



LOS ANGELES UNIFIED SCHOOL DISTRICT

Proposition BB, Measure K, Measure R and Measure Y
School Bond Construction Programs

Agreed-Upon Procedures Report

Year ended June 30, 2006

(With Independent Auditors' Report Thereon)



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Independent Accountants' Report on Applying Agreed-Upon Procedures

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) administered by the Los Angeles Unified School District (the District or LAUSD). The tasks we undertook were agreed to by the District's officials and were performed solely to assist the District and its management in fulfilling its oversight responsibility surrounding the administration of the Bond Programs funding for the year ended June 30, 2006. 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 areas of inquiry 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.

1.1 Procedure

From a population of all expenses charged to Object Code 6000 in the general ledger (IFS) for the year ended June 30, 2006, select five warrants from each GO Bond Fund (Proposition BB, Measure K, Measure R and Measure Y), then select a sample of one invoice per warrant, pertaining to a particular IFS project number, test the selected sample of expenditures, and verify that they are consistent with the work scope of each of the respective Bond measures as presented to the voters.

Results

We reviewed the full text of the ballot measures to identify 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 verify that they are consistent with the work scope of each Bond measure and noted no exception. As required by Section Three 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 Measures 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). The following projects were not specifically named on the Bond Project List in the respective Ballot Measures:

- East Los Angeles Skills Center and the Maxine Waters Employment Preparation Center – These projects related to adult education sites that were not specifically listed in the Bond Project List in Measure R. Measure R does, however, include a general reference to providing, furnishing, and equipping new facilities, converting existing facilities, and reopening closed

facilities to provide for adult-education programs by means of acquisition, purchase, lease, construction, and reconstruction.

- Los Angeles School Police Department Emergency – This project was not specifically listed in the Bond Project List in Measure R. Measure R does, however, include a general reference to safety, emergency, fire-prevention and security projects including communications upgrades classrooms to give them immediate access to emergency response (911) system as well as emergency communications system upgrades, including purchase and modernization of a central computer dispatch system and communications workstations for the central 911 system.
- East Los Angeles High School No. 2 and Central Regional Middle School No. 7 – These projects related to expanding seats at the schools but were not specifically listed in the Bond Project List in Measure K. Measure K does, however, include general references to projects to expand seating in schools.

In addition, one of the samples selected pertained to an invoice of a construction management firm with various consultants working on multiple projects. For purposes of tracing the related projects for which these consultants were assigned to the specific Bond Project List, we selected all billing amounts in excess of \$20,000 for each project resulting in 17 items tested. The following were not included on the Bond Project List in the respective Ballot Measures:

- Full Day K – School Planning RFDK4 – This “project” was not specifically listed in the Bond Project List in Measure R. Based on discussions with District management, we were informed that the billing tested related to a program management account that was allocated to Measure R and not a school construction project. Although not specifically identified in Measure R, a general reference to providing additional classrooms and seats is referenced in Measure R to enable the District to offer full-day kindergarten where and when possible.
- Los Angeles New Elementary School No. 1 – This project was not specifically listed in the Bond Project List in Measure K. Based on discussions with District management, we were informed that this project was originally called Los Angeles Primary Center No. 1 but was redesigned into an elementary school subsequent to the issuance of Measure K and renamed Los Angeles New Elementary School No. 1.
- Valley Region Hesby Span K-8 – This project was not specifically listed in the Bond Project List in Measure K. The Valley Region Hesby Span K-8 project represents the reopening of a closed school. Measure K does, however, include general references to plans to reopen closed schools.

Management’s Response

KPMG has identified items in their sample that are not listed as specific-named projects in the Bond Project List for the respective Bond Measures used for funding. For each of these items in the finding for this agreed-upon procedure, KPMG has referenced bond ballot language describing the general scope of work which includes the projects identified in KPMG’s findings. Our response below further clarifies the ballot authorization enabling the use of bond funds for these items.

The voter approved bond measures include a list of projects, project types, and other scope of work that may be funded with the proceeds from the bond measure. This scope of work is contained in the respective “Bond Project List” of each bond measure. The Bond Project List includes both projects specifically identified by an existing or proposed campus, as well as contemplated scope of work

projects that are not specifically identified by an existing or proposed campus. This contemplated scope of work (defined in this response as Pending Project Definitions) is expressed as an approximate number of school seats to be built in each Local District or as a generalized listing of scope of work projects that are to occur at any of the schools or within any of the Local Districts identified in the Bond Project List. The Bond Project List further discloses to voters that all bond-financed projects will be undertaken pursuant to approval by the Board of strategic execution plans that set forth the scope of work to be undertaken. The Bond Project List is created based on the best available information at the time the bond measure is placed on the ballot. As discussed below and as disclosed in each ballot measure, after the bond measure is passed by voters, all scope of work projects identified in a given bond measure are delivered through projects specifically approved by the Board.

