

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
Proposition BB, Measure K, Measure R, and  
Measure Y School Bond Construction Programs  
Agreed-Upon Procedures Report  
For the Year Ended June 30, 2014,  
Statements of Bond Expenditures  
and Supplementary Schedules as of June 30, 2014  
(With Independent Auditor's Reports Thereon)





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## **Independent Accountant's Report on Applying Agreed-Upon Procedures and Management's Responses to Exceptions**

The Honorable Board of Education  
Los Angeles Unified School District:

We have performed the procedures enumerated below, for the Proposition BB, Measure K, Measure R, and Measure Y School Bond Construction Programs (Bond Programs) which were agreed to by the Los Angeles Unified School District's (the District or LAUSD) officials and bond oversight committee, solely to assist the District and its management in fulfilling its oversight responsibility surrounding the administration of the Bond Programs for the year ended June 30, 2014. District management is responsible for the administration of the Bond Programs. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and the corresponding findings are as follows. The samples selected below were for Proposition BB, Measure K, Measure R, and Measure Y expenditures, unless otherwise noted.

### **Procedure 1A**

From a population of all expenditures charged to Commitment Item #500000 in the general ledger for the year ended June 30, 2014, we selected 40 expenditures from the Local Bond Funds (Proposition BB, Measure K, Measure R, and Measure Y) to represent the following distributions:

- 18 expenditures to represent Facilities (non-Maintenance and Operations (M&O))
- 10 expenditures to represent M&O
- 10 expenditures to represent Information Technology Division (ITD) – Samples to include expenditures for the Instruction Technology Initiative (ITI) and My Integrated Student Information System (MiSiS) projects.
- 2 expenditures to represent Integrated Library and Textbook Support Services (ILTSS)

We obtained supporting invoices for the expenditures selected and performed the following procedures:

- 1.1** We tested the 40 invoices from the different Bond Funds selected in Procedure 1A to determine whether amounts expended were consistent with the work scope of each of the respective bond measures as presented to the voters and further defined by various Board approved Strategic Execution Plans and amendments.

***Results***

We read the ballot measures to understand the work scope and list of specific projects proposed to be financed with the proceeds of the Local Bonds. We then inspected the invoices supporting the samples tested to determine whether amounts expended were consistent with the work scope of each bond measure. As required by Section 3 of Proposition 39, a list of specific projects is to be presented to the voter in each ballot. As such, we identified the projects to which the above expenditures were incurred and traced these projects to the Bond Project List presented in the Full Text of Ballot Measure K, R and Y (Proposition BB was issued under the traditional authority and not under Proposition 39; therefore references to specific school facilities projects were not required).

No exceptions were noted as a result of performing this procedure.

- 1.2** We tested the 40 invoices from the different Local Bond Funds selected in Procedure 1A, to determine whether the corresponding projects or non-project allocations in each of the invoices were included in the related Strategic Execution Plan (SEP) or approved SEP amendments. If the invoice had multiple projects, up to 5 projects from the invoice were traced to the SEP.

***Results***

No exceptions were noted as a result of performing this procedure.

- 1.3** For the items selected in Procedure 1A that represents FSD construction payments, we determined whether the following requirements of construction project payment procedures had been met:

- a) There are signatures on the required lines where the Contractor has certified the Application for Payment; and that the Owner Authorized Representative (OAR) has certified that the services have been rendered.
- b) Payment package includes the Encumbrance/Payment request form, the Application for Payment, the Owner Assessment Summary, and other necessary supporting documents.

***Results***

There were 12 samples that we selected in Procedure 1A above which represented construction payments. No exceptions were noted as a result of performing this procedure.





- 1.4 For the items selected in Procedure 1A above, we determined whether the payment package was appropriately approved and reviewed for payment.

#### ***Results***

No exceptions were noted as a result of performing this procedure.

### **Procedure 1B**

From the population of all expenditures charged to Commitment Item #700000 in the general ledger for the fiscal year ended June 30, 2014, we selected a total of up to five (5) inter-fund transfers out (IFT-Out) transaction samples from the Proposition 39 Local Bond funds (Measure K, Measure R, and Measure Y) to represent Board-authorized Bond work scope that is executed outside of the Local Bond funds. We traced the inter-fund transfer from Local Bond funds to the non-Bond program (functional area) where the work scope commitments are recorded and selected a total of 10 non-labor expenditure samples charged to Commitment Items #400000, #500000, and #600000, related to the Bond inter-fund transfers out. We obtained supporting invoices for these selected expenditures and performed the following procedure:

- 1.5 For each invoice selected in Procedure 1B, we determined whether amounts expended were consistent with the work scope in the Board Report authorizing Other Financing Uses of Bond funds.

