



LONG BEACH COMMUNITY COLLEGE DISTRICT

2008 MEASURE E CONSTRUCTION BOND PERFORMANCE AUDIT REPORT

Fiscal Year Ended June 30, 2013

November 18, 2013

Board of Trustees
Long Beach Community College District
4901 E. Carson Street
Long Beach, California 90808

Subject: 2008 Measure E Construction Bond Performance Audit Report
For the Fiscal Year Ended June 30, 2013

Dear Members of the Board:

This report presents the results of our performance audit of the Long Beach Community College District's (LBCCD or the District) 2008 Measure E construction bond (Bond Program) as required by California Proposition 39, the "Smaller Classes, Safer Schools and Financial Accountability Act" (Proposition 39), the California Constitution (State Constitution) Article XIII A and California Education Code (Education Code) Section 15272. These California State (State) requirements specify that the proceeds from the sale of school facilities bonds are expended only on the specific projects listed in the proposition authorizing the sale of bonds (Listed Projects). Both the State Constitution and Education Code require an annual independent performance audit to verify bond proceeds are used on Listed Projects. An annual financial audit is also required by these rules. Finally, Senate Bill 1473, "School facilities bond proceeds: performance audits" (SB 1473), approved by the Governor on September 23, 2010, amended the California Education Code to add Section 15286, which requires that the annual performance and financial audits are conducted in accordance with the Government Auditing Standards issued by the Comptroller General of the United States for financial and performance audits.

Executive Summary

We conducted this construction Bond Program performance audit in accordance with the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards are commonly referred to as Generally Accepted Government Auditing Standards (GAGAS) and require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides reasonable basis for our findings and conclusions, based on our audit objectives. The performance audit objectives, scope, methodology, conclusions and a summary of the views of responsible District Officials is included in the report body.

Management remains responsible for the proper implementation and operation of an adequate internal control system. Due to inherent limitations in any internal control

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structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This report is intended solely for the use of District Administration, the Bond Citizens' Oversight Committee and the District's Board of Trustees. Moss Adams LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.

We would like to express our appreciation to you and all members of your staff for your cooperation throughout this performance audit. Please contact Vincent Leoni at (310) 481-1240 if you have any questions regarding this report.

Sincerely,

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Moss Adams LLP

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BACKGROUND INFORMATION

District Approved Bond Funds

In 2008, the Measure E bond was approved by voters to provide \$440.0 million in improvements to Long Beach Community College District facilities, plus interest earned on the bond proceeds to total \$444.7 million. The 2008 Measure E school construction bond funds are to be used for the renovation, repair and replacement of aging educational facilities. Bond programs of this size and complexity require appropriate financial processes and operational controls to ensure compliance, effectiveness, program cost, schedule, quality and efficiency goals are achieved.

The Bond Anticipation Note (BAN) was issued January 7, 2010, for the principal amount of \$150.0 million and premium of \$30.5 million. BAN was paid off as scheduled on January 15, 2013.

The District received \$260.9 million proceeds from the December 2012 bond issuance, which was partially used to pay the BAN. Below is a summary of December 2012 bond proceeds and uses of bond issuance.

Sources:	
<i>December 2012 Bond Proceeds:</i>	
Par Amount	\$ 237,003,695
Net Premium	23,938,860
	<u>\$ 260,942,555</u>
Uses:	
<i>Project Fund Deposits:</i>	
BAN Principal	\$ 150,000,000
BAN Interest	15,103,333
Project Fund	87,000,000
	<u>252,103,333</u>
<i>Delivery Date Expenses:</i>	
Cost of Issuance	\$ 313,665
Underwriter's Discount	1,121,027
	<u>1,434,692</u>
<i>Other Uses of Funds:</i>	
Deposit to Debt Service Fund	7,404,530
	<u>\$ 260,942,555</u>

Below is a summary of 2008 Measure E bond funds, expenditures to date, and remaining funds. This summary of 2008 Measure E expenditures is based on the District's books and records and is provided for information purposes only. These amounts are subject to and are pending receipt

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of the Bond Program comprehensive annual financial reports (CAFR) from the District’s financial auditor, Vicenti, Lloyd & Stutzman LLP for the fiscal year ended June 30, 2013. This expenditure summary reflects financial totals provided by District Management (Management).