Procedures in place at the LAUSD since 2003 require that prior to expenditure of funds on any bond-financed project, any scope of work projects associated with Pending Project Definitions, as identified in a bond measure, must be defined into Board-approved projects through the Strategic Execution Plan (SEP) process that is referenced in the respective bond measures. Specifically, this SEP process requires that all scope of work projects associated with Pending Project Definitions be undertaken only after the Bond Oversight Committee considers such projects within the scope of the projects authorized by each bond measure and recommends that such projects be approved by the Board of Education.

Given that (i) the language in the Bond Project List of Measure K discloses that the District intends to use bond moneys for site acquisition and creation of school facilities in Local District C and Local District H, (ii) the Attorney General permits program management costs to be paid from bond moneys and the language in the Bond Project List of Measure R authorizes expansion of full-day kindergarten, and (iii) all scope of work projects undertaken by the District are done so only after conclusion of the SEP process, each project in the sample taken is authorized by the respective bond measure and, therefore, "...is consistent with the work scope of each of the respective bond measures as presented to the voters."

1.2 Procedure

Test the items selected in procedure 1.1 above to verify that the following requirements of GO Bond construction project payments procedures have been met:

- a) The invoice, along with a District approved Encumbrance/Payment Request form, including evidence of approval by an appropriate LAUSD employee, were to be submitted in order to process the payment.
- b) For the invoices that represent construction expenditures, ensure an Owner Authorized Representative (OAR) validates that the Contractor has certified the Application for Payment, and that the OAR has signed it. The OAR assembles the payment package that includes the Encumbrance/Payment request form, the Application for Payment, the Owner Assessment Summary, and other necessary supporting documents. The OAR then transmits the original Owner Assessment Summary to Facilities Contract Invoice Unit (FCIU) with copies to Facilities Construction Contract and others.
- c) For each invoice, verify that 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

- a) No exceptions were noted as a result of performing this procedure.
- b) Based on the Contractor Payment policy, the OAR must assemble payment package consisting of the following documents: (a) Contractor Payment Checklist, (b) Application for Payment (signed), (c) Owner Assessment Summary – this will support the withholds or releases on the progress payment, (d) List of Subcontractors (Payment Summary), (e) Allowance Disbursements Form (if applicable), and (f) Certificate of Substantial Completion (if applicable). We reviewed completeness of the payment package and verified if the application for payment was properly supported and the amounts agreed. We noted no exceptions as a result of this procedure.

We could not verify whether the OAR signatures found in the Application for Payment or Section 2 of the Payment Request Form for the nine (9) Existing Facilities projects are valid. We, however, were able to obtain a listing of the authorized OAR for the eleven (11) New Construction projects and noted no exceptions.

The invoices for construction expenditures are required to be certified by the Contractor that all items, units, quantities, and prices for work shown in the payment requests are correct. We were not able to verify whether the contractors' representatives who certified the invoices were authorized.

Management's Response to b)

The District procedure for OARs does require the OAR to certify the Application for Payment. The procedure does not, though, require maintenance of a list of authorized OARs by project. Verification of the validity and authority of the OAR to sign the "Applications for Payment" is the responsibility of District management personnel who approve and sign the "Requests for Payment". They work closely with the OARs assigned to the projects in their areas on a daily basis.

There is neither a contractual obligation for the contractor to provide a "list of authorized signatories" nor a District procedure requiring such a list. However, the signature of an authorized representative of the contractor on the "Applications for Payment" is a contractual requirement. The verification of value of work completed and due for the progress billing is done by agreement of OAR, District Inspection and the contractor representative. The invoices are reviewed by the OAR and District management employees who are aware of the contractor's organization. We believe these controls provides adequate assurance that correct signatory approvals are provided and that the payment request amount for work completed by the contractors is correct.

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

1.3 Procedure

Using the five invoices from each GO Bond Fund from the sample selection made at procedure 1.1, verify that the corresponding projects are included in the applicable Strategic Execution Plan (SEP) including approved amendments.