#### ***Results***

No exceptions were noted as a result of performing this procedure.

### **Procedure 2**

From the population of all expenditures charged to Commitment Item #500000 in the general ledger for the fiscal year ended June 30, 2014, we selected a total of 20 expenditure samples from the Local Bond funds (Proposition BB, Measure K, Measure R, and Measure Y) corresponding to 20 staff augmentation / professional services staffing agreements with 12 samples representing Facilities (non-M&O), 2 samples representing M&O, and 6 samples representing ITD. We obtained supporting invoices for these selected expenditures and performed the following procedure:

- 2.1 We obtained a copy of each agreement, and reviewed each invoice selected in procedure 2, and reviewed the rates of the individuals within the invoices, to determine the consistency with the terms of the agreement. We reviewed up to five individuals for each invoice tested.

#### ***Results***

No exceptions were noted as a result of performing this procedure.

### **Procedure 3**

From the population of all expenditures charged to Commitment Items #100000 and #200000 in the general ledger for the fiscal year ended June 30, 2014, we selected a total of 20 expenditure samples from the Proposition 39 Local Bond funds (Measure K, Measure R, and Measure Y) representing the following distribution:

- 6 expenditures to represent Facilities (excluding M&O),
- 6 expenditures to represent M&O,
- 4 expenditures to represent ITD,
- 1 expenditure to represent ILTSS,
- 1 expenditure to represent OIG,
- 1 expenditure to represent OGC, and
- 1 expenditure to represent Finance.

We performed the following procedure:

- 3.1** For each expenditure selected in procedure 3 for Proposition 39 Local Bond funds (Measure K, Measure R, and Measure Y), we determined whether the items selected were spent on “administrator salaries” as referenced in the ballot measures, or “teacher salaries” as referenced in the State Proposition 39 as codified in the State Constitution, Article 13A, Section 1(b) (3) (A). Refer to additional guidance provided by the California Attorney General regarding “...Employee Salaries for Bond Program Administrative Oversight”.

#### ***Results***

No exceptions were noted as a result of performing this procedure.

### **Procedure 4**

From the population of all expenditures charged to Commitment Items #400000 and #500000 in the general ledger for the fiscal year ended June 30, 2014, select a total of 40 expenditure samples from the Proposition 39 Local Bond funds (Measure K, Measure R, and Measure Y) to represent the following distribution:

- 12 expenditures to represent Facilities (excluding M&O),
- 12 expenditures to represent M&O,
- 8 expenditures represent ITD,
- 2 expenditures to represent ILTSS,
- 2 expenditures to represent OIG,
- 2 expenditures to represent OGC, and
- 2 expenditures to represent Finance.

We obtained supporting invoices for the selected expenditures and performed the following procedure:



- 4.1** Review the invoices selected in procedure 4 to determine whether bond funds were used for “other day-to-day school operating expenses” as referenced in the State Proposition 39 as codified in the State Constitution Article 13A, Section 1 (b) (3) (A). Refer to additional guidance provided by the California Attorney General regarding “...Employee Salaries for Bond Program Administrative Oversight”.

***Results***

We noted no expenditures in Commitment Items #400000 and #500000 for the OGC. As such this procedure is not applicable for this department.

No exceptions were noted as a result of performing this procedure.

**Procedure 5**

From a population of all expenditures charged to Commitment Items #100000, #200000, #400000, and #500000 in the general ledger for the fiscal year ended June 30, 2014 from the Local Bond funds (Proposition BB, Measure K, Measure R, and Measure Y), we selected all expenditures from the samples selected in Procedure 2, Procedure 3, and Procedure 4 above and obtained corresponding invoices. We tested the sample of invoices to determine compliance with District Bond Charging Procedures.

***Results***

In conjunction with the issuance of Local Bonds, the District drafted Bond Charging Procedures for Measures K, R and Y and Proposition BB to provide procedures relating to the distribution and assignment of costs. Based on the bond charging procedures, bond proceeds shall not be applied to any purposes other than those for which the bonds were issued. In addition, there are other general guidelines such as the intent of the voters as reflected in the Bond Project List, Strategic Execution Plan and the California School Accounting Manual. These are guidelines being referred to in the Bond Charging Procedures. We examined the invoices to determine compliance with District Bond Charging Procedures.

