

**Los Angeles Unified School District
Office of the Inspector General**

**Incurred Cost Audit
AMG & Associates, Inc.
Contract No. 4400006481**

**CA 24-1441
July 21, 2025**

**Sue Stengel
Inspector General**





Los Angeles Unified School District Office of the Inspector General

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July 21, 2025

Mr. Matthew Friedman, Chief Procurement Officer
Procurement Services Division
Los Angeles Unified School District
333 S. Beaudry Avenue, 28th Floor
Los Angeles, CA 90017

RE: Audit of AMG & Associates., Inc.
Contract No. 4400006481

Dear Mr. Friedman:

This is the final report on our audit of AMG & Associates, Inc. - Contract No. 4400006481.

Please contact our office if you have any questions.

Sincerely,

Mark H. Pearson
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Mark H. Pearson, CPA, CFE, CIGA
Assistant Inspector General

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**Audit of AMG & Associates, Inc.
Contract No. 4400006481**

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) audited Contract No. 4400006481¹ (Contract) awarded to AMG & Associates, Inc. (AMG) for the construction of a new School-Based Clinic and Wellness Center (Wellness Center) building at the Young Empowered Scholars (YES) Academy at Hyde Park Elementary School. We conducted the audit pursuant to our 2023-2024 work plan to ensure transparency, compliance, and accountability. The conclusions from our audit are detailed below.

Audit Conclusions

- For the period from March 30, 2018, through June 30, 2023, AMG invoiced the District based on the percentage of completed design and construction work as outlined in the Contract's Schedule of Values² (SOV).
- AMG's billings were adequately supported and allowable.
- The change orders were executed according to Facilities Services Division's (FSD) change order policies and procedures.

INTRODUCTION

The District and AMG entered into a design-build contract³ on March 30, 2018, for an initially awarded contract amount of \$6,361,224. The Contract's scope of work is described in Exhibit A. From the inception of the Contract through June 30, 2023, FSD executed 26 change orders against the Contract, increasing the contract amount by \$383,758 to \$6,744,982, which represents a 6% increase over the original contract amount.

SCOPE AND OBJECTIVES

Our examination covered payments made by the District to AMG under the Contract from March 30, 2018, through June 30, 2023.

The objectives of our examination were to determine whether:

1. The amounts billed by AMG were adequately supported and allowable according to the Contract's terms and conditions.

¹ https://www.lausd.org/cms/lib/CA01000043/Centricity/domain/184/audit_files/10368185-4400006481_AMG_YES_-_Contract_EXECUTED_2018_03.30.pdf

² The Schedule of Values is a comprehensive document that lists every billable item or task in a construction project along with its corresponding dollar value.

³ Design-build is a method of project delivery in which the owner of the project enters into a single agreement with a design-builder to perform both design and construction services. It offers a single point of contact and responsibility to the owner.

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2. The change orders⁴ were executed according to FSD's change order policies and procedures.

METHODOLOGY

To accomplish our examination objectives, we performed the following procedures:

- Interviewed FSD's Project Execution and Asset Management personnel to obtain an understanding of the District's internal controls and processes regarding change orders.
- Interviewed AMG's management about AMG's internal controls and business operations.
- Interviewed the project's Owner Authorized Representative⁵ (OAR) to obtain an understanding of the Contract's scope of work and the status of the project.
- Interviewed the Inspector of Record⁶ (IOR) to obtain an understanding of the inspection process.
- Interviewed a Project Execution estimator to obtain an understanding of the process for preparing independent fair cost estimates⁷ (FCE).
- Reviewed the Project Inspector Daily Reports,⁸ inspection documents, and Inspections Requests.⁹
- Reviewed the supporting documentation for the change orders, including change order proposals (COP), FCE, and Record of Negotiation forms,¹⁰ to ensure compliance with FSD's change order policies and procedures.
- Tested all 26 change orders to ascertain the accuracy of the applied mark-up on construction cost and the appropriateness of bond costs charged.

⁴ A change order is a written instrument confirming a change or adjustment to the contract amount, milestones and/or contract time, and/or an addition, deletion, or revision in the work.