Results

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

2. Procedure

From a population of all expenses charged to Object Codes 1000 & 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, 2006, select 10 total charges for all GO Bond Funds combined (Proposition BB, Measure K, Measure R, and Measure Y), to perform the following procedures:

- 2.1 Review the charges selected along with corresponding time sheets and personnel files and verify that no Bond funds in Measure K, Measure R, or Measure Y were spent on “administrator salaries” as noted in the ballot measures, or “teacher salaries” as noted in the State Proposition 39 as codified in the State Constitution, Article XIII A, Section 1(b) (3) (A).
- 2.2 Compare the charges selected with corresponding time sheet and personnel file and verify that no Bond funds in BB Bond were spent on “administrator salaries” as noted in the ballot measures.

Results

For each item selected, we identified the related employee name and requested the employee time record supporting the charges. We then identified the class code as indicated in the employee time record to get an understanding of the duties of the position to which the employee was assigned for the payroll period reported. We reviewed the class code description from the Human Resource Department to ensure that bond proceeds were not expended for “administrator” or “teacher” salaries. No exceptions were noted as a result of performing this procedure.

3. Procedure

From a population of all expenses charged to Object Codes 4000 and 5000 in IFS to all GO Bond Funds during the fiscal year ended June 30, 2006, select a sample of 10 total charges for all GO Bond Funds combined (Proposition BB, Measure K, Measure R, and Measure Y), and review the invoices to ensure that no Bond funds were used for “other day-to-day school operating expenses” as noted in the State Proposition 39 as codified in the State Constitution, Article XIII A, Section 1(b) (3) (A).

Results

We noted one item totaling \$15,598 that appeared to be used for “other day-to-day operating expenses”. The expense is related to the additional cost on the annual maintenance of Maximo – an application which supports the Maintenance and Operation (M&O) Department.

Management's Response

We do not concur with this finding.

Maximo is a software application commonly referred to as an Asset Work Management System. Maximo supports Maintenance and Operations activities and scope of work associated with the capital improvement program that is funded by General Obligation (GO) bonds and other capital funding sources. Current procedures allocate Maximo expenditures between GO Bond funds and other funds sources based on estimated proportions of the scopes of work supported by this system.

The individual invoice in this sample that was paid exclusively with GO Bond funds does not reflect the entire cost, or the entire allocation of cost, of the Maximo maintenance agreement. Other invoices related to the Maximo maintenance agreement were paid out of non-bond funds such that the overall contract is costed to appropriate funding sources.

Reviewed in larger context of the entire system maintenance agreement contract, including prior invoice allocations, the subject invoice is appropriately chargeable to bond funding. Facilities Division staff continuously review and adjust the charges associated with the Maximo maintenance agreement to ensure appropriate distribution of cost.

4. Procedure

From a population of all expenses charged to Object Codes 4000, 5000, and 6000 in IFS to all GO Bond Funds for the fiscal year ended June 30, 2006, select a sample of 10 individual program management/construction management firms from all GO Bond Funds, proportionately by the dollars spent in each GO Bond Fund, and perform the following:

- 4.1 Test if an authorized representative of the project management or construction management firm has "certified" their own invoices.
- 4.2 Obtain a copy of one contract for each program or construction management firm and review the corresponding invoices for compliance with contract terms.

Results

We obtained a list of program or construction management firms utilized by the District from the Facilities Construction Contract. We obtained a copy of the contract, including approved amendments, for each of the 10 selected program and construction management firms. We reviewed the contract provision specifically covering Charges and Payments.

In addition to the contract, we utilized the Bill Submission Guidelines for Construction Management (CM) Firm developed by the Facilities Services Division – New Construction Branch as a guide in reviewing the invoices to ensure that the documents are complete and the information provided in the billing was accurate and consistent with the contract.

We noted the following exceptions:

- a) An expenditure of \$74,455.45 was paid and recorded under Measure R for Existing Facilities. The funding source should have been the State Matching Effort (SME) and Proposition BB.

Management's Response to a)

We do not concur that the funding source of the holding account should have been state funds or BB Bond. There is no need to fund a holding account from a specific fund source, or sources that are inclusive of all scope of work in each invoice.

In accordance with current practices, the expense was recorded to a Measure R temporary holding account to enable timely processing of contractor payments. A holding account may be funded with any acceptable capital funding source, as the expenditures reside in that account temporarily prior to being transferred from the holding account to the appropriate project(s) (and associated project funding source(s)) as reported in the invoice.

