

LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
JUNE 30, 2024



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
June 30, 2024**

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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 Y School Bond Construction Program for the year ended June 30, 2024.

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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 Y 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 Y 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 24, 2025

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
LEGISLATIVE HISTORY
June 30, 2024**

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
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
MEASURE Y GENERAL OBLIGATION BONDS
June 30, 2024**

The Measure Y School Bond Construction Program (Measure Y) or "the Safe and Healthy Neighborhood Schools Repair and Construction Measure of 2005" 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 to continue the repair and modernization of existing schools, replace bungalows with permanent classrooms, abate asbestos hazards, upgrade fire and safety systems, expand early education facilities, and provide sufficient core facilities at hundreds of schools.

The Board of Education (the Board) has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of Measure Y's bond issuances are used for the purposes stated in the Board Resolution (the Resolution), which placed Measure Y on the 2005 ballot.

The proceeds from Measure Y are to be used for projects such as the following:

- build neighborhood schools;
- bungalow repair and removal;
- upgrade and redesign campuses to create smaller schools;
- install and upgrade fire alarm systems;
- undertake complete asbestos hazard removal program;
- air condition remaining non-air-conditioned buildings;
- perform school alterations and improvements;
- upgrade and reinforce computer networks, school information systems, and technology capability;
- upgrade emergency radio systems;
- build new and repair existing early education centers in neediest areas;
- promote alternative education models like joint use and small learning communities;
- build, plan, and equip charter schools;
- replace all special education buses;
- give low performing schools added resources to improve results;
- audit and oversight of bond projects; and
- open new schools with a sufficient number of library books.

All projects to be funded under Measure Y 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 Y. Such guidelines specifically state that no funds will be spent for teacher, administrator salaries or for school operating expenses.

The Measure Y initiative authorized the issuance of \$3.985 billion in bonds. \$3.985 billion has since been issued between November 2005 and June 2022. The bonds are included in the audited financial statements of the District.

The District tracks the financial activities related to Measure Y 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 Y
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY, AND CONCLUSIONS
June 30, 2024**

OBJECTIVES OF THE AUDIT

The following represents the objectives of our performance audit:

1. Bond Expenditures and Recordkeeping

Determine that the District expended Measure Y funds for the year ended June 30, 2024, 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.

The scope, methodology, and conclusions of the above objectives are enumerated on pages 5 through 8 of this report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY, AND CONCLUSIONS
June 30, 2024**

1. BOND EXPENDITURES AND RECORDKEEPING

Objective

Determine that the District expended Measure Y funds for the year ended June 30, 2024, 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, 2023, to June 30, 2024. The population of expenditures tested includes object codes and specific projects associated with Measure Y.

A total of \$15.3 million in expenditures were identified for fiscal year ended June 30, 2024, which consists of the following (thousands):

| | |
|--|-------------------------|
| Non-Payroll Expenditures: | |
| Books and supplies | \$ 470 |
| Services and other operating expenditures | 305 |
| Capital outlay | <u>12,887</u> |
| <i>Total non-payroll expenditures</i> | <u>13,662</u> |
| Payroll Expenditures: | |
| Classified salaries | 842 |
| Employee benefits | <u>443</u> |
| <i>Total payroll expenditures</i> | <u>1,285</u> |
| Other Financing Uses: | |
| Transfers out | <u>339</u> |
| <i>Total other financing uses</i> | <u>339</u> |
| Total Measure Y Expenditures per AAFR - District Bonds Fund | <u>\$ 15,286</u> |

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY, AND CONCLUSIONS
June 30, 2024**

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, 2024, in the AAFR. We extracted from the general ledger report all activities pertaining to Measure Y, Fund 214, as of June 30, 2024.

Conclusion

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

b. Procedures Performed

We selected a total of 42 individual invoices (sampled project expenditures) representing non-payroll expenditures amounting to \$10.8 million or 78.8% 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 Y'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 Y'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.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY, AND CONCLUSIONS
June 30, 2024**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

Conclusions

We identified two instances of non-compliance with Procedure (b)(i). Refer to finding **MY-2024-001** in the Schedule of Findings and Responses for further details.

Information Technology Services (ITS) issued its most recent Board approved SEP in 2023, which was used for testing. Expenditures pertaining to projects not listed in the 2023 SEP were tested in accordance with the board approved SEP amendments.

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

b. Procedures Performed

We selected a total of 9 employees' payroll expenditures (sampled employees) for the entire fiscal year, amounting to \$8.2K 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 Y'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 Y 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 Y 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 Chief Financial Officer's (CFO) 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 Y, and not based on a predetermined budgeted rate/allocation, by reviewing supporting documentation to verify that payroll expenditures charged to Measure Y were based on actual time spent on Measure Y related activities.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY, AND CONCLUSIONS
June 30, 2024**

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.

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, the results of our tests indicated that payroll expenditures were based on the time associated with actual activities performed on Measure Y, and not based on a predetermined budgeted rate/allocation, by reviewing supporting documentation which verified that payroll expenditures charged to Measure Y were based on actual time spent on Measure Y related activities.

c. Procedures Performed

We selected a total of 2 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 Y’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 Y 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 Y funds.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2024**

MY-2024-001 – Indirect Cost Charges

Criteria

Indirect costs are associated with the bond program but should not or cannot be reasonably attributed to individual projects. These costs include the following:

- *Program Management*: Includes program level support costs for staff members of the Facilities Executive Office and FSD branches. Also includes activities that may be needed to prepare for Board review of project definitions such as surveying, master planning, standards development, and initial project scoping.
- *Other Indirect Costs*: Includes costs associated with bond issuance, professional services related to program needs, and bond program operating costs such as supplies, equipment, technology, and previously leased space for bond program staff.