⁵ Owner Authorized Representative is the designated authorized representative of the owner who administers the contract.

⁶ The Inspector of Record is the inspector approved by the Division of the State Architect (DSA) and employed by the owner in accordance with the requirements of Title 24 of the California Code of Regulations.

⁷ A Fair Cost Estimate is a separate, independent estimate of the cost and time impact of the proposed change order prepared by the OAR, Project Estimator, or the Estimating Unit.

⁸ The Project Inspector Daily Report is completed by the project inspectors to document their observation of project activities and/or businesses.

⁹ Inspection Requests are submitted to the Inspection Department to request for inspections once a construction area or task is completed and ready for inspection.

¹⁰ A Record of Negotiation is a form that documents discussions and negotiations of the cost and schedule impacts of the change order to the existing contract.

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- Tested all 26 change orders to ensure compliance with FSD policies and procedures for change orders.

RESULTS OF AUDIT

Objective 1 - Determine if the amounts invoiced by AMG were adequately supported and allowable according to the Contract's terms and conditions.

The original budget for the project was an all-inclusive price of \$6,361,224.¹¹ From contract inception through June 30, 2023, the District issued 26 change orders totaling \$383,758, increasing the contract value to \$6,744,982. The increase represented a 6% change from the original contract amount. This amount is comprised of the following:

Description	Contract Budget Amount
Design Fee	\$ 285,900
Construction Costs	6,075,324
Change Orders	383,758
Total Contract Amount	\$ 6,744,982

AMG invoiced the District \$6,669,589, which represented 98.88% of the total contract amount for work performed through June 30, 2023. This total was based on AMG's estimated percentages of completion of the design and construction line items on the Schedule of Values. The District paid \$6,336,108 of this total as of July 12, 2023, with the remaining \$333,479 being withheld as retainage.¹² The following table shows the breakdown:

Description	Amount	Billed	Percentage Completed	Amount Paid	Amount Retained
Design Fee	\$ 285,900	\$ 279,446	97.74%	\$ 265,474	\$ 13,972
Construction Cost Excluding Change Orders	6,075,324	6,006,385	98.87%	5,706,066	300,319
Change Orders	383,758	383,758	100%	364,570	19,188
Total	\$6,744,982	\$6,669,589	98.88%	\$6,336,110	\$ 333,479

¹¹ The Contract Price is the total maximum amount payable by the District to the Design-Builder for the performance of the work under the Contract Documents. It is deemed to cover all losses arising out of or related to the performance of the work, including, without limitation, the effects of natural elements upon the work, unforeseen difficulties or obstructions affecting the performance of the work, and fluctuations in market conditions and price escalations (whether occurring locally, nationally or internationally) from any cause, including without limitation, causes beyond the control of and not foreseeable by the Design-Builder or its Subcontractors or sub-consultants.

¹² Retainage are monies withheld from a Contractor's progress payments to assure the timely and satisfactory completion of the Contract Work. Per Public Contract Code, the amount of retention can never be less than 5% of the most current approved Contract value.

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Our evaluation of the billed amounts is detailed below.

Design Fee

As of June 30, 2023, AMG invoiced \$279,466, which represents 97.74% of the \$285,900 design fee budget. According to the Contract's General Conditions Section 9.4.1.1,¹³ the total design fee invoiced should correspond with the proportion of the completed design work. We have confirmed that the amount billed for the design fee met this requirement. We verified the following:

- According to the District's completed plans/specifications and the DSA website, all work for the initial design phase was completed.
- Phase 1 and Phase 2 construction has been completed and the Notice of Partial Use or Occupancy¹⁴ for the Phase 2 building has been issued. Also, all design services associated with the construction have been completed.

Construction Cost Excluding Change Orders

As of June 30, 2023, AMG invoiced \$6,006,385 against the Contract, which accounts for 98.87% of the \$6,075,324 original construction budget. The table below illustrates the total amount billed and the percentage of completion billed by the construction phases.