Additionally, projects that are funded with state matching funds also include funding from local, GO Bonds. Current funds management practice enables projects with multiple fund sources to appropriately charge expenditures to any available fund source allocated to the project.

- b) Certain contractor rates charged in one Existing Facilities contract were not specified in the contract.

Management's Response to b)

We do not concur.

The questioned contractor is a Program Manager (Director of Facilities Programs) and that position and billing rate can be found in Option year 1 of the original contract (July 1, 2005 – June 30, 2006).

The contract in question, in paragraph 2 of Exhibit A, states, in part:

“The supporting staff of the DCFE is expected to consist of a Senior Project Manager and two Project Managers. In addition the following support staff may be required on an as needed basis: Program Manager, Project Controls Specialist, Scheduler, Schedule Manager, Estimator, Graphic Specialist, other support staff as required by the District.”

The “other support staff”, which are not called out in the contract or its amendments, are added by staffing order that defines a position title and a billing rate defined at the time of the staffing order. Note that there may be position titles that are the same, but with different skill sets/responsibilities/ requirements; thus, a differential in the billing rate for the “same” position title.

5. Procedure

From a population of all expenses charged to Object Codes 4000, 5000, and 6000 in IFS to all GO Bond Funds during the fiscal year ended June 30, 2006, select a sample of 10 charges from the samples in procedures 3 and 4 and obtain corresponding invoices. Test the sample of invoices to verify compliance with District Bond Charging Procedures.

Results

In conjunction with the issuance of the GO Bonds, the District drafted Bond Charging Procedures for Measure K and Proposition BB to provide procedures relating to the distribution and assignment of costs. Based on this bond charging procedure, bond proceeds shall not be applied to any purposes other than those for which the bonds were issued.

The controlling authority for using the bond proceeds was *Article XIII A, Section 1(b)(3) of the Constitution of the State of California*, which states that the “proceeds of bonded indebtedness may only be used to pay for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities”. In addition, there are other general guidelines such as the intent of the voters as reflected in the Bond Project List, Strategic Execution Plans, and the California School Accounting Manual. These are the guidelines being referred to in the Bond Charging Procedure.

We obtained a copy of the Bond Charging Procedures and noted that no written policies and procedures were issued specifically for Measures R and Y. According to the representative of Facilities Services Division (FSD), the Division is currently following the guidelines set forth in Measure K for Measures R and Y. As a result, we utilized the Measure K Bond Charging Procedure to test samples from Measures R and Y. We noted the following exceptions:

- a) Payment to one of the contractors amounting to \$43,715.26 pertains to the acquisition of computer equipment for the Existing Facilities – Program Controls Department. According to the District Bond Charging Procedures, indirect costs at the division level incurred for the overall benefit of the Facilities Division are not chargeable to the bond proceeds. Existing Facilities – Program Controls Department provides support to Existing Facilities programs and projects and not just for projects funded by the Bond Funds. As a result, this expenditure does not appear to be in compliance with the District Bond Charging Procedures.

Management’s Response to a)

We partially concur. The Program Controls Department is not at the Division level. The Department is under the Existing Facilities Branch, within the Facilities Services Division, with a focus on the GO Bond and other programs as part of the larger Capital Improvement Program. Similar to the approach discussed in the Management Response to AUP 3, Program Controls also supports non-bond projects and distributes cost to benefiting programs per FSD policy.

Individual invoices in of themselves do not adequately represent the overall distribution of cost to various Bond and other benefiting programs. Reviewed in context and in support of the GO Bond program, this individual invoice is appropriately chargeable to bond funds.

- b) Payment to one of the contractors amounting to \$15,597.93 pertains to the cost of the annual maintenance agreement for an add-on application into Maximo/Asset Work Management System. Maximo supports both Maintenance and Operation Trouble Calls and Bond Projects. This cost is an indirect expense incurred for the overall benefit of the Existing Facilities and not just specific to the bond program itself. As a result, this expenditure does not appear to be in compliance with the Bond Charging Procedures.

Management's Response to b)

This finding was addressed in procedure 3 above. Please see Management Response in that Section.

6. Procedure

From a complete listing of change orders approved during the fiscal year ended June 30, 2006 generated from Project Information Control (PIC) system, select 20 change orders from all GO Bond Funds. Obtain the District Change Order procedures and review the selected change orders to verify compliance with the District's Change Order procedures to determine if appropriate approvals were secured.

