financial reports and other information presented to the committee during the period under review

FCMAT requested from the district lists of bond oversight committee members for all years under review, but only a list as of March 2018 was provided. A review of the district's website content indicates that no committee meetings were conducted from October 2013 through March 2017. FCMAT was provided minutes indicating that at least one meeting was held during the 2013-14, 2016-17 and 2017-18 fiscal years; however, no meetings were apparent for 2014-15 and 2015-16.

A review of the meeting minutes from the May 3, 2018 committee meeting indicates that four of eight members attended, one doing so via telephone. While the California Open Meetings Act (Brown Act) permits telephonic participation by members, a quorum is required to take any action, which means to be considered a quorum more than 50% of the members must be physically present. The only action taken at this meeting was the approval of the January 18, 2018 meeting minutes, which appears to be a meeting for the sake of saying that a meeting was held. All committee members as well as district representatives presenting information to the committee should be knowledgeable of the roles and responsibilities as well as the Brown Act.

Given the district's inability to provide FCMAT with documentation demonstrating ongoing financial tracking of bond funds, project lists and schedules, there is no evidence of adequate financial reporting to the governing board, the committee and the community. There was no indication that required annual reports were prepared and posted to the districts website. Bond funds were spent during this timeframe without oversight. These irregularities may result in a determination that bond funds were illegally expended and subject the district's general fund to tremendous liability to backfill unauthorized bond expenditures. At a minimum, the board of education has failed to honor the covenants it established with taxpayers through the bond election.

Internal Control Deficiencies

Ethical Values and Fiduciary Duty

A strong system of internal control is among the most important aspects of any fraud prevention program. Superintendents, chief business officials and other senior administrators are in positions of authority and therefore are responsible for exercising a higher standard of care and for establishing the ethical tone and serving as examples to other employees. Employees with administrative responsibility have a fiduciary duty to the district to ensure that activities are conducted in compliance with all applicable board policies, laws, and regulations.

The control environment is an essential component of internal control. It includes the ethical tone and example set by management, and it results in a workplace where employees feel safe expressing concerns. Based on interviews and documentation reviewed, this environment clearly was not present in the district.

The district's Board Policy 3400 states that the board recognizes its fiduciary responsibility to oversee the district's financial integrity and relies on the superintendent or superintendent's designee to ensure that internal control processes and procedures function effectively and that the board has an accurate picture of the district's financial condition at all times.

The district's former CBO was negligent in his fiduciary duty, ignoring established internal controls and bypassing established policies and procedures, and administrators did not hold themselves to a standard of conduct commensurate with their positions.

The district is attempting to function without a business services administrator/CBO, and the superintendent oversees the departments that typically fall under this span of control. While the district has contracted with an external accounting firm to provide accounting guidance to the department and superintendent, this leadership model is ineffective and demonstrates a disregard for the essential fiscal management of the district's finances. Without a qualified business administrator overseeing day-to-day operations interdepartmental procedures and internal control will further degrade.

During interviews, staff expressed fear of retaliation by district administration and external contractors. District staff reported that individual board members use their position to influence contractual decisions, at times directing district staff about which contracts should be selected and/or approved.

District staff described the work environment as hostile and retaliatory. Staff who question actions that deviate from standard protocol are moved, demoted, placed on administrative leave and sometimes released from their positions. While meeting with employees, FCMAT observed several instances where district administration disrupted interviews and "made their presence known." A shift in the environment and the employees' disposition was noted by the team as the employee became visibly nervous and uncomfortable. At least two employees reported what was perceived as retaliatory action by the district. FCMAT directly observed the administration and board behave in an intimidating manner towards one administrator who has since left the district. This administrator came forward to FCMAT as a whistle blower, was placed on leave and received a notice of layoff.

The superintendent and board must work to create a culture of openness and proper business procedures, rather than one of positional power, political influence and intimidation. Districtwide training is a way to disseminate information on board and district staff relations, protocol and established processes and procedures.

The district's internal control environment has significant material weaknesses that increase the probability of fraud and/or abuse.

Operational Policies and Procedures

Management is responsible for designing and implementing operational procedures, including the development of a system of internal control. This system should provide reasonable assurance that fraud, misappropriation of funds or other illegal fiscal practices are prevented or detected through normal operating procedures and corrected in a timely manner. When developing operating procedures, the district should carefully consider actions that protect its assets from misuse or fraud.

FCMAT was provided flowcharts detailing various facilities processes and procedures. A staff reported that under the former facilities director management abandoned or bypassed many of these procedures when the former CBO was hired. Staff reported during interviews that during this time, staff concerns about the contract procedures were ignored by the former facilities director and CBO. Staff reported that longstanding procedures that included attention to detail, proper due diligence, transparency of activities and processes, and the goal of doings things consistent with industry standard fell by the wayside during the tenure of the former CBO and former facilities director. FCMAT's interviews with staff and observation indicate that this deficit continues to the present.

