

**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, 2010 and Statements of Bond Expenditures  
from Inception through June 30, 2010  
(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, 2010. 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.

### **1. Procedure**

From a population of all expenditures charged to Object Code #6000 in the general ledger (IFS) for the year ended June 30, 2010, we selected 10 expenditures for each of the GO Bond Funds (Proposition BB, Measure K, Measure R, and Measure Y). We obtained supporting invoices for the expenditures selected and performed the following procedures:

- 1.1** We tested the 10 invoices from each GO Bond Fund selected in Procedure 1 to determine whether amounts expended were consistent with the work scope of each of the respective bond measures as presented to the voters.

### ***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 GO 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 10 invoices from each GO Bond Fund selected in Procedure 1, to determine whether the corresponding projects were included in the related Strategic Execution Plan (SEP) including approved amendments. If the invoice had multiple projects, up to 5 projects from the invoice were traced to the SEP.

#### ***Results***

We noted 2 invoices that have projects that we were not able to trace to the 2009 SEP. For one invoice, three (3) of the five (5) projects we tested were not stated in the 2009 SEP. For the other invoice, two (2) out of the five (5) projects we tested were not stated in the 2009 SEP. However, we were able to trace these projects to prior year SEPs. No exceptions were noted as a result of performing this procedure.

- 1.3 For the items selected in Procedure 1 above that represent construction payments, we determined whether the following requirements of GO Bond construction project payments procedures had been met:
  - a) There are signatures on the required lines where an Owner Authorized Representative (OAR) validates that the contractor has certified the Application for Payment, and that the OAR has signed it.
  - b) Payment package includes the Encumbrance/Payment request form, the Application for Payment, the Owner Assessment Summary, and other necessary supporting documents.

#### ***Results***

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

- 1.4 For the items selected in Procedure 1 above, 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.
  - b) For each invoice, the related encumbrance/payment request was signed by the District FCIU Analyst for accuracy, completeness, and proper approvals prior to the processing of the payments.

#### ***Results***

Five (5) out of the 40 samples selected were not processed by FCIU, therefore, no Encumbrance/Payment Request Form were attached to the invoice packages. Three (3) of these were from the Information Technology Department, one (1) was from the Office of Environmental Health and Safety, and another one (1) was from the Transportation Division. All of these were processed directly by the District's Accounts Payable Department and did not undergo FCIU's payment verification procedures. However, upon testing the invoices, we noted that the invoices were reviewed and approved by properly authorized District approvers. No exceptions were noted as a result of performing this procedure.

## **2. Procedure**

From the population of all expenses 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 GO Bond Funds, for the fiscal year ended June 30, 2010, we selected 10 total expenditures for all GO Bond Funds combined (Prop BB, Measure K, Measure R, and Measure Y), to perform the following procedures:

- 2.1 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) and the California Attorney General.

### ***Results***

None of the ten (10) expenditures we sampled were spent on “administration salaries as referenced in the ballot measures, or “teacher salaries” as referenced in the State Proposition 39. However, it came to our attention that one (1) out of the ten (10) samples we selected was the salary of an Administrative Analyst assigned at the Facilities Services Department for one day. Upon interviewing the employee, we found out that she did not report to the said position or perform functions for the bond programs during that one day we tested and was just temporarily assigned to that position by the District’s Personnel Commission (PC) until she moved to her next position in another division. In order to comply with the District policy, a permanent position, in this case a bond funded position, was charged during the month tested. An adjustment was made in the subsequent month that moved the charges to the employee’s next position except for that one day.

Another expenditure we sampled was the salary of an Office Technician who performed administrative functions for both bond-funded and non-bond-funded positions. We found that his salary was fully funded by the bond funds.

### ***Management’s response***

Management concurs that the first observation is an issue. This issue occurred as a result of the District PC rules, position budgeting and time reporting procedures. When the employee was assigned by PC, without Facilities input, to the Facilities Administrative Analyst bond-funded position, time was reported against bond funds. The employee’s time was incorrectly charged for 96 hours against the bond funds and subsequently adjusted, net of eight hours, due to the confusion regarding time reporting responsibilities and the appropriate home cost center. Facilities will engage the PC and the Office of General Counsel to modify the PC rules and procedures that resulted in charges against the bond program for a transitional assignment, in order to prevent future occurrence. A journal voucher will be processed within a week from the date of this report to transfer expenditures from the bond program.

Management concurs with the second observation. The Facilities Division regularly reviews each position in order to align function to appropriate funding. The manager at the time submitted information that the function of the employee in the second exception was appropriate for 100% bond funding. The position’s function is general office support, such as preparing project files, scanning and maintaining office supplies. The rationale for 100% bond funding was to support the volume and the urgency of small bond projects. Upon consideration of the actual bond work supported by the employee at the end of the fiscal year, we have concluded that the actual bond support was 80%. A journal voucher will be processed within a week from the date of this report to transfer expenditures from the bond program.