Results

We obtained a copy of the Change Order Procedure from the Director of Policies, Facilities Services Division and reviewed the significant provisions stated therein. We then obtained a list of change orders approved for fiscal year 2005-2006. From the list of change orders provided, we selected 20 samples and performed the following:

- a) Using the Change Order Procedure obtained above, we inspected the Change Order Proposal (COP) for the samples selected to determine that they include all documentation to support any addition, deletion, or revision in the work including the following:
 - i. Pricing, breakdowns, and costs required to validate a proposed adjustment in the contract amount.
 - ii. Detailed schedule analysis demonstrating the impact on the project critical path to substantiate requests for contract time extension (if applicable).
 - iii. Revised or marked-up drawings, specifications and sketches (if applicable).

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

- b) We obtained a copy of Record of Negotiation Summary for each of the change order selected to verify that key discussion points of the negotiation were recorded. No exceptions were noted as a result of performing this procedure.
- c) We inspected completeness of the Change Order Package which, at the minimum, must include the following: (1) Change Order Checklist, (2) Justification of Change, (3) Change Order Proposal, (4) Record of Negotiation, and (5) Independent Estimate or Analysis, if required. All change orders had a complete change order package except for four items where Change Order Checklists were missing.

Management's Response to c)

We do not concur. A checklist is not required to be submitted to Accounts Payable (AP) as part of the payment package. The Construction Management Procedures do call for an "in house" checklist. This is to provide an "at a glance" review of the completeness of the Change Order Package, which can be several inches thick, to those processing it. The checklist is not required for payment and the Change Order Processing Unit (COPU) does not necessarily provide AP (where KPMG obtained their sample) with a copy.

- d) We verified if the samples were in compliance with the “Not to Exceed Limits”. According to the Change Order Procedures, individual change orders for New Construction works may not exceed ten percent (10%) of the original contract price before securing additional bids. For Existing Facilities works, individual change orders that exceeded ten percent (10%), but do not exceed twenty-five percent (25%) of the original price may be performed by the Contractor without any need to secure additional bids, so long as the change is necessary and integral part of the work under the contract and the taking of bids would delay the completion of the project. No exceptions were noted as a result of performing this procedure.
- e) We inspected the Change Order Form to verify if the appropriate signatures were obtained prior to processing the Change Order. According to the Change Order Procedure, signatures of Contractors, Architects or Engineers (for Department of State Architect (DSA) – approved projects), OAR, and Senior Management are required for authorization of the Change Order.
 - i. We attempted to obtain a list of authorized contractor signatories to verify Contractor sign-off on the Change Order Form. According to the Facilities Services Division, such a list is not maintained because the District cannot force the contractor to accept the change order. However, the District can issue a Contract Directive that would require the contractor to undertake the work and process the change order without the Contractor’s signature. If the Contractor refuses to execute the change order, he can file a written claim but shall proceed to with the work as set forth in the change order. Since the list of authorized contractor signatories cannot be provided, we were unable to test this procedure.

Management’s Response to i.

There is no contractual obligation for the contractor to provide a list of “authorized” signatories. The verification of scope change and value of necessary change work is a joint effort of the OAR, District management personnel and the contractor representative. The Change Orders are reviewed by the OAR and District management personnel who are aware of the contractor’s organization and who, by signing the change orders, confirm that the signatory of the contracts is authorized.

- ii. We obtained the names of architects who are required to approve the change orders selected. An architect’s signature is required only for DSA-approved projects, therefore, not all samples would have DSA approval. We obtained a list of architects from both New Construction and Existing Facilities. A listing of authorized architect signatories for change orders under the New Construction Branch was not provided to us. According to New Construction, an architect signature is not mandatory for processing the change orders. Architects are not responsible for change order reconciliation or review of the change order amount. However, the Change Order Procedures indicate that architect signatures for DSA-approved projects are one of the requirements for authorization of change order prior to submittal of the Change Order Form for processing. The samples we tested all bore architect signatures except for change order T-543 (Jefferson New ES #1) where the architect refused to sign the change order. For the change order bearing architect signatures, we were unable to verify the validity of the signatories as no list of authorized architects was provided as mentioned above.

Management's Response to ii.

There is no contractual obligation for the architect to provide a list of "authorized" signatures. The Change Orders are reviewed by the OAR who is aware of the architect of record.

- iii. We tried to obtain the list of OARs to review approval of the Change Order Form but the District could not provide us with the OAR list because of the rapid turnover of the OARs assigned to the projects. Management believes that the review and approval of the District employee is sufficient evidence. Since no list could be provided, we were not able to test this attribute.