Bond Issuance

FCMATs review of bond issuance documentation and activities identified actions or characteristics that demonstrated a lack of professional consideration or process and raise questions about the following:

- Compliance with securities law.
- Compliance with the "Strict Accountability in Local School Construction Bonds Act of 2000."
- The number of public finance professionals involved in bond financing activities.
- The relationships between public finance professionals.
- The purchasing practices for professional services.
- The practices for receiving financing proposals including consideration and analysis.
- Whether financing options and limitations are considered and understood before financings are brought to the board for approval.
- Consideration of best practices for debt financing.
- The extent to which the board understands its fiduciary responsibilities to taxpayers.

A review of documentation and activities and interviews conducted by FCMAT identified actions or characteristics that show a lack of professional consideration or formalized processes and procedures and are summarized below.

Bid & RFP Processes

The district lacks or does not follow established procedures that ensure only the Procurement Department is responsible for issuing bid and RFP tracking numbers and for ensuring all bids and RFPs follow legal requirements and best practices. No individual or department, including senior management, should be allowed to independently conduct bidding or RFP activities.

The district's Procurement Department should maintain up-to-date, typed lists of all bids and RFPs. The district should communicate to all departments that the lists exist and that the Procurement Department is responsible for maintaining them. No bid or RFP should be submitted for board approval without a Procurement-assigned tracking number.

The district either lacks or does not follow procedures that demonstrate the following:

- The use of a competitive selection process for all energy conservation contracts.
- Compliance with the posting requirements of Government Code Section 4305.
- A standardized process for taking action under an emergency resolution. Districts should use a standardized checklist of documentation required to support all emergency resolutions. The superintendent's approval signature certifying the emergency condition should be required on this form, prior to presenting the item for board approval. The administrative assistant to the superintendent should maintain a complete file for all emergency resolutions. The Facilities Department should maintain a duplicate file.
- A contract review process that includes a thorough review by legal counsel?

Payroll

The district lacks an established process and accountability for ensuring salaries paid from bond funds correlate with actual work performed on bond related projects. Communication is lacking between staff with budget, payroll, and financial accounting duties and those responsible for overseeing the work of employees assigned to bond funded projects. This is a significant internal control weakness and has resulted in the potential misuse of bond funds for administrative activities.

The district must ensure that expenditures comply with all laws related to the funds used to make the disbursements. Budgets are merely estimates of anticipated expenditures. Payroll is the mechanism for disbursing funds and is often coded based on an estimated distribution of employee's time towards anticipated duties rather than based on actual time accounting for each pay cycle. This does not alleviate the need to obtain detailed time accounting, which must be used to either substantiate the distribution of wages or as the basis for adjustment to a different funding source.

Recordkeeping

Control over records is extremely weak throughout the district. The district does not maintain complete facilities and procurement files and/or cannot locate documents and records. The district Procurement and Facilities departments should develop document file checklists for each type of procurement method. Facilities and Procurement should each have a complete duplicate file of the contract and selection processes. Procedures should be developed assigning responsibility to the Facilities Department for preparing the complete file and responsibility to the Procurement Department to verify that the file is complete, accurate, and compliant with legal requirements.

The Business and Facilities departments have experienced a great deal of turnover. FCMAT received numerous reports of employees moved from one work location to another, sometimes multiple times and a clear lack of concern over the management of departmental records. This was evidenced by the district staff's inability to provide documents as requested.

During interviews FCMAT received multiple reports that when the former CBO was hired, he and the former facilities director moved offices of department staff several times to provide work-space for the contracted program management team. After those moves, various files could not be located. In at least one instance, the move was completed without the participation or prior knowledge of the personnel being moved. Electronic files were removed from servers, and that departmental files belonging to a departmental position were deleted/discarded when the person filling that position was transferred. Reports regarding the potential destruction of documents were found credible during the state auditor's work.

The lack of response or follow-through from district staff relative to FCMAT's request for documentation appeared to be more of an inability to locate documents due to the upheaval that took place during the former CBO's employment with the district. However, there was some apparent unwillingness to do the work of locating specific items requested by some staff who were separating employment with the district. There was also indication that some influence by the current administration stopped some staff from following through with responding to these requests after they reported that they had information and/or documents FCMAT sought and that they would send them but did not.