Phase of Construction	Original Construction Budget	Invoiced Amount	Percentage Completed	Remaining Balance
General Construction Costs ¹⁵	\$ 1,693,610	\$ 1,660,232	98.03%	\$ 33,378
Phases 1 & 2	4,381,714	4,346,153	99.19%	35,561
Total	\$ 6,075,324	\$ 6,006,385	98.87%	\$ 68,939

According to the Contract's General Conditions Section 9.4.1.2, the total amount invoiced for all non-design work should correspond to the proportion of the construction completed. We have confirmed that the amount invoiced met this requirement.

¹³ General Conditions Section 9.4.1.1 of the Contract states, "At the start of each month, the Design-Builder shall submit an Application for Payment billing Owner for the proportion of each design phase completed during the previous month."

¹⁴ The District issues a Notice of Partial Use or Occupancy when the District intends to occupy or use a portion of the work. The Notice will be accompanied by a Non-Conformance Items List identifying items remaining to be completed or corrected in the area of work to be occupied by the District. Regardless of the date the Notice of Partial Use or Occupancy is issued, Beneficial Occupancy is to have occurred on the date stated in the Notice of Partial Use or Occupancy, and this date shall begin the warranty period for all work in the area to be Beneficially Occupied by the District.

¹⁵ General Construction Costs cover bonds and general requirements. General requirements include schedules, construction demolition, waste management, mobilization, cleanup, site securities, field & office support, and other general costs.

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- The IOR approved the DSA Form 152 (Project Inspection Card),¹⁶ certifying that all phases of the construction work and related inspections were completed.
- The OAR completed and submitted the Certificate of School Readiness (CSR) for Phase 1 and Phase 2.¹⁷
- The Office of Environmental Health and Safety (OEHS) approved the Essential Safety Checklist and Certificate of Occupancy¹⁸ forms for Phase 1 and Phase 2.
- The District issued the Notice of Partial Use or Occupancy for the Phase 2 building.

Exhibit B depicts pictures of the project.

Additionally, after reviewing a sample of 30 Project Inspector Daily Reports and 30 Inspection Requests, we concluded the following:

- **Consistent inspection:** The construction work was being inspected daily by FSD Project Inspectors.
- **Construction milestones inspected and approved:** Completed construction milestones were inspected and approved by the IOR throughout the construction phase.

Change Orders

As of June 30, 2023, AMG issued 26 change orders totaling \$383,758, of which \$316,458 (82.5%) was due to unforeseen site conditions, and \$67,300 (17.5%) resulted from District-requested changes. The change orders consisted of AMG providing additional labor, materials, and equipment to abate contaminated soils, asbestos, and hazardous materials, designing a new monument sign and directional signage, adding an internal public announcement system, and upgrading the telephone intercom system.

Below are examples of the scope of work for some of those change orders:

¹⁶ The Project Inspection Card (form DSA 152) is completed by the IOR during the construction process. Sections on the form cover different aspects of the project, including foundations, vertical and horizontal construction, material tests, fire suppression, and more. The IOR dates and initials each block or section when the required testing/inspections are completed and the areas are found to be in compliance with the DSA-approved construction documents.

¹⁷ The Certificate of School Readiness is signed off by the OAR, Senior Project Manager, and the Regional Director when all school building areas to be occupied are functionally complete and ready for occupancy by students and school administrators.

¹⁸ OEHS uses the Essential Safety Checklist and Certificate of Occupancy form to ensure that essential safety requirements have been met.

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- Abate, demolish, and remove asbestos-containing material (ACM)¹⁹ encountered during asphalt work (\$157,912).
- Reduce excessive soil moisture content under the building pad to acquire required compaction (\$50,245).
- Export, haul, and dispose of soil (\$46,016).
- Dispose of non-hazardous soil to an LAUSD-approved facility (\$18,000).
- Remove a segment of abandoned storm drain pipe discovered during excavation under the building pad (\$3,346).
- Provide additional design for a new monument sign and directional signage (\$25,571).
- Install an internal public announcement system with speakers in the waiting room and corridor capable of making announcements through the Voice over Internet Protocol (VoIP) telephone system (\$24,932).
- Relocate the building further north, which required additional design, engineering, and construction to provide additional parking for the new YES Academy Wellness Center (\$14,127).