Management's Response to iii.

For the New Construction Branch, with several hundred projects, the list of OARs assigned to the projects was provided to KPMG. These are the same OARs who are required to review the Change Orders for their projects.

For the Existing Facilities Branch, with approximately 17,000 projects, as a practical matter, no list of OAR assignments is maintained. Regional project management personnel are required to approve all payments and change orders. They are aware of the assigned OARs for the projects in their regions. By approving the change orders, the regional Project management personnel are certifying, among other things, that the appropriate OAR review has taken place and the appropriate OAR signatures have been affixed to the Change Orders.

- iv. We obtained the list of District staff authorized to approve the change orders selected above. We reviewed the dollar amount of individual change order selected and the cumulative change order total as a percentage of the original contract amount. We then inspected approval made to determine if it complied with the Matrix of Change Order Signatory Requirement. No exceptions were noted as a result of performing this procedure.
- According to the Change Order Procedures, changes or alterations to the plans and specifications previously approved by the DSA require approval from the DSA prior to the commencement of the change work. Thus, this attribute is applicable only to DSA-approved projects. Using the DSA Application No. indicated in the Change Order Form, we identified which of the samples selected required DSA approval. For projects identified as requiring DSA approval, we were informed that no such approval had been received.

Management's Response

We concur, but as a practical matter, it is sometimes not possible to obtain DSA approval of change orders before commencement of the change order work and still complete the projects and place them into operation when needed by the students.

The District is working closely and continuously with the Division of the State Architect (DSA) to assure that necessary design and drawings for change orders are in DSA hands and that all inspections required by DSA certified inspectors are

performed. DSA is working on an initiative to improve turnaround times for their design review and approval.

The construction teams can be authorized to proceed with change work prior to DSA Change Order approval by obtaining a Preliminary Change Order (PCO), now changed to Field Change Document (FCD) approval by DSA prior to commencement of the work (California Building Standards Administrative Code, Part I, Title 24, Group 1, Safety of Construction of Public Schools, Section 4-338 (d) Preliminary Change Orders).

- According to the Change Order Procedures, an approved Changed Order Memo is to be submitted to the Board of Education for ratification. Single change orders exceeding 15% of the original contract amount, or cumulative percent of change orders on the original contract exceeding 10% for New Construction and 25% for Existing Facilities, must be approved by the District's Board. For the samples we selected, we recalculated the percentage changes, both on an individual and cumulative basis, and noted that none of the change orders exceeded the thresholds noted above and, therefore, none of the change orders selected required Board ratification.

7. Procedure

Verify that the total expenditures reported in the year-end "summary statements of project cost" for the GO Bond measures and propositions agree with the corresponding Comprehensive Annual Financial Report (CAFR) bond fund expenditures.

Results

We obtained a "Summary of Statement of Project Costs" for each of the GO Bond funds and agreed the expenditures to the CAFR bond fund expenditures. The Statement of Project Costs presents the 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

Select a sample of 20 GO Bond projects from the January 2005 New Construction Strategic Execution Plan (SEP) and the June 2005 Existing Facilities SEP. Utilizing this sample selection, perform the following procedures:

- 8.1 Compare the SEP project budget for each project in the sample to the subsequent published SEP project budget (January 2006 for NC and June 2006 for EF).
- 8.2 If the subsequent year SEP project budget is greater than 105% of the prior year SEP project budget, verify whether the budget increase was reported to the Augmented Facilities Committee and the Bond Oversight Committee (BOC).

Results

Out of the 20 samples selected, 6 projects for the New Construction Branch and 3 projects for the Existing Facilities Branch had a 2006 SEP project budget greater than 105% of the prior year's budget.

KPMG obtained evidence that the Augmented Facilities Committee and BOC were notified with the above budget increases for New Construction Branch projects. However, for Existing Facilities projects, no such notification was made.

Management's Response

The BOC is being provided with appropriate and relevant information on increases in Existing Facilities project class costs. A draft of a revised Memorandum of Understanding prepared by the BOC and containing the features for EF exception reporting that they deem necessary, is under review and nearing completion.

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.

This report is intended solely for the information and use of the Board of Education, management, and members of the Citizen's 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.

We thank the members of the Citizen's Oversight Committee and the staff of the Los Angeles Unified School District for their assistance and cooperation in performing our review. We shall be happy to meet and discuss our findings at your convenience.

KPMG LLP

January 26, 2007