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- 2.2 For each expenditure selected in Procedure 2 for Proposition BB, we determined that no bond funds were spent on “administrator salaries” as noted in the ballot measure.

***Results***

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

**3. Procedure**

From a population of all expenditures charged to Object Code #4000 and #5000 in IFS to all GO Bond Funds during the fiscal year ended June 30, 2010, we selected a sample of 10 expenditures for all GO Bond Funds combined (Prop BB, Measure K, Measure R, and Measure Y). We obtained supporting invoices for the expenditures selected and performed the following procedures:

- 3.1 We reviewed the invoices 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). We also determined whether the expenditures complied with the additional guidance provided by the California Attorney General.

***Results***

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

**4. Procedure**

From a population of all expenditures charged to Object Code #4000, #5000, and #6000 in IFS to all GO Bond Funds for the fiscal year ended June 30, 2010, we selected a sample of 10 individual program management/construction management firms from a listing of all such firms utilized by the GO Bond Funds provided by the District and performed the following procedures:

- 4.1 We obtained a copy of the contract for each program management/construction management firm selected and we reviewed each invoice for consistency with contract terms.

***Results***

We obtained a list of programs or construction management firms utilized by the District from the Facilities Construction Contract Unit. We obtained a copy of the contract, including approved amendments, for each of the 10 selected program and construction management firms. We read the contract provisions specifically covering charges and payments.

In addition to the contract, we utilized the Bill Submission by Construction Management (CM) Firm Guidelines (Guidelines) designed by the Facilities Services Division - New Construction Branch and the Protocol for Submitting CM Labor Request Payments for Existing Facilities as a guide, if applicable, in reviewing invoices to determine whether the information provided in the billing was consistent with the contract.

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

**5. Procedure**

From a population of all expenses charged to Object Code #4000, #5000, and #6000 in IFS to all GO Bond Funds during the fiscal year ended June 30, 2010, we selected all expenditures from the samples





selected in 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 GO 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.

Six (6) out of 20 samples we tested cannot be directly traced to a project in SEP. However, we noted that the SEP for New Construction and Existing Facilities cover expenses such as 1) Program Management that includes costs for program control personnel, division-wide policies and procedures and program support services, and 2) Mandated Non-Project Costs that include program legal costs, Facilities Support Services, Facilities Contract Services and office rent. The above mentioned six (6) samples fall under these type of expenses. No exceptions were noted as a result of performing this procedure.

## **6. Procedure**

From a listing of change orders approved during the fiscal year ended June 30, 2010 generated from the Project Information Control (PIC) system, we selected 20 change orders from all GO Bond Funds. We obtained the District Change Order Procedures and performed the following review to determine compliance with the District's Change Order procedures.

- 6.1 We compared the "Not to exceed Limits" to determine the compliance with the following procedures. According to the Change Order Procedures, individual change orders for New Construction work may not exceed 10% of the original contract price before securing additional bids. For demolition, reconstruction or rehabilitation work of existing structures, individual change orders may exceed ten percent (10%) according to the 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.

### ***Results***

Three (3) out of the 20 change orders we tested had a contract time change but did not have a supporting Schedule Fragnet, as required by the change order checklist.

### ***Management Response***

Management concurs. However, due to size of projects and the nature of the work, certain projects do not require a critical path method schedule as part of the contract specifications. It is not cost effective to require schedules for these types of projects. The three change order samples missing fragnet schedules noted on the report are relatively smaller



demolition and repair and modernization projects. Requiring costly schedules as part of the contract specifications is typically not a good value to the District. The District will clarify this issue in the Change Order procedures revision.

**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:

- End User-initiated Scope Change Request Form completed by OAR
- Review and approval by Local District Project Manager (LDPM)/ Senior Project Manager and Deputy Chief Facilities Executive or designee
- Request For Proposal (RFP) issued to Contractor

#### ***Results***

Two (2) out of the 20 samples we tested were initiated by end users. We did not find any proof of RFP in the change order package provided for these samples. However, a Construction Directive was properly issued in each of these change orders, in lieu of the RFP. 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***

One (1) out of the 20 samples we tested was not properly signed by the Contractor.

From the eight (8) existing facilities samples we tested, eight (8) signatories in five (5) samples were signed by other than the required signatories, specifically, the next level positions. Six (6) required signatories in four (4) samples did not sign the change orders. However, upon verification, all these exceptions were approved, in a separate memo, by the Deputy Chief Executive – Existing Facilities/New Construction (higher level of authority) and Director – Facilities Contracts.

From the twelve (12) new construction samples we tested, two (2) samples were not signed by the Director of Project Support, four (4) samples requiring the Regional Director's signature were signed by the Director of Project Support and six (6) signatories in five (5) samples were signed by other than the required signatories, specifically, the next level positions. However, upon verification, all these exceptions were approved, in a separate memo, by the Deputy Chief Executive – New Construction (higher level of authority) and Director – Facilities Contracts.