2008 Measure E Approved Proceeds	\$ 440,000,000
Premium on Bond Issuance	16,534,331
Bond Anticipation Note	180,480,000
Interest Earned	<u>4,693,685</u>
Total 2008 Measure E Bond Program Funds	\$ 641,708,016
Expenditures to Date:	
July 1, 2008 - June 30, 2009	
– Expenditures	\$ (16,319,595)
– Interfund Transfer	(30,502,449)
July 1, 2009 - June 30, 2010	(22,154,680)
July 1, 2010 - June 30, 2011	(56,796,506)
July 1, 2011 - June 30, 2012	(39,017,680)
July 1, 2012 - June 30, 2013*	<u>(198,311,180)</u>
Remaining Bond Funds as of July 2013	<u>\$ 278,605,926</u>

*The Fiscal Year 2013 expenditure includes BAN principal and interest repayment of \$165.1 million as shown in the table above.

California State Requirements

A construction Bond Program performance audit is required for the Long Beach Community College District’s 2008 Measure E construction bonds in accordance with California Proposition 39, the “Smaller Classes, Safer Schools and Financial Accountability Act” (Proposition 39), the California Constitution (State Constitution) Article XIII A and California Education Code (Education Code) Section 15272. These California State (State) requirements specify that the proceeds from the sale of school facilities bonds are expended only on the specific projects listed in the proposition authorizing the sale of bonds (Listed Projects). Both the State Constitution and Education Code require an annual independent performance audit to verify bond proceeds are used on Listed Projects. An annual financial audit is also required by these rules. Finally, Senate Bill 1473, “School facilities bond proceeds: performance audits” (SB 1473), approved by the Governor on September 23, 2010, amended California Education Code to add Section 15286, which requires that annual performance and financial audits are conducted in accordance with GAGAS for audits issued after January 1, 2011.

Proposition 39 was passed by the California voters on November 7, 2000. Proposition 39 amended provisions to the California Constitution and to the California Education Code. The purpose and intent of the initiative was “to implement class size reduction, to ensure that our children learn in a secure and safe environment, and to ensure that school districts are

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accountable for prudent and responsible spending for school facilities.” It provided for the following amendments to the California Constitution and California Education Code:

- a) “To provide an exception to the limitation on ad valorem property taxes and the two-third vote requirements to allow school districts, community college districts, and county offices of education to equip our schools for the 21st Century, to provide our children with smaller classes, and to ensure our children’s safety by repairing, building, furnishing and equipping school facilities;
- b) “To require school district boards, community college boards, and county offices of education to evaluate safety, class size reduction, and information technology needs in developing a list of specific projects to present to the voters;
- c) “To ensure that before they vote, voters will be given a list of specific projects their bond money will be used for;
- d) “To require an annual, independent financial audit of the proceeds from the sale of the school facilities bonds until all of the proceeds have been expended for the specified school facilities projects; and
- e) “To ensure that the proceeds from the sale of school facilities bonds are used for specified school facilities projects only, and not for teacher and administrator salaries and other school operating expenses, by requiring an annual independent performance audit to ensure that the funds have been expended on specific projects only.”

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this performance audit was to verify that District 2008 Measure E bond funds were expended only on Listed Projects that were authorized with the sale of these bonds, and not for school operating expenses for the District Fiscal Year beginning July 1, 2012, and ending June 30, 2013 (Fiscal Year 2013). Fiscal Year 2013 Bond Program expenditures totalled \$198,311,180.

We conducted this construction Bond Program performance audit in accordance with GAGAS. As required by GAGAS, we planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. The evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objective. Because GAGAS performance audit procedures require reasonable assurance, and these audit procedures did not require detailed examination of all transactions and activities, there is a risk that compliance errors, fraud or illegal acts may exist and not be detected by us.

Management remains responsible for the proper implementation and operation of an adequate internal control system. The District has retained the Cordoba Corporation (Cordoba) to provide program management services for the Bond Program since 2006. Cordoba provides these services with close oversight by Management.

Due to inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We were not engaged to and did not perform a financial audit, the objective of which would be the expression of an opinion on specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed the additional procedures, other matters might have come to our attention that would have been reported to you.