No exceptions were noted as a result of performing this procedure.

**Procedure 6**

From a list of change orders generated from the COLIN or Maximo systems approved during the fiscal year ended June 30, 2014, we selected a total of 25 samples, including up to 5 samples from M&O, if any, from the population of all the Local Bond funds (Proposition BB, Measure K, Measure R, and Measure Y). We obtained the District Change Order Procedures and performed the following review to determine compliance with the procedures.

- 6.1** We determined compliance with the following Change Order Policy approval thresholds:
- For new construction work, individual Change Orders may not exceed ten percent (10%) of the original contract price.

- For demolition, reconstruction or rehabilitation work of existing structures, individual Change Orders may exceed ten percent (10%) according to Public Contract Code, but must not exceed twenty-five percent (25%) of the original contract price.

**Results**

No exceptions were noted as a result of performing this procedure.

- 6.2 We determined whether the change order package was submitted with the required documents in accordance with the Change Order checklist from the change order preparation requirements (the checklist form is not required to be included in retained documentation).

**Results**

No exceptions were noted as a result of performing this procedure.

- 6.3 For End User-initiated change orders, we verified whether the related scope changes did not commence nor the Owner Authorized Representative (OAR) did not process the Change Order until the following has been completed:

- a) End User-initiated Scope Change Request Form completed by OAR
- b) Review and approval by Construction Manager/ Senior Project Manager, Regional Construction Director and Deputy Director of Facilities Project Execution
- c) Request For Proposal (RFP) or Constructive Directive (CD) issued to Contractor.

**Results**

One (1) of the 20 samples we tested is an End User-initiated change order. No exceptions were noted as a result of performing this procedure.

- 6.4 We verified compliance with the signatory requirements on the Change Order form.

**Results**

No exceptions were noted as a result of performing this procedure.

- 6.5 We reviewed the change orders for splitting for the purpose of avoiding threshold limits.

**Results**

For the samples selected, we searched for additional change orders approved for the same contract during fiscal year ended June 30, 2014, and verified that either the initial submittal of the change orders occurred on different dates, or the nature of the services to be performed on the change orders were not related.

No exceptions were noted as a result of performing this procedure.



## **Procedure 7**

We determined whether the total expenditures reported in the year-end “Summary Statements of Bond Expenditures and Other Uses” for each Local Bond fund reconcile with the corresponding Comprehensive Annual Financial Report (CAFR) bond fund expenditures for the year ended June 30, 2014.

### ***Results***

No exceptions were noted as a result of performing this procedure.

## **Procedure 8**

We selected a sample of 10 New Construction projects from the December 2014 Facilities Services Division (FSD) Strategic Execution Plan (SEP). We reviewed the sample projects for compliance with the LAUSD School Construction Bond Citizens’ Oversight Committee (BOC) Memorandum of Understanding for New Construction projects for approved changes that occur in the fiscal year ended June 30, 2014:

- 8.1 For each of the 10 projects, we compared the SEP project budgets from the June 2013 FSD SEP to the December 2014 FSD SEP. For each project with a 2014 FSD SEP project budget that is greater than 105% of the 2013 FSD SEP project budget, if applicable, we determined if the budget increase was reported to the BOC.

### ***Results***

No exceptions were noted as a result of performing this procedure.

- 8.2 For each of the 10 projects, we compared the project’s scheduled school occupancy date from the June 2013 FSD SEP to the December 2014 FSD SEP. For each project with a 2014 FSD SEP school occupancy date that is later than the 2013 FSD SEP school occupancy date, if applicable, we determined if the project’s schedule change in readiness for use as a school or campus element was reported to the BOC.

### ***Results***

No exceptions were noted as a result of performing this procedure.

- 8.3 For each of the 10 projects, we compared the project’s scope from the June 2013 FSD SEP to the December 2014 FSD SEP. For each project with a 2014 FSD SEP scope that differs significantly from the 2013 FSD SEP scope, if applicable, we determined if the project’s scope change was reported to the BOC.

### ***Results***

No exceptions were noted as a result of performing this procedure.



