

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, 2011 and Statements of Bond Expenditures
from Inception through June 30, 2011
(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, 2011. 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, 2011, 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 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 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 or non-project allocations 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 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

There were 22 samples that we selected in Procedure 1 above which represented construction payments and we noted one (1) out of the samples tested was not properly signed by the Owner Authorized Representative (OAR).

Management's Response

Management concurs. The Application for Payment was not approved by the OAR. However the Application for Payment was certified by the Contractor and the Encumbrance/Payment request form was approved by the Regional Construction Director.

- 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 or other appropriate approval 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

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, 2011, we selected 10 total expenditures for all GO 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

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

- 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, 2011, we selected a sample of 10 expenditures for all GO Bond Funds combined (Proposition 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 #5000 and #6000 in IFS to all GO Bond Funds for the fiscal year ended June 30, 2011, we selected 10 total expenditures corresponding to 10 individual program management/construction management firms. We obtained supporting invoices for the expenditures selected 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 Program Support Services Invoicing Guidelines (Guidelines) designed by the Facilities Services 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 expenditures charged to Object Code #4000, #5000, and #6000 in IFS to all GO Bond Funds during the fiscal year ended June 30, 2011, 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. We examined the invoices to determine compliance with District Bond Charging Procedures. 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, 2011 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

13 out of the 20 samples we tested do not have supporting Verification of Funding, as required by the Change Order Procedures.

Management's Response

The Verification of Funding and the Impact Statement are supporting documents referenced in the version of the Change Order Procedures reviewed. The document requirements have been modified on the subsequent draft revision of the procedures. These two documents are functions of contract / contingency management and project budget modification. These activities, performed separate from and in advance of change request documents, do not have a one-to-one relationship with individual Change Orders.

- 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 Construction Manager/ Senior Project Manager, Regional Construction Director and Deputy Director of Facilities Project Execution
 - Request For Proposal (RFP) or Constructive Directive (CD) issued to Contractor.

Results

One (1) out of the 20 samples we tested appeared to be the End User-initiated change order. However, we noted that the form was incorrectly prepared and requested by the OAR, instead of the end user. Upon verification, the change order was not initiated by the end users and therefore, is not subject to the above requirements. 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.

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, 2011.

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, 2011. 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 2010 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 January 2010 New Construction Strategic Execution Plan to the June 2011 SEP. For each project with a 2011 SEP project budget that is greater than 105% of the 2010 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 2010 New Construction SEP to the 2011 SEP. For each project with a 2011 SEP school occupancy date that is later than the 2010 New Construction 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 2010 New Construction SEP to the 2011 SEP. For each project with a 2011 SEP scope that differs significantly from the 2010 New Construction 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.

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.

- 9.1 For each of the 10 project types selected, we compared the aggregate June 2009 Existing Facilities SEP Current Budget to the aggregate 2011 SEP Current Budget. For any project types selected with an aggregate 2011 SEP Current Budget that is greater than 105% of the aggregate 2009 Existing Facilities 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 We selected one specific project from the 2009 Existing Facilities SEP for each of the 10 project types selected in procedure 9.1. For each sampled project that has a scheduled substantial completion date that is 12 months or greater than the 2011 SEP substantial completion date, if applicable, we determined whether the delay was reported to the BOC.

Results

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

- 9.3 For each project selected in procedure 9.2 from the 2009 Existing Facilities SEP that was cancelled when compared to the 2011 SEP, if applicable, we determined whether the project cancelled was reported to the BOC.

Results

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

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 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 District 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 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.

In April of 2011, the Superintendent informed the Bond Oversight Committee that in light of the heavy workload of the District's Personnel Commission due to the current budget crisis that resulted to reduced workforce, he has requested to put the Facilities' Management Compensation Study on hold.

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

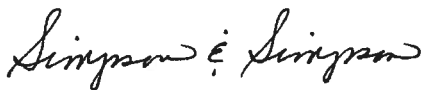
Management's Response

In light of the continued success of recruitments and selections for Facilities Services Division management positions, the District does not believe that Facilities management compensation levels are out of line with current industry standards for major public works projects. With respect to the 2011 Compensation Study, in April of 2011, the Superintendent informed the Bond Oversight Committee that, in light of the heavy workload of the District's Personnel Commission due to the current budget crisis that has resulted in a reduced workforce, he has requested that the Compensation Study be placed on hold. The District will consider options with respect to completion of the Compensation Study in the near future.

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



January 12, 2012