It is essential to the improvement of internal control that the district establish and communicate recordkeeping procedures for facilities project and accounts payable payment files for facilities bids, RFPs, and contracts. ‘’

A weakness in or lack of internal control elements has resulted in a high risk for fraud and misuse of district assets. FCMAT found material weaknesses in the district's internal control system. Weaknesses in each component of internal control were evident including lack of or adherence to the following:

- Moral tone
- Board policy and administrative regulation
- Operational procedures related to the management and oversight of business processes
- Segregation of duties
- Oversight or monitoring of internal controls

Conflicts of Interest

When faced with potential conflicts of interest of a public official such as a school board member, administrator or consultant, it is important to consider the legal and ethical standards and review any applicable board policies that may be even more restrictive than the statutory mandates. The board and management should demonstrate financial integrity.

Corruption does not have to involve two or more parties; a single employee in a position of trust can exercise authority for his or her own personal gain. Every conflict-of-interest issue requires one party to be in a position of trust, and every instance of corruption requires both a conflict of interest and a breach of that trust.

FCMAT reviewed the district's board bylaws (BB) 9270, Conflict of Interest; BB 8271(a) Code of Ethics to evaluate board members, staff and consultants regarding conflict of interest issues.

Statutes that govern conflicts of interest include the Political Reform Act, Government Code 1090, Government Code 87100, 87302, 87306, 87500, Corporations Code Section 5233 for nonprofit organizations and Education Code Section 35107(e). Government Code Section 1090 is an absolute prohibition against financial interests by board members, officers or employees in contracts "made by them in their official capacity, or by any body or board of which they are members." (GC 1090(a)) If an employee prepares or negotiates a contract or recommends its approval, this prohibition applies to him or her. The prohibition is absolute, and the contract is voidable and has no legal effect. It is not legally possible to abstain from a contract that violates 1090 unless the contract fits the criteria of a "remote interest" under 1091 or a "non-interest" under 1091.5.

Political Reform Act – Disclosure, Conflicts of Interest and Enforcement

The Political Reform Act was enacted by Proposition 9 in June 1974 and revised in 2015 resulting in several significant changes to the conflict-of-interest rules that became effective November 17, 2016. The stated intent of the act was to establish a process for most state and local officials as well as certain designated employees to publicly disclose their personal income and assets as follows:

> [a]ssets and income of public officials which may be materially affected by their official actions…[are] disqualified from action in order that conflicts of interest may be avoided.

The act's provisions are enforced by the Fair Political Practices Commission and supported by Government Code, requiring every state and local governmental agency to adopt a conflict of interest code. The commission is the state agency responsible for interpreting the provisions of the law and issuing California Form 700 – Statement of Economic Interests.

Because school governing board members are considered "public officials" and governing boards are considered "legislative bodies," board members and certain designated individuals must file Form 700 annually, or when they take office or begin in a position, and upon leaving office. Form 700 must usually be filed by April 1 for the preceding calendar year and within 30 days of assuming or leaving office or their position unless an exception applies. Additionally, a consultant to the organization "who makes, participates in making, or acts in a staff capacity for making governmental decisions" may be required to complete a Form 700.

The district's governing board adopted Board Bylaw 9270 on May 17, 2001, which was amended November 6, 2014 and presented to the governing board once again for amendment on February

1, 2018. The bylaw includes a comprehensive conflict-of-interest code that adopts the PRA of 1974 and California Government Code and designates positions that must report conflict of interest on Form 700.

Each version of the district's conflict of interest code contains appendices defining disclosure categories and designated positions. Designated positions are identified and applicable disclosure categories are assigned based on the level of decision-making authority; positions with broad decision-making authority are required to disclose more interests than those with limited discretion.

While the district was able to demonstrate due diligence in complying with the conflict-of-interest code, some documents for designated positions could not be provided. No statements of economic interest were provided for any independent contractor. FCMAT would consider DelTerra's program management role one with broad decision-making authority.

Review of Political Contributions

The team reviewed campaign finance documents obtained from the county of Los Angeles. The county has a seven-year record retention policy so FCMAT reviewed the election dates for Measure GS and two board member elections leading up to that measure, all of which fell within that timeframe. These three election dates involved seven campaigns, as listed below:

November 5, 2013	November 3, 2015	November 8, 2016
Hector A. Chacon	Edgar Cisneros	Measure GS
Benjamin Cardenas	Joanna Flores	
Lani Cupchoy		
Edgar Cisneros		

The county provided 432 pages of campaign finance documents related to the seven campaigns. This information was then converted into a database for purposes of analysis. To compare the two databases of political contributors and vendors, FCMAT ran the following three types of analyses:

1. Name match
2. Address match
3. Review of largest contributors (anyone who contributed more than $1,000)

People and firms that made political contributions to Measure GS and the two board member elections leading up to the measure were reviewed to identify any potential "pay to play" activity, in which political contributions were made in exchange for being hired to provide goods or services.