## **Procedure 9**

We selected a sample of four (4) Local Bond Information Technology Division (ITD) projects from the 2014 ITD SEP, one each from the four ITD project types: Instruction Technology Initiative (ITI), My Integrated Student Information System (MiSiS), Information Technology Network Upgrade, and Radio Systems. We reviewed for compliance with the LAUSD School Construction Bond Citizens' Oversight Committee (BOC) Memorandum of Understanding for ITD projects:

- 9.1** For each of the four (4) project types selected in procedure 9, we compared the 2014 ITD SEP Current Budget to the 2013 ITD SEP Current Budget. For each project with a 2014 ITD SEP Current Budget that is greater than 105% of the 2013 ITD SEP Current Budget, if applicable, we determined whether the budget increase was reported to the BOC.

### ***Results***

No exceptions were noted as a result of performing this procedure.

- 9.2** For each project selected in procedure 9 that was cancelled when compared to the 2013 ITD SEP, if applicable, we determined whether the project cancelled was reported to the BOC.

### ***Results***

We did not note any projects in the 2013 ITD SEP that were cancelled in the 2014 ITD SEP. No exceptions were noted as a result of performing this procedure.

## **Procedure 10**

We inquired of District management as to whether a survey of the compensation of managers of major construction programs and managers of major public and private facilities in comparable locations across the United States in both the public and private sector had been performed in accordance with the provision of Measure Y.

- 10.1** We determined whether Facilities Services Division management compensation survey was performed and presented to the Board of Education.
- 10.2** We determined whether the Board of Education declared a finding that the managers of the District's Facilities Services Division are being compensated accordingly.

### ***Results***

According to the provisions of Measure Y, managers of the Facilities Services Division shall have the educational and employment experience comparable to that of persons with similar responsibility in the private sector.

To ensure that the District employs managers of the Division who are so qualified, the Board shall no less than biennially, cause a survey of compensation of managers of major construction programs and managers of major public and private sectors, and the Board shall make a finding that the managers of the District's Facilities Services Division are being compensated accordingly.

We inquired of District management and verified that a survey was performed by the District's Personnel Commission in FY 13-14 that was aimed at addressing the provisions of Measure Y above. Although a survey was conducted, the District did not present the results of the survey to the Board of Education.

Consequently, the District was unable to obtain a declaration from the Board of Education that the managers of the District's Facilities Services Division are being compensated accordingly. Based on the information gathered above, the District is not in full compliance with the requirements of Measure Y.

### ***Management Response***

The District's Personnel Commission completed a draft report on management compensation, including compensation for employees in the Facilities Services Division. This report had been shared with Senior Leadership. Given continuing District budget concerns, management will discuss next steps regarding this report, including the requirements set forth in the District's local bond measures.

## **Procedure 11**

We followed-up with management regarding the status of the FY 12-13 findings. See below for prior year findings, and the current status:

### **Finding – FY 12-13 - Procedure 1.4**

For the items selected in Procedure 1, we determined whether the payment package was appropriately approved and reviewed for payment.

- a) The invoice was appropriately approved by a Los Angeles Unified School District employee on the Encumbrance/Payment request form or other appropriate approval form.
- b) For each invoice, the related encumbrance/payment request was signed by the District FPPS Analyst for accuracy, completeness, and proper approvals prior to the processing of the payments.

### ***Results***

We noted one (1) item that was not signed by an FPPS Analyst for accuracy, completeness, and proper approvals prior to the processing of the payments. However, the item was properly reviewed and approved by authorized District personnel.





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## *Management Response*

Management concurs that the request for replenishment of the Utilities imprest account is an exception to the Facilities payment process and was properly reviewed and approved by authorized District personnel. The sample is not a payment for a vendor invoice. It is an internal request to Accounts Payable to replenish the \$500,000 Utilities imprest account. The Encumbrance/Payment Request was appropriately reviewed by the District FPPS Financial Specialist and approved by the Director of Program Support Services. The Imprest Fund Claim Form was certified by the Director of Program Support Services, the Imprest account administrator, in compliance with Bulletin No. REF-1706.2 Imprest Funds, Guidance on the Appropriate Use of Imprest Fund Accounts.

## *Current Status*

Implemented. The sample referred to above does not undergo the standard FSD invoice review process, but is reviewed in accordance with the Guidance on the Appropriate use of Imprest Fund Accounts. As such, the procedure, as it was written in the prior year, was not applicable to this sample. In response to the finding, the current year agreed upon procedure has been modified by removing the (a) and (b) requirements noted in the FY 12-13 procedure, which was only applicable to FSD vendor invoice processing. This allows for all costs, from all tested departments, charged to Commitment Item #500000, to be tested.

