

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
JUNE 30, 2023**



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
June 30, 2023**

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Independent Auditor's Report

The Honorable Board of Education and
School Construction Bond Citizens' Oversight Committee
Los Angeles Unified School District

We have conducted a performance audit of the Los Angeles Unified School District's (the District),
Measure R School Bond Construction Program for the year ended June 30, 2023.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was limited to the objectives listed on page 4 of this report which includes determining the District's compliance with the performance requirements for the Proposition 39 Measure R General Obligation Bonds and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Measure R School Bond Construction Program funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Los Angeles, California
March 21, 2024

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
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LEGISLATIVE HISTORY
June 30, 2023**

On November 7, 2000, California voters approved Proposition 39, the *Smaller Classes, Safer Schools and Financial Accountability Act*. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, “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”, upon approval by 55% of the electorate. Additional accountability measures, as stipulated in Education Code Section 15278 – 15282, and 15286, are as follows:

1. A requirement that the school district establish and appoint members to an independent citizens’ oversight committee.
2. A requirement that the proceeds from the sale of the bonds be used only for the purposes described in Article XIII A, Section 1(b)(3)(A) of the California Constitution and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenses.
3. A requirement that the school district list the specific school facilities projects to be funded and certification that the school district board has evaluated safety, class size reduction, and information technology needs in developing that list.
4. A requirement that the school district conduct an annual independent performance audit, in accordance with Government Auditing Standards issued by the Comptroller General of the United States, required by Article XIII A, Section 1(b)(3)(C) of the California Constitution, ensuring that the funds have been expended only on the specific projects listed.
5. A requirement that the school district conduct an annual independent financial audit, in accordance with Government Auditing Standards issued by the Comptroller General of the United States, required by Article XIII A, Section 1(b)(3)(D) of the California Constitution, of the proceeds from the sale of the bonds until all of those proceeds have been expended for the school facilities projects.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
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MEASURE R GENERAL OBLIGATION BONDS
June 30, 2023**

The Measure R School Bond Construction Program (Measure R) or "the Safe and Healthy Neighborhood Schools Repair and Construction Measure of 2004" approved by the voters under California Proposition 39, known as the *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39), is intended to provide the Los Angeles Unified School District (the District) funding for continued improvement to schools and to provide an additional 163,233 new seats for children and to build approximately 50 new neighborhood schools.

The Board of Education (the Board) has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of Measure R's bond issuances are used for the purposes stated in the Board Resolution (the Resolution), which placed Measure R on the 2004 ballot.

The proceeds from the Measure R School Bonds are to be used for projects such as:

- continue repair/upgrade of aging classrooms, and restrooms;
- build neighborhood schools, and early education centers;
- improve security systems, and fire/earthquake safety;
- purchase library books;
- upgrade computer technology;
- eliminate asbestos and lead paint hazards;
- create small learning communities; and
- construct/upgrade science laboratories and other buildings.

All projects to be funded under Measure R must be included in the Strategic Execution Plans (SEPs) approved by the Board. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for Measure R. Such guidelines specifically state that no funds will be spent for teacher, administrator salaries or for school operating expenses.

The Measure R initiative authorized the issuance of \$3.87 billion in bonds. \$3.87 billion has been issued between March 2004 and June 2022. The bonds are included in the audited financial statements of the District.

The District tracks the financial activities related to Measure R in the District Bonds Fund. The District Bonds Fund is comprised of multiple funds in the District's Audited Annual Financial Report (AAFR).

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY, AND CONCLUSIONS
June 30, 2023**

OBJECTIVES OF THE AUDIT

The following represents the objectives of our performance audit:

1. Bond Expenditures and Recordkeeping

Determine that the District expended Measure R funds for the year ended June 30, 2023, only for the purpose approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution.

2. Procurement of Agreements

Determine that the District procured Goods and Supplies Contracts in accordance with the District's Procurement Manual.

The scope, methodology, and conclusions of the above objectives are enumerated in pages 5 through 9 of this report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY, AND CONCLUSIONS
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1. BOND EXPENDITURES AND RECORDKEEPING

Objective

Determine that the District expended Measure R funds for the year ended June 30, 2023, only for the purpose approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Scope

The scope covers the period from July 1, 2022, to June 30, 2023. The population of expenditures tested includes object codes and specific projects associated with Measure R.