To achieve the performance audit objective, we assessed Bond Program risks, controls design, controls operation and tested expenditures for compliance. The performance audit methodology applied included the following:

- **Program Risk and Controls Design Assessment**

We observed evidence and conducted interviews to assess the effectiveness of the design of internal controls over the Bond Program expenditure process. We interviewed District and Bond Program personnel and analyzed key documentation to assess the design of controls over bond expenditures, including review, authorization and oversight of the District’s Unified Master Plan list of projects, contracts executed, accounting for bond proceeds issued, and payments made and recorded for Fiscal Year 2013. The documents analyzed to assess Bond Program risk and controls design included:

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- 2008 Measure E bond language and Project Lists
- LBCCD's Board of Trustees (Board) Meetings Agendas and Minutes
- Applicable Construction Program contract documentation
- Accounting for Bond Program proceeds and expenditures taken from the District's books and records
- Citizens' Oversight Committee (COC) Meetings Minutes
- Relevant policies, procedures, reports and key correspondence
- **Review of Bond Program Controls Operation and Expenditures Compliance**
Verification of Fiscal Year 2013 Bond Program compliance controls operation and expenditures compliance included the following procedures:
 - Comparison of the projects listed in the Bond Program Master Plan to projects listed within the District's 2008 Measure E bond language
 - Analysis of Board budgetary approvals for Master Plan expenditures
 - Verification of Board approvals for Bond Program contracts
 - Analysis and validation of accounting for bond proceeds issuance, receipts and use on approved Bond Program Listed Projects
 - Testing procedures included the use a statistical sample of 60 random expenditure transactions. These transactions included payments to contractors and vendors, and journal entries. The total dollar amount sampled was \$181,435,128 out of total 2008 Measure E expenditures of \$198,311,180, including transactions related to the BAN repayment which totalled \$165.1 million. We conducted tests on sampled transactions to verify the following:
 - Expenditures were compliant with Proposition 39 requirements
 - Expenditures were for Listed Projects
 - Payment applications and invoices were approved
 - Expenditures were compliant with properly approved contract, purchase order or other procurement documentation
 - Expenditures were recorded in a current, accurate and complete manner on the District's books and records
 - The documents analyzed to assess Bond Program controls operation and expenditures compliance included:
 - Vendor invoices, timesheets, and invoice payment checklists
 - Contracts, modifications, and purchase orders
 - Applicable Board Action documentation
 - LBCCD's Purchasing Manual
 - Bid documentation

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• **Interviews**

We interviewed key personnel responsible for administering the Bond Program, including senior management and staff from the District and Bond Program Management Team responsible for overseeing the work associated with the Bond Program. The individuals interviewed are listed in Appendix A of this report.

AUDIT RESULTS

The performance audit procedures applied provided reasonable assurance, in accordance with GAGAS, that the Fiscal Year ended June 30, 2013, bond proceeds were expended only on the projects listed with District 2008 Measure E which authorized the sale of the bonds.

There were no issues identified in the audit of bond expenditures for Fiscal Year ended June 30, 2013. All prior year audit recommendations have been resolved.

LBCCD Audit Resolution Status

Source	Issues Identified	Issues Resolved
Audit 2012	0	N/A
Audit 2011	0	N/A
Audit 2010	0	N/A
Audit 2009	0	N/A
Audit 2008	5	5
Audit 2007	3	3
Audit 2006	8	8
Audit 2005	21	21
Interim Audit 2004	13	13
Audit 2004	<u>66</u>	<u>66</u>
Total	<u>116</u>	<u>116</u>

REPORTING VIEWS OF RESPONSIBLE OFFICIALS

Management concurs with the audit results. These audit results are consistent with the report we have issued under California Government Code Section 53410 and our assertion of compliant use of local Measure 2008 Measure E bonds funds. To achieve these ends, we have instituted specific policies, procedures and other internal controls to ensure bond-related expenditures are in compliance with Proposition 39 and are solely for items listed on the Project Lists from each respective bond measure. We are committed to strong internal controls in order to deliver the required facilities and infrastructure to support the educational needs of our community, now and in the future, as defined in our 2020 Unified Master Plan and as identified on our Project Lists.

APPENDIX A – INTERVIEWS PERFORMED

The following key personnel were interviewed:

- Cordoba Corporation, Financial Analyst, Bond Management Team
- LBCCD, Vice President, Administrative Services
- LBCCD, Director, District Facilities
- LBCCD, Director, Fiscal Services
- LBCCD, Manager, Internal Audit
- LBCCD, Deputy Director, Finance/Accounting