## *Finding – FY 12-13 - Procedure 2*

From the population of all expenditures charged to Object Code #1000 and #2000 in IFS to the Proposition BB, Measure K, Measure R and Measure Y bond funds, collectively referred to as the Local Bond Funds, for the fiscal year ended June 30, 2013, we selected 10 total expenditures for all Local Bond Funds combined (Proposition BB, Measure K, Measure R, and Measure Y) to perform the following procedures:

- 2.1 We determined whether the items selected for Measure K, Measure R and Measure Y were spent on “administrator salaries” as referenced in the ballot measures, or “teacher salaries” as referenced in the State Proposition 39 as codified in the State Constitution, Article 13A, Section 1(b) (3) (A) and the California Attorney General.

## *Results*

After interviewing 10 employees whose salaries were fully or partly charged to the bond funds, we noted one (1) employee whose job description did not establish clear compliance with the requirements of Measures Y. The employee’s job title is “investigator”. He works as part of the Investigations Unit of the Office of the Inspector General. He stated that his main projects include performing due diligence for charter schools, as part of LAUSD’s evaluation process of such schools. He also worked on investigating potential new hires, as requested by the Human Resources Department. In FY 12-13, he also worked on projects involving investigating suppliers that contracted with the Facilities Department. His salary was fully charged to Measure Y in FY 12-13.

### ***Management Response***

The OIG investigative staff does not currently track its time by project or funding source so it is not possible to identify the level of staff time with a funding source. Going forward, the OIG will implement a policy to track investigative staff time by project and by funding source to ensure that the appropriate allocation of staff time to funding source is maintained.

### ***Current Status***

Implemented. The OIG has implemented a Bond-work logging system within the OIG's internal timekeeping system, Time Matters, in March 2014, and have trained all investigative and administrative staff with regards to the functionality of the system. The OIG requires all investigative and administrative staff to input their time into the timekeeping system by identifying the individual Case / Project Name worked on, and to whether those projects are Local Bond Fund projects, or projects funded through other sources. The staff logs their respective work times on a daily basis.

### **Finding – FY 12-13 - Procedure 10**

We inquired of District management as to whether a survey of the compensation of managers of major construction programs and managers of major public and private facilities in comparable locations across the United States in both the public and private sector had been performed in accordance with the provision of Measure Y.

**10.1** We determined whether Facilities Services Division management compensation survey was performed and presented to the Board of Education.

**10.2** We determined whether the Board of Education declared a finding that the managers of the District's Facilities Services Division are being compensated accordingly.

### ***Results***

According to the provisions of Measure Y, managers of the Facilities Services Division shall have the educational and employment experience comparable to that of persons with similar responsibility in the private sector.

To ensure that the District employs managers of the Division who are so qualified, the Board shall no less than biennially, cause a survey of compensation of managers of major construction programs and managers of major public and private sectors, and the Board shall make a finding that the managers of the District's Facilities Services Division are being compensated accordingly.

We inquired of District management and verified that there was no survey performed by the District's Personnel Commission in FY 12-13 that was aimed at addressing the provisions of Measure Y above. Consequently, the District failed to declare a finding that the managers of the District's Facilities Services Division are being compensated accordingly.



Based on the information gathered above, the District is not in compliance with the requirements of Measure Y.

***Management Response***

In light of the severity of the recent State financial crisis, the District has not been in a position to provide compensation increases to its employees, including the management of the Facilities Services Division. In the fall of 2013, the Superintendent requested that the Personnel Commission incorporate the required salary study of Facilities executive management into a broader, more comprehensive study of all management staff. Staff anticipates completion of this study before the end of this calendar year.

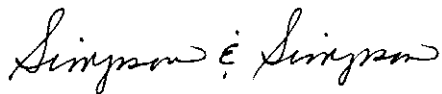
***Current Status***

Partially implemented. The management compensation survey was conducted, but was not reported to the Board of Education, and as such, the District was unable to obtain a declaration from the Board of Education that the managers of the District's Facilities Services Division are being compensated accordingly.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the District's administration of the Proposition BB, Measure K, Measure R and Measure Y School Bond Construction Program. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The District's written response to the exceptions identified in the report has not been subjected to auditing procedures and accordingly, we do not express an opinion on it.

The report is intended only for the information and use of the Board of Education, management, and members of the Citizens' Oversight Committee of the Los Angeles Unified School District and is not intended to be, and should not be used by anyone other than these specified parties.



Los Angeles, California  
February 18, 2015

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**  
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