A total of \$30.7 million in expenditures were identified for fiscal year ended June 30, 2023, which consists of the following (thousands):

Non-Payroll Expenditures:	
Books and supplies	\$ 80
Services and other operating expenditures	3,741
Capital outlay	<u>3,564</u>
<i>Total non-payroll expenditures</i>	<u>7,385</u>
Payroll Expenditures:	
Classified salaries	803
Employee benefits	<u>411</u>
<i>Total payroll expenditures</i>	<u>1,214</u>
Other Financing Uses:	
Transfers out	<u>22,090</u>
<i>Total other financing uses</i>	<u>22,090</u>
Total Measure R Expenditures per AAFR - District Bonds Fund	<u>\$ 30,689</u>

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OBJECTIVES, SCOPE, METHODOLOGY, AND CONCLUSIONS
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1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

a. Procedure Performed

We obtained a general ledger report prepared by the District detailing balances for all funds which made up the District Bonds Fund to reconcile the totals to the balances reported as of June 30, 2023, in the AAFR. We extracted from the general ledger report all activities pertaining to Measure R, Fund 210, as of June 30, 2023.

Conclusion

The results of our test indicated that all Measure R expenditure balances reconciled to the District Bonds Fund reported in the AAFR.

b. Procedures Performed

We selected a total of 21 individual invoices (sampled project expenditures) representing non-payroll expenditures amounting to \$1.8 million or 24.3% of the total population of non-payroll expenditures.

We obtained the original invoices and other relevant supporting documentation for expenditures sampled to determine compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure R's approved specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments. We performed the following procedures:

- i. Determined that the sampled project expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and were consistent with the work scope of Measure R's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments.
- ii. Determined that the sampled project expenditures were not expended on school operating expenditures.
- iii. Verified that the appropriate District personnel had approved and reviewed all sampled project expenditures before payment was made.
- iv. Verified that corresponding projects or non-project allocations in each of the sampled project expenditures were included in the cumulative and various SEPs and amendments. For invoices which covered multiple projects, up to 5 projects were selected and tested.
- v. For sampled project expenditures representing Facilities Services Division (FSD) related construction payments, we verified construction project payment procedures had been met by testing the following:
 - The Contractor certified the Application for Payment by evidence of a signature.
 - The Owner Authorized Representative (OAR) certified that the services had been rendered by evidence of a signature.
 - The payment package included the Encumbrance/Payment request form, the Application for Payment, the Owner Assessment Summary, and other necessary supporting documents.

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1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

Conclusions

The results of our tests indicated that sampled non-payroll expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution and were not expended on school operating expenditures.

Additionally, the non-payroll expenditures were properly approved and reviewed by District personnel, along with construction payments adhering to construction project payment procedures.

c. Procedures Performed

We selected a total of 21 employees' payroll expenditures (sampled employees) for the entire fiscal year amounting to \$195K of the total population of payroll expenditures. We performed the following procedures:

- i. Determined that the sampled employees' payroll expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and were consistent with the work scope of Measure R's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments.
- ii. Verified, based on interviews with the sampled employees, the work conducted in connection with the time charged to Measure R was in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and was not related to teacher or school administrative activities.
- iii. Verified that the District maintained adequate time and effort reporting controls and procedures for regular review of appropriate charges to Measure R by testing the following:
 - Sampled employees maintained a multi-funded timesheet, or
 - Sampled employees' Semi-Annual Certification Forms of Bond-Funded Work (Certification) were submitted to the Office of the Chief Business Officer's (CBO) Bond Compliance Unit in accordance with the District's Bulletin BUL-6521.2 dated December 17, 2021, for the entire fiscal year.
- iv. For employees who submitted a Certification with a "% of Regular Time Spent on Bond-Eligible Projects/Activities" under 100% or whose time was not tracked on a project basis, we determined that payroll expenditures were based on the time associated with actual activities performed on Measure R, and not based on a predetermined budgeted rate/allocation, by reviewing supporting documentation to verify that payroll expenditures charged to Measure R were based on actual time spent on Measure R related activities.

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1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

Conclusions

The results of our tests indicated that the sampled payroll expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution and were not expended on teacher or school administrative activities.

The sampled employees maintained adequate time and effort reporting documents by either tracking time in Colin, Maximo, PATS, or custom forms on an internal order or project basis or submitting Semi-Annual Certifications of Bond-Funded Work.

We identified one instance of non-compliance with Procedure (c)(iv). Refer to finding **MR-2023-001** in the Schedule of Findings and Responses for further details.

d. Procedures Performed

We selected a total of 5 Transfers Out (sampled transfers) and performed the following procedures:

- i. Determined that the sampled non-payroll expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and were consistent with the work scope of Measure R's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments, and not expended on school operating expenditures.
- ii. For non-payroll project expenditures, we reviewed the supporting documents for the transfers out and determined that the amounts expended were consistent with the Board approved SEPs and amendments or Board Report authorizing use of Measure R funds.

Conclusions

The results of our tests indicated that sampled non-payroll expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution and were not expended on school operating expenditures. Additionally, the amounts expended were consistent with the Board approved SEPs and amendments or Board Report authorizing use of Measure R funds.

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2. PROCUREMENT OF AGREEMENTS

Objective

Determine that the District procured Goods and Supplies Contracts in accordance with the District's Procurement Manual.

Scope

The scope covers contracts procured during the period of July 1, 2022, to June 30, 2023, in which the original funding strategy source assigned was Measure R.

Procedures Performed

We selected 1 Goods and Supplies Contract to determine the District procured the contract in accordance with the applicable requirements of the Procurement Manual by testing the following for the selected contract:

- i. We verified that a contract was established with the required approvals.
- ii. We verified that a Fully Funded Shopping Cart was established, with the exception of Invitation for Bid (IFB) Contracts.
- iii. We verified that a Request for Procurement Action (RFPA) was established with the required approvals.
- iv. We verified that a Formal Invitation for Bid was established, and a formal competition was conducted.
- v. We verified that the supporting documentation was included in the Informative for Board Review, such as the background on the suggested award along with details of usage and funding.
- vi. We verified that the contract award was properly authorized and approved by the Board.
- vii. For contracts established via Single/Sole Source, we verified the existence of a justification form with proof of approval by the designated officials.

Conclusion

The results of our tests indicated that the District procured the selected Goods and Supplies Contract in accordance with the District's Procurement Manual.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
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PERFORMANCE AUDIT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2023**

MR-2023-001 – Payroll Expenditure Charges

Criteria

District departments seeking approval of the use of Bond Funds for personnel costs must submit justification to the CBO's Bond Compliance Unit. The justification includes the title and duties of the position, the percentage of the position's total personnel costs which will be Bond-Funded, and documentation supporting the stated percentage. The CBO's Bond Compliance Unit is responsible for approving Bond-Funded positions by reviewing the submitted justification validating the need for the position and maintaining copies of the submitted supporting documentation.

FSD, ITS, and other department employees who were Measure R funded classified employees, reporting time in Colin, Maximo, PATS, custom forms on an internal order or project basis, or other department-managed timekeeping systems, and whose time is charged to an "overhead" or "indirect" code, must maintain supporting documentation verifying that the payroll expenditures charged to Measure R was based on actual time spent or a system in place to properly establish relevant metrics necessary to distinguish bond-funded versus non-bond-funded activities, on Measure R related activities, and was not based on the originally budgeted percentage included in the justification submitted to the CBO's Bond Compliance Unit.

Payroll expenditures charged to Measure R should be adjusted at the end of the year to reflect the actual time spent or a system in place to establish relevant metrics properly, not based on budgeted assumptions, necessary to distinguish bond-funded versus non-bond funded activities, on Measure R related activities.

Condition, Cause & Effect

In conjunction with Objective 1, Procedure (c)(iv), of the employees sampled, we identified the following:

- a. Based on our review of payroll documentation for one employee, it was determined that the employee's payroll charges to Measure R were based on an evaluation of the work conducted by the District employees and contract professionals in which the employee supervises, which was determined to be based on a fixed budgeted percentage. We requested the department to conduct an analysis of the actual time performed by these District employees and contract professionals to determine if the payroll expenditures charged to Measure R is reasonable. Based on the analysis performed by the District, it was determined that the District undercharged Measure R, therefore not leading to ineligible costs.

Departments who utilize a fixed budgeted percentage to charge an employee's payroll charges throughout the fiscal year to the bond funds should support these charges by conducting an analysis, prior to the close of the books, of actual time spent during the year to adjust the bond funds accordingly.

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SCHEDULE OF FINDINGS AND RESPONSES
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Recommendation

We recommend the following to the District:

- a. Provide training, guidance, and support to the specific departments of the employees identified in our finding, regarding the analysis of payroll expenditures charged to Measure R against actual time spent or a system in place to properly establish relevant metrics, not based on budgeted assumptions, necessary to distinguish bond-funded versus non-bond funded activities, on Measure R related activities. Further, the District should ensure that personnel responsible for making such decisions on behalf of the departments are present for the training.

Views of Responsible Officials and Planned Corrective Actions

- a. The District will provide annual training, guidance, and support to all departments with employees charging time on bond funds. The District will require personnel that are responsible for employees that charge the bond funds be provided training to include the time reporting procedures and collection of relevant metrics in order to evaluate necessary adjustments to the bond charges.

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SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
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No matters were reported.