Political contributors were compared with vendors that were paid by the district with bond funds, with the following results:

Vendor / Contributor	Amount(s) Paid	Board Mbr. Elections	Bond Measure Elections	Total Political Contributions
Alta Environmental	$20,705	$0	$1,000	$1,000
Botros Power Washing Co.	$700	$0	$200	$200
Castlerock Environmental	$12,060	$0	$2,500	$2,500
CSDA Design Group	$4,666	$0	$2,500	$2,500
HMC Architects	$440,944	$1,000	$0	$1,000
Masters Contracting Corporation	$3,886,246	$500	$2,500	$3,000
Orbach Huff Suarez & Henderson LLP	$418,152	$1,500	$0	$1,500
PBK Architects	$11,704	$4,198	$0	$4,198
Sandy Pringle Associates Inspection	$207,615	$999	$5,000	$5,999
Signature Flooring Inc.	$10,450	$100	$0	$100

The data is presented here for information but is insufficient for FCMAT to reach any conclusion. However, although Feexer Supply is not listed as a vendor of the district, Evergreen Energy Solutions (A DelTerra affiliated company) purchased LED lighting products from Feexer Supply for the Measure M lighting project. Feexer Supply made two political contributions to Measure GS totaling $6,000.

Conclusion

Potential for Fraud

Based on the findings in this report, there is sufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal activities may have occurred in the specific areas reviewed.

Deficiencies and exceptions noted during FCMAT's review of the financial records and deficiencies in the district's internal control environment increase the probability of fraud, mismanagement and/or misappropriation. These findings should be of great concern to the Montebello Unified School District and the Los Angeles County Office of Education and require immediate intervention to limit the risk of fraud, mismanagement and/or misappropriation of assets, or other illegal fiscal activities in the future.

Judgments Regarding Guilt or Innocence

The existence of fraud is solely the purview of the courts and juries, and FCMAT will not make statements that could be construed as a conclusion that fraud has occurred. Fraud is a broad legal concept and auditors do not make legal determinations of whether fraud has occurred. The primary factor that distinguishes fraud from error is whether the underlying action is intentional or unintentional. In accordance with Education Code Section 42638(b), action by the county superintendent shall include the following:

> If the county superintendent determines that there is sufficient evidence that fraud or misappropriation of funds may have occurred, the county superintendent shall notify the governing board of the school district, the state controller, the superintendent of public instruction, and the local district attorney.

In accordance with Education Code Section 1241.5(b), the county superintendent is required to report the findings and recommendations to the district governing board at a regularly scheduled board meeting within 45 days of completing the audit. The governing board is required to notify the county superintendent within 15 days after receipt of the report of its proposed actions regarding the county superintendent's recommendations.

Recommendations

The county superintendent should:

1. Notify the governing board of the Montebello Unified School District, the state controller, the superintendent of public instruction and the local district attorney that sufficient evidence exists to indicate that fraud or misappropriation of district funds and/or assets or other illegal fiscal activities may have occurred.

Appendices

A: Summary of Energy Projects

B: Detailed Results Bid/RFP Testing

C: Summary of Emergency Resolution Records Deficiencies

D: Detailed Results Vendor Payment Transaction Testing

E: Study Agreement

Appendix A – Summary of Energy Projects

Note that several school sites appear to have not received any energy projects:

> Bandini Elementary, Bella Vista Elementary, Cesar Chavez Elementary, Fremont Elementary, Joseph Gascon Elementary, Montebello Community Day, Vail High Continuation

Energy Project	Lighting	HVAC	Transformer	Solar	Battery Storage	Solar Greenhouse
Lease-Purchase $6,800,000	Eastmont Intermediate Montebello High Wilcox Elementary					
Measure M $2,900,273	Bell Gardens High District Administration Montebello Gardens Elementary Montebello Intermediate					
Proposition 39 $5,730,231	Bell Gardens Intermediate Garfield Elementary Rosewood Park Suva Elementary		Bell Gardens Elementary Eastmont Intermediate Garfield Elementary Montebello Intermediate Rosewood Park Suva Elementary Washington Elementary Winters Garden Elementary			
Measure GS $28,090,167	Bell Gardens Elementary	Bell Gardens Elementary Bell Gardens Intermediate Garfield Elementary Rosewood Park Suva Elementary	Bell Gardens Elementary	Applied Technology Center Bandini Elementary Bell Gardens High Bus Yard District Office Eastmont Intermediate Garfield Elementary La Merced Elementary Macy Intermediate Montebello Intermediate Potrero Heights Elementary Schurr High Suva Intermediate Washington Elementary Winters Gardens Elementary	Bus Yard Eastmont Intermediate La Merced Elementary La Merced Intermediate Montebello Intermediate Schurr High Suva Intermediate	Bell Gardens High Schurr High