#### ***Management's Response***

Management concurs. During the fiscal year audited, the District consolidated, streamlined, and reduced organizational overhead. The signatory authority matrix and change order forms were updated to reflect the changes. However, the Change Order Procedures still need to be modified to align with the new organizational structure. As mentioned in the report, all change orders were approved with appropriate signatory authorities.

The Contractor reserved the right to file future claims without time restrictions and refused to sign the selected change order sample. The District disagrees with the contractor's rationale since the Change Order form includes provision for disputed portions of the Change Order Proposal. The District ensured that work would continue by inserting the clause on the Change



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Order form: "Should the Contractor fail to sign and return as required, Owner reserves the right to process document without Contractor Signature."

## **7. Procedure**

We determined whether the total expenditures reported in the year-end "Statements of Bond Expenditures" for each GO Bond Fund measure agree with the corresponding Comprehensive Annual Financial Report (CAFR) bond fund expenditures for the year ended June 30, 2010.

### ***Results***

We obtained a "Statement of Bond Expenditures" for each of the GO Bond funds and agreed the CAFR bond fund expenditures for the year ended June 30, 2010. The statements of bond expenditures present expenditures on a program level while the CAFR expenditures were presented using the natural expenditure classification. As a result, the expenditures between the two reports could be agreed only on an aggregate rather than on a line by line basis.

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

## **8. Procedure**

We selected a sample of 10 GO Bond projects from the 2009 New Construction Strategic Execution Plan (SEP) and verified the sample projects for compliance with the LAUSD School Construction Bond Citizens' Oversight Committee (BOC) Memorandum of Understanding for New Construction projects:

- 8.1** For each of the 10 projects, we compared the SEP project budgets from the 2009 New Construction Strategic Execution Plan to the 2010 SEP. For each project with a 2010 SEP project budget that is greater than 105% of the 2009 SEP project budget, 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 2009 SEP to the 2010 SEP. For each project with a 2010 SEP occupancy date that is later than the 2009 SEP occupancy date, 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 2009 SEP to the 2010 SEP. For each project with a 2010 SEP scope that differs significantly from the 2009 SEP scope, we determined if the project's scope change was reported to the BOC.





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## *Results*

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

### **9. Procedure**

We attempted to select 10 samples of GO Bond project types (such as classroom lighting, exterior paving and roofing) from the 2009 Existing Facilities SEP to verify compliance of sampled projects with the LAUSD School Construction Bond Citizens' Oversight Committee (BOC) Memorandum of Understanding for Existing Facilities Projects.

#### *Results*

We requested the list of bond project types from the 2010 Existing Facilities SEP data but according to Facilities Services Division, such data was not prepared for June 30, 2010. Consequently, no report was presented to the Bond Oversight Committee.

Due to the limitation mentioned above, we were not able to identify if there are project types with 2010 SEP current budgets that were greater than 105% of the 2009 SEP current budgets, project types with 2010 SEP completion dates that were later than the 2009 SEP completion dates or project types in 2009 SEP that were eliminated in 2010 SEP. Had the list of bond project types been prepared and made available for our review, we might have identified information that was required by the Memorandum of Understanding for Existing Facilities Projects to be reported to the BOC.

#### *Management's Response*

Management concurs. The District did not produce a 2010 Repair and Modernization SEP; therefore was not able to produce a BOC report on annual changes in schedule and budget. The BOC was informed and accepted that since FSD was merging New Construction and Existing Facilities, there would be a consolidated SEP issued at the end of 2010. However, due to several significant Board actions occurring in January and February 2011 (2011 Bond Program Funding Strategy defining \$531 million of new scope and the Jordan HS Redevelopment Board action that cancelled 187 existing facilities projects), the publication of the consolidated SEP was delayed. Currently that is anticipated to be completed by May 2011.

### **10. Procedure**

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 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 District declared a finding that the managers of the District's Facilities Services Division are being compensated accordingly.



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## *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 a survey performed by the District's Personnel Commission in November 2009 that was aimed at addressing the provisions of Measure Y above. We also verified that the results of the survey were presented to the District's Board of Education. However, no finding has been made to confirm that managers of the Facilities Services Division are being compensated accordingly. Therefore, the District is not fully in compliance with the requirements of Measure Y.

### *Management's Response*

A survey of management was conducted by District staff and presented to the Superintendent and the Board and made available to the public. Staff believes that the requirements of Measure Y were met in that regard. The District agrees that its Board has not made a finding regarding the compensation of managers of the Facilities Services Division.

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

A handwritten signature in black ink that reads 'Simpson &amp; Simpson' in a cursive script.

March 10, 2011