As of June 30, 2023, AMG invoiced 100% of the \$383,758 total contract amount increase authorized by change orders. Exhibit C depicts some of the change order work.

We evaluated all 26 change orders, covering 100% of the change order total. Our findings are as follows:

- The mark-up on construction cost was computed in compliance with the contract terms. The mark-up applied to self-performed work and subcontracted work adhered to the allowable percentage of 15% and 5%, respectively.
- The bond costs charged for change orders were properly calculated.

Objective 2 - Determine whether the change orders were executed according to FSD's change order policies and procedures

Our review of all 26 change orders concluded that the change orders were executed according to FSD's change order policies and procedures. The following are the findings from our review:

¹⁹ Asbestos-containing material (ACM) means any material containing more than 1% asbestos.

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- The OAR completed Justification for Contract Modification forms explaining why the change order was necessary.
- The OAR obtained or prepared an independent FCE for the change order work.
- The OAR obtained a COP from the contractor detailing the proposed adjustment to the existing contract amount and a breakdown of the costs related to the change order work.
- The OAR completed Record of Negotiation forms documenting the discussions and negotiations of the cost or impact of the change order on the existing contract.
- The change orders were approved by the appropriate level of management.²⁰

AUDIT TEAM

This audit was performed by the following auditors:

Stella Lai, Audit Manager
Kien Hong, Principal Auditor
Sandy Chan, Senior Auditor

²⁰ The OAR may authorize Change Orders which individually do not exceed \$50,000. The Senior Project Manager or Construction Manager must also sign all change orders. The Regional Construction Director must authorize change orders which individually do not exceed \$100,000. The Deputy Director of Facilities Project Execution must authorize change orders which individually do not exceed \$500,000. The Director of Facilities Project Execution must authorize change orders which individually do not exceed the lower of 15% of the original contract price or \$500,000.



Los Angeles Unified School District Office of the Inspector General

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Members of the Board

Alberto M. Carvalho
Superintendent

Sue Stengel
Inspector General

Independent Auditor's Report

We have examined the amounts billed by AMG. Construction, Inc. (AMG.) under contract number 4400006481 (Contract) for the work performed between March 30, 2018 through June 30, 2023. Our examination focused on whether the amounts billed accurately reflected the scope of work completed, as required by the terms and conditions of the Contract. Additionally, we reviewed whether the change orders executed were in compliance with the District's policies and procedures. AMG's management is responsible for the accuracy of the amounts billed under the Contract. Our responsibility is to express an opinion on these matters based on our examination.

Our examination was conducted in accordance with the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the accuracy of AMG's amounts billed and reviewing the change orders executed for compliance with District policies and procedures. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of AMG's compliance with the specified requirements.

AMG declined to furnish written representations to confirm representations made during the examination and to communicate that management has complied with the terms and conditions of the contract, made available all financial records and related data, and acknowledged and/or disclosed any possible fraud, violations, pending litigations, and any other non-compliances that are relevant to this engagement. The absence of these representations from AMG results in a limitation on the scope of our examination.

In our opinion, except for the effects of the scope limitation described above, the amounts billed by AMG under the Contract for the period from March 30, 2018, through June 30, 2023, were adequately supported and allowable in accordance with the Contract terms and conditions, in all material respects. Additionally, the change orders executed were in compliance with the District's policies and procedures.

Mark H. Pearson
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Mark H Pearson, CPA, CFE, CIGA
Assistant Inspector General, Audits

July 17, 2025

EXHIBIT A – Scope of Work

DESIGN

- Initial design phase:
 - Preparation of plans and specifications that meet the District's design and construction requirements.
 - Submission of plans and specification to the District.
 - Submission of plans and specification to DSA for approval.
- Construction phase:
 - Preparation/revision of plans and specifications for any needed changes.

CONSTRUCTION

Phase 0:

Mobilization and pre-construction activities.