Appendix B – Detailed Results Bid/RFP Testing

Transaction #	Vendor Name	Year		1 Listed on Bid# assignment list	2 Advertisement	3 Job walk sign-in sheet	4 Bid opening list/Board memo	5 Bid form	6 Bid bond	7 Subcontractor list	8 RFP Selection documents	9 Board award	10 Signed agreement	11 Performance Bond, Payment Bond	12 Insurance	13 PWC-100	14 Notice to Proceed	15 Notice of Completion	NE No Exceptions Found
1	A.J. FISTES CORPORATION	15-16	BID			1		1	1	1	N/A	1							
2	ASTROTURF LLC	15-16	PGB	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		1	1					
3	ASTROTURF LLC	15-16	PGB	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		1				1		
4	BARRAZA & SONS, INC	15-16	EMG	N/A	N/A	N/A	N/A	N/A	N/A		N/A				1	1		1	
5	DEL TERRA GROUP	16-17	RFP	1	N/A	N/A	N/A	N/A	N/A	N/A				N/A	1	N/A		N/A	
6	ENGIE SERVICES U.S. INC./OPTERRA	17-18	ESC	N/A	1	N/A	N/A	NN	N/A	N/A	N/A	1		1	1	1	1	1	
7	EVERGREEN ENERGY SOLUTIONS, LLC	15-16	ESC	N/A		N/A	N/A	N/A	N/A	N/A	1	1	1			1	1	1	
8	FIELD TURF USA INC.	15-16	PGB	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A					1			
9	GDL BEST CONTRACTORS, INC	13-14	BID			1	1	1			N/A					1	1		
10	MASTERS CONTRACTING CORPORATION	15-16	ESC	N/A	1	N/A	N/A	NN	N/A	N/A	N/A	1		1	1	1	1	1	
11	OCEANSTATE DEVELOPMENT, INC.	15-16	BID			1		1	1	1	N/A								
12	OHNO CONSTRUCTION	15-16	BID		1	1		1	1		N/A	1	1	1					
13	TERRA PAVE, INC.	13-14	BID		1	1	1	1	1	1	N/A	1	1	1	1	1	1	1	
				1	4	5	2	5	4	3	1	6	5	5	5	7	6	5	0

Appendix C – Summary of Emergency Resolution Records Deficiencies

Resolution	Proposed Board Date	Memo Date	Request Originator	Site(s)	Description	Emergency Contractor (s)	Exceptions
4 (2015-2016)	8/20/2015	8/17/2018	Chief Business Officer (CBO)	Montebello IS	Asbestos contamination by contractor during LED project	ALTA Environmental, Titan Environmental, Castlerock Environmental, Inc., Argus Contracting LP, American Technology Inc.	-No Board minutes, -Resolution incomplete, -Resolution unsigned, -No LACOE Resolution approval, -No proposals attached
4 (2015-2016) - Revision/ Addendum	9/17/2015	9/14/2015	MOF Director via CBO	Montebello IS, Montebello Gardens ES, Eastmont IS	-Add Montebello Gardens ES, -Add Eastmont IS: classroom asbestos and mold abatement/ remediation and demolition of 4 portable classrooms	same	-No Board minutes, -Resolution incomplete, -Resolution unsigned, -No LACOE Resolution approval, -No proposals attached, -No LACOE letter attached [Board minutes located in Barraza & Sons payment file]
4 (2015-2016) - Amendment	11/5/2015	11/2/2015	MOF Director via CBO	Montebello IS, Montebello Gardens ES, Eastmont IS Community Day School	-Add contractor Clark Seif Clark, providing equipment, services, supplies. -Site description changed to Eastmont IS Community Day School.	ALTA Environmental, Titan Environmental, Castlerock Environmental, Inc., Argus Contracting LP, American Technology Inc., Clark Seif Clark	-No Board minutes, -Resolution incomplete, -Resolution unsigned, -No LACOE Resolution approval, -No proposals attached, -No LACOE letter attached
9 (2015-2016)	9/17/2015	9/14/2015	MOF Director via CBO	Schurr HS	5,000 CY soil stockpile poses a hazard	Camarena Land Clearing	-No Board minutes, -Resolution incomplete, -Resolution unsigned, -No LACOE Resolution approval, -No proposals attached, -No LACOE letter attached [completed/ signed resolution; board minutes located in payment file]
9 (2015-2016) - Amendment	11/5/2015	11/2/2015	MOF Director via CBO	Schurr HS	Change of contractor from Camarena Land Clearing to Barraza and Sons	Barraza and Sons	-No Board minutes, -Resolution incomplete, -Resolution unsigned, -No LACOE Resolution approval, -No proposals attached, -No LACOE letter attached [proposal; board minutes located in payment file]
7 (2016-2017)	9/1/2016	8/25/2016	MOF Director via CBO	Montebello IS	Replacement of chiller system for 2-story building because of chiller failure	Los Angeles Air Conditioning, Inc.	-No Board minutes, -Resolution incomplete, -Resolution unsigned, -No LACOE Resolution approval, -No proposals attached, -No LACOE letter attached
53 (2016-2017)	6/1/2017	5/22/2017	MOF Director	Montebello IS	Removal/replacement of non-compliant fire alarm panel	Cal Builders	-No Board minutes, -Resolution unsigned, -No LACOE Resolution approval -No proposals attached, -No LACOE letter attached
6 (2017-2018)	8/25/2017	8/23/2017	Nutr. Svs. Director	District Warehouse	Main Freezer repairs/ machinery replacement	Bernier Refrigeration Generations, Inc.	-No Board minutes, -Resolution unsigned, -No LACOE Resolution approval
1 (2017-2018)	7/20/2017	7/13/2017	Prov. Maint. Manager	Bell Gardens HS	Chiller repairs at 3-story building	Daikin Applied Americas, Inc.	-No Board minutes, -Resolution unsigned, -No LACOE Resolution approval
3 (2017-2018)	7/20/2017	7/13/2017	Prov. Maint. Manager	Schurr HS	Chiller repairs at 3-story building	Los Angeles Air Conditioning, Inc.	-No Board minutes, -Resolution unsigned, -No LACOE Resolution approval
14 (2017-2018)	11/2/2017	10/23/2017	MOF Acting Director	Montebello HS	Pool pump repair		-No Board minutes, -Resolution unsigned, -No LACOE Resolution approval, -No proposals attached
16 (2017-2018)	11/2/2017	10/26/2017	MOF Acting Director	La Merced ES	-Move 4 fire alarm horns so audible to all students/ staff, -Change 2 relocated portable classrooms from connection with prior location(LMIS) fire alarm system to LMES system.	CAL Building Systems	-No Board minutes, -Resolution unsigned, -No LACOE Resolution approval, -No proposals attached
23 (2017-2018)	1/18/2018	1/8/2018	MOF Acting Director	Bandini ES	Replacement of HVAC controls for 2 units	Schneider Electric	-No Board minutes,R -Resolution unsigned, -No LACOE Resolution approval, -No proposals attached, -No LACOE letter attached

Appendix D – Detailed Results Vendor Payment Transaction Testing

No documentation was provided for the highlighted transaction.