Purchases associated with indirect costs that benefit both bond projects and non-bond projects should be allocated based on a proportional cost analysis that reflects the relative benefit to each program, ensuring an equitable distribution of expenditures.

Condition, Cause & Effect

In conjunction with Objective 1, Procedure (b)(i), of the non-payroll expenditures sampled, we identified the following:

- a. The District purchased, on a quarterly basis, license renewal for The Gordian Group, Inc, for providing job order contracting application program management services used for both bond and non-bond related projects. The District charged 100% of these costs to Measure Y, as follows:

| Invoice License Period | Cost |
|-----------------------------|---------------|
| February 2024 to April 2024 | \$ 178,500.00 |

To support this allocation, the District conducted an analysis of the total job orders issued within Gordian in Fiscal Year 2024. The analysis determined that the District was managing non-bond job orders, which do not support 100% of the total expenditure being charged to Measure Y.

As a result, the District overallocated the cost of the application to Measure Y.

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SCHOOL BOND CONSTRUCTION PROGRAM
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PERFORMANCE AUDIT
SCHEDULE OF FINDINGS AND RESPONSES
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MY-2024-001 – Indirect Cost Charges *(continued)*

Condition, Cause & Effect *(continued)*

- b. The District’s Information Technology Services (ITS) department initiated a request with the District’s Space Planning, Asset Management Branch, to upgrade the ITS Soto warehouse’s work area by reconfiguring cubicles, the conference room and offices for its bond funded employees.

The District charged all of the costs to the bond funds, as follows (represents sampled expenditures, not all of the expenditures incurred on the project):

| Fund | Cost |
|----------------------|----------------------|
| Measure Y (Fund 214) | \$ 58,469.08 |
| Measure R (Fund 210) | 211,557.34 |
| | <u>\$ 270,026.42</u> |

The ITS department provided documentation indicating that the cost associated with the project was proportionally allocated to the bond funds based on the bond to non-bond workload of the employees assigned to the Soto location. However, the documentation provided was not sufficient for us to draw a conclusion as to whether the District equitably distributed these expenditures.

Recommendation

We recommend the following to the District:

The Gordian Group

- a. For each of the purchases identified in our finding, conduct a proportional cost analysis to evaluate the relative benefit that the indirect cost provides to both bond and non-bond projects.
- b. Adjust Measure Y’s expenditure based on the proportional cost analysis conducted in item (a) ensuring an equitable distribution of expenditures.
- c. Include in the District’s bond policies and procedures guidelines ensuring purchases associated with indirect costs benefiting both bond projects and non-bond projects are allocated based on a proportional cost analysis that reflects the relative benefit to each program, ensuring an equitable distribution of expenditures, and that all relevant documentation supporting the analysis is maintained by the originating department.
- d. Provide training, guidance, and support to the impacted departments to ensure compliance with established policies and procedures in item (c).

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SCHOOL BOND CONSTRUCTION PROGRAM
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PERFORMANCE AUDIT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2024**

MY-2024-001 – Indirect Cost Charges *(continued)*

Recommendation *(continued)*

ITS

- a. For the purchases identified in our finding, provide complete documentation regarding the proportional cost analysis to evaluate the relative benefit that the indirect cost provides to both bond and non-bond projects.
- b. Adjust Measure Y's expenditure based on the proportional cost analysis conducted in item (a) ensuring an equitable distribution of expenditures, if necessary.
- c. Include in the District's bond policies and procedures guidelines ensuring purchases associated with indirect costs benefiting both bond projects and non-bond projects are allocated based on a proportional cost analysis that reflects the relative benefit to each program, ensuring an equitable distribution of expenditures, and that all relevant documentation supporting the analysis is maintained by the originating department. Further, documentation pertaining to the budget, rationale, and analysis of indirect costs should be retained for auditing purposes.
- d. Provide training, guidance, and support to the impacted departments to ensure compliance with established policies and procedures in item (c).

Views of Responsible Officials and Planned Corrective Actions

The Gordian Group

- a. The District concurs with the finding over the license renewal for The Gordian Group, Inc. on purchase order number 4500526389. Of the total \$178,500 charged to Measure Y, 4.16% or \$7,433.40, was for non-bond projects.
- b. The District will process the necessary corrections for the overcharge to Measure Y in FY25.
- c. The District will develop bond policies and procedures over indirect cost purchases benefiting bond and non-bond projects.
- d. The District will provide training, guidance, and support to the impacted departments to ensure compliance with item (c).

ITS

- a. ITS provided documentation regarding the Soto re-configuration that supported the proportional cost breakdown but will work with Bond Compliance Unit to explore alternative options that more clearly verify the bond/general fund cost allocation.
- b. ITS believes the bond was charged appropriately but will make any necessary adjustments.
- c. ITS agrees to adhere to all District bond policies and procedures and follow any documentation guidelines set forth by the Bond Compliance Unit. Further, ITS will retain all records pertaining to the budget, rationale, and analysis of indirect costs for auditing purposes.
- d. ITS will actively participate in any bond training sessions offered regarding compliance with bond policies and procedures.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
June 30, 2024**

No matters were reported.