Phase 1:

Construction of Staff Parking Lot.

Phase 2:

- 1) A new School-Based Clinic and Wellness Center building (approximately 5,800 Square Feet) consisting of medical and mental health counseling rooms and support spaces.
- 2) Related site improvements including parking, fences, hardscape/landscape, outdoor waiting area, and other site elements.

The scope of work also includes necessary updates for accessibility and compliance with state, local, and federal regulating agencies, utility agency approvals and connections, and coordinating owner-furnished furniture and equipment.

EXHIBIT A – Scope of Work

Below is an aerial view of where the buildings are located.

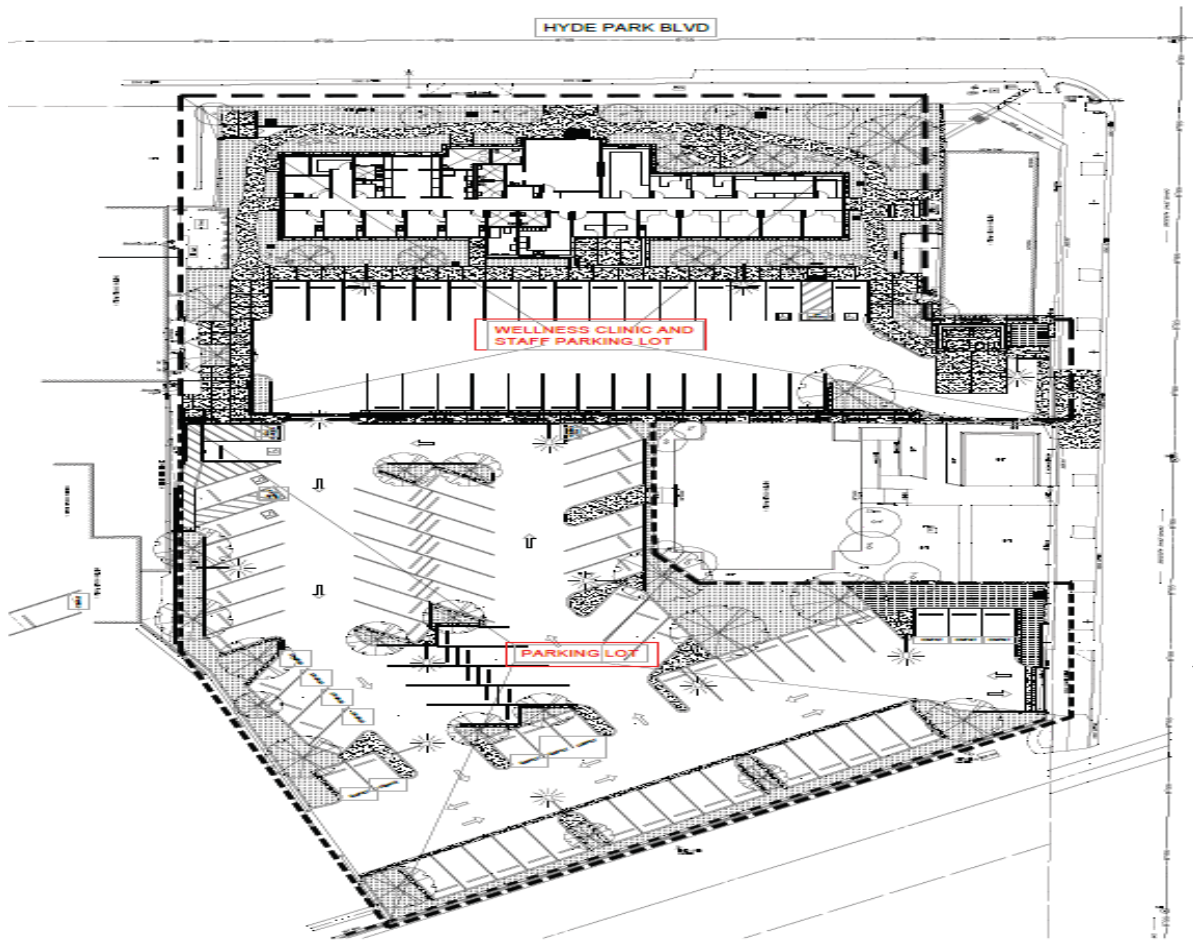
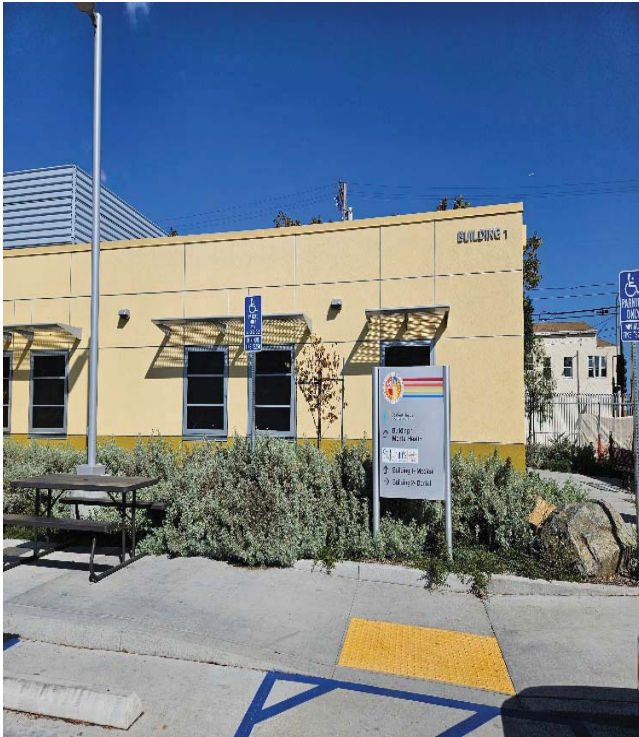