Transaction Testing

Trans-action #	Vendor Name	Invoice Number	Invoice Date	Amount Paid	1 Invoice detail inadequate/ina	2 Approval signatures missing	3 No Schedule of Values/backup	4 Purchase order dated after inv	5 Handwritten changes without	6 Invoice & PO descriptions/$ c	7 No PO copy OR PO not signed/	8 Accepted proposal & PO in co	9 Noc filed if retention payment	10 Payment history tracking shee	11 No Invoice	NE No Exceptions Found
1	GDL BEST CONTRACTORS, INC	4231	OCT-30-2013	1,186.00				1								
2	GDL BEST CONTRACTORS, INC	4299	FEB-27-2014	3,735.00												1
3	STEADFAST CONSTRUCTION	4712	JAN-13-2014	14,836.00												1
4	TERRA PAVE, INC.	PYMT #5F BID 17	DEC-11-2013	4,430.46			1						1	1		
5	U.S. BANK N.A.	3592104	JAN-24-2014	250.00						1						
6	GDL BEST CONTRACTORS, INC	PYMT #4F BID 14	AUG-11-2014	7,710.00			1									
7	A-1 STEEL FENCE CO., INC.	12/1597	OCT-14-2014	6,200.00		1		1								
8	STL LANDSCAPE, INC.	PYMT #1 BGH	SEP-15-2014	67,450.00			1						1			
9	UNITED PAVING CO.	21495	APR-14-2015	13,900.00		1		1								
10	U.S. BANK N.A.	3883500	JAN-23-2015	250.00						1						
11	BARRAZA & SONS, INC	6731	OCT-22-2015	128,100.00		1		1								
12	BARRAZA & SONS, INC	6799	JAN-20-2016	24,384.00		1										
13	EVERGREEN ENERGY SOLUTIONS, LLC	PYMT 0710-01	JUL-21-2015	804,496.70			1			1						
14	EVERGREEN ENERGY SOLUTIONS, LLC	PYMT 0714-02	AUG-31-2015	228.69		1	1									
15	EVERGREEN ENERGY SOLUTIONS, LLC	EES 0401-01	APR-01-2016	797,386.36		1	1									
16	GDL BEST CONTRACTORS, INC	PAYMENT 1	AUG-03-2015	25,460.00			1				1					
17	MASTERS CONTRACTING CORPORATION	PYMT #5	MAR-04-2016	900,142.98			1		1		1					
18	U.S. BANK N.A.	4200482	JAN-25-2016	250.00												1
19	UNITED PAVING CO.	21818	JUN-15-2015	14,950.00				1								
20	ASTROTURF LLC	PYMT #2 BGHS	APR-25-2016	401,924.03			1				1					
21	DEL TERRA GROUP	MUSD 01-2017	APR-12-2017	91,108.00	1	1					1			1		
22	DEL TERRA GROUP	MUSD 02-2017	APR-13-2017	91,108.00	1	1					1			1		
23	DEL TERRA GROUP	MUSD 03-2017	APR-18-2017	91,108.00	1	1					1			1		
24	DEL TERRA GROUP	MUSD 04-2017	MAY-23-2017	91,108.00	1	1					1			1		
25	OHNO CONSTRUCTION	PYMT #13 BID 17	NOV-08-2016	16,563.25			1				1			1		
26	OHNO CONSTRUCTION	PYMT #14F BID 17	NOV-08-2016	164,364.47			1									
27	SKY BLUE ENVIROMENTAL, INC.	9760	JUL-05-2016	14,550.00				1	1							
28	U.S. BANK N.A.	4561430	FEB-24-2017	250.00	1	1	1	1	1	1	1	1	1	1	1	
29	DEL TERRA GROUP	MUSD A AS 01-2017	OCT-06-2017	180,960.00		1					1			1		
30	DEL TERRA GROUP	MUSD A AS 02-2017	JAN-17-2018	86,400.00		1	1				1			1		
31	OPTERRA ENERGY SERVICES	BOND1	JUL-28-2017	4,242,436.69		1					1			1		
32	ENGIE SERVICES U.S. INC.	BOND2	SEP-11-2017	7,498,723.21	1	1								1		
33	TITAN ENVIRONMENTAL SOLUTIONS, INC.	11064690	DEC-06-2017	2,180.00				1								
34	U.S. BANK N.A.	4889630	JAN-25-2018	250.00										1		
35	UNITED PAVING CO.	25954	AUG-04-2017	14,895.00		1										
36	GRAND PRIX ASSOC			1,403.50			1				1			1		
37	GRAND PRIX ASSOC			1,403.50			1				1			1		
38	GRAND PRIX ASSOC			7,219.00			1				1			1		
39	GRAND PRIX ASSOC			7,418.00			1				1			1		
40	GRAND PRIX ASSOC			1,604.00							1			1		
41	GRAND PRIX ASSOC			1,414.00			1				1			1		
42	BANK OF AMERICA			5,445,993.79							1			1		
43	BANK NYMT			464,100.00												1
44	PUBLIC PROP FIN			4,100.00												1
45	JR FUENTES			14,875.00							1			1	1	
					6	16	18	8	3	4	20	1	3	20	2	5

Appendix E - Study Agreement

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 STUDY AGREEMENT
December 20, 2017

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Los Angeles County Office of Education, hereinafter referred to as the COE, mutually agree as follows:

1. BASIS OF AGREEMENT

The team provides a variety of services to local educational agencies (LEAs). Pursuant to the provisions of Education Code (EC) Section 1241.5 (b), a county superintendent of schools may review or audit the expenditures and internal controls of any school in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The extraordinary audits conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

All work shall be performed in accordance with the terms and conditions of this agreement.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The Los Angeles County Office of Education has requested FCMAT to assign professionals to conduct an AB 139 Extraordinary Audit. This audit will be conducted pursuant to Education Code Section 1241.5 (b). The COE has received information of possible fraud, misappropriation of funds or other illegal practices at the Montebello Unified School District and is requesting that FCMAT review expenditures, oversight, conflict of interest and performance reporting related to the 2004 Measure M and 2016 Measure GS bond programs.

The primary focus of this review is to determine, based on the testing performed, whether (1) the district's activities outlined below have adequate management and internal controls, and (2) based on that assessment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific audit objectives will include evaluating the establishment, implementation and effectiveness of policies, procedures and internal control activities. This evaluation will include a review of financial transactions and documentation recorded by the district and related to the bond fund in the following areas:

- Employee compensation
- Expenditures
- Conflict of Interest
- Oversight Responsibilities
- Performance reporting

The team will review and test recorded transactions for fiscal years 2013-14 through 2017-18 to date to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on a sample of transactions and records for this period. Testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the district's financial transactions and activity to accomplish the following:

1. Provide reasonable assurance to management that the internal control system is established, implemented and monitored.
2. Prevent internal control activities from being overridden by management.
3. Help identify and correct inefficient processes.
4. Ensure that employees are aware of the proper internal control expectations.
5. Ensure that the required oversight and performance reporting systems are in place.

B. <u>Services and Products to be Provided</u>

1. Orientation Meeting - The team will conduct an orientation session at the district to brief management and supervisory personnel on the team's procedures and the purpose and schedule of the study.

2. On-site Review - The team will conduct an on-site review at the district office and at school sites if necessary, and will continue to review pertinent documents off-site.

3. Progress Reports - The team will inform the COE of material issues as the review is performed.

4. Exit Meeting – The team will hold an exit meeting at the conclusion of the on-site review to inform the COE of any significant findings to that point.

5. Draft Report – When appropriate, electronic copies of a preliminary draft report will be delivered to the COE's administration for review and comment on a schedule determined by the team.

6. Final Report - Electronic copies of the final report will be delivered to the COE and/or district following completion of the review. Printed copies are available from the FCMAT office upon request.

7. Follow-Up Support – If requested, the team will meet with the COE and/or district to discuss the findings and recommendations of the report.

3. **PROJECT PERSONNEL**

The FCMAT study team may also include:

A. To Be Determined FCMAT Staff
B. To Be Determined FCMAT Consultant

Other equally qualified staff or consultants will be substituted in the event one of the above individuals is unable to participate in the study.

4. **PROJECT COSTS**

The cost for studies requested pursuant to EC 42127.8 (d) (1) shall be:

A. $1,100 per day for each staff team member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate for all work performed.

B. All out-of-pocket expenses, including travel, meals and lodging.

Based on the elements noted in Section 2A, the total estimated cost of the study will be $34,400.

C. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT services may be reimbursed from funds pursuant to EC 1241.5 set aside for this purpose. Other payments, when deemed necessary, are payable to Kern County Superintendent of Schools - Administrative Agent, located at 1300 17th Street, City Centre, Bakersfield, CA 93301.

5. **RESPONSIBILITIES OF THE COE AND/OR DISTRICT**

A. The district will provide office and conference room space during on-site reviews.

B. The district will provide the following if requested:

1. Policies, regulations and prior reports addressing the study request
2. Current or proposed organizational charts
3. Current and two (2) prior years' audit reports
4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in an electronic format
5. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date and/or completion date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint

document repository where the district shall upload all requested documents.

C. The COE's administration will review a preliminary draft copy of the report Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The district shall take appropriate steps to comply with EC 45125.1(c).

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for different phases of the study and will be established upon the receipt of a signed study agreement:

Orientation:	***To be determined***
Staff Interviews:	***To be determined***
Exit Meeting:	***To be determined***
Preliminary Report Submitted:	***To be determined***
Final Report Submitted:	***To be determined***

7. COMMENCEMENT, TERMINATION AND COMPLETION OF WORK

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The team will work expeditiously to complete its work and deliver its report, subject to the cooperation of the district and any other parties from which, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a preliminary draft report and a final report. Prior to completion of fieldwork, the COE may terminate its request for service and will be responsible for all costs incurred by FCMAT to the date of termination under Section 4 (Project Costs). If the COE does not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its report and the COE will be responsible for the full costs. The COE understands and agrees that FCMAT is a state agency and all FCMAT reports are published on the FCMAT website and made available to interested parties in state government. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a report once fieldwork has been completed, and the COE shall not request that it do so.

8. INDEPENDENT CONTRACTOR

FCMAT is an independent contractor and is not an employee or engaged in any manner with the COE. The manner in which FCMAT's services are rendered shall be within its sole control and discretion. FCMAT representatives are not authorized to speak for, represent, or obligate the COE in any manner without prior express written authorization from an officer of the COE.

9. INSURANCE

During the term of this agreement, FCMAT shall maintain liability insurance of not less than $1 million unless otherwise agreed upon in writing by the COE, automobile liability insurance in the amount required under California state law, and workers compensation as required under California state law. FCMAT shall provide certificates of insurance, with Los Angeles County Office of Education named as additional insured, indicating applicable insurance coverages upon request.

10. HOLD HARMLESS

FCMAT shall hold the COE, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, the COE shall hold FCMAT, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement.

11. CONTACT PERSON

Contact: Keith Crafton, Director, Business Advisory Services
Telephone: (562) 922-6131
E-mail: crafton_keith@lacoe.edu

Debra Duardo 1/3/18
Debra Duardo, County Superintendent Date
Los Angeles County Office of Education

Michael H. Fine December 20, 2017
Michael H. Fine Date
Chief Executive Officer
Fiscal Crisis & Management Assistance Team