EXHIBIT B – Project Photos



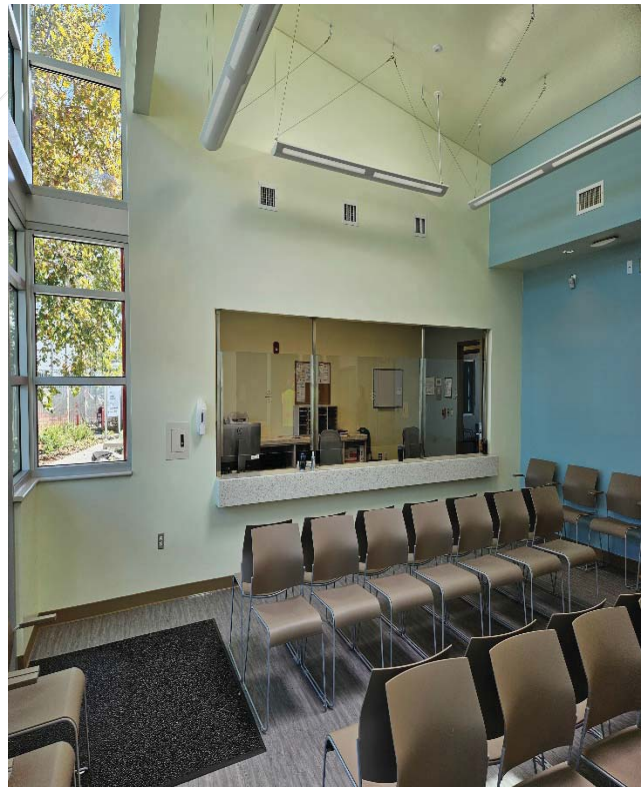
South side of Wellness Clinic



North side of Wellness Clinic



Wellness Center hallway



Wellness Clinic waiting area

EXHIBIT B – Project Photos



Wellness Center room



Wellness Center room



Wellness Center parking lot



Wellness Center parking lot

EXHIBIT C – Change Order Work



CO T-511 Demolition of asphalt concrete



CO T-516 Export of non-hazardous soil



CO T-509 Export of contaminated soil



CO T-517 Removal of excessive soil moisture

EXHIBIT C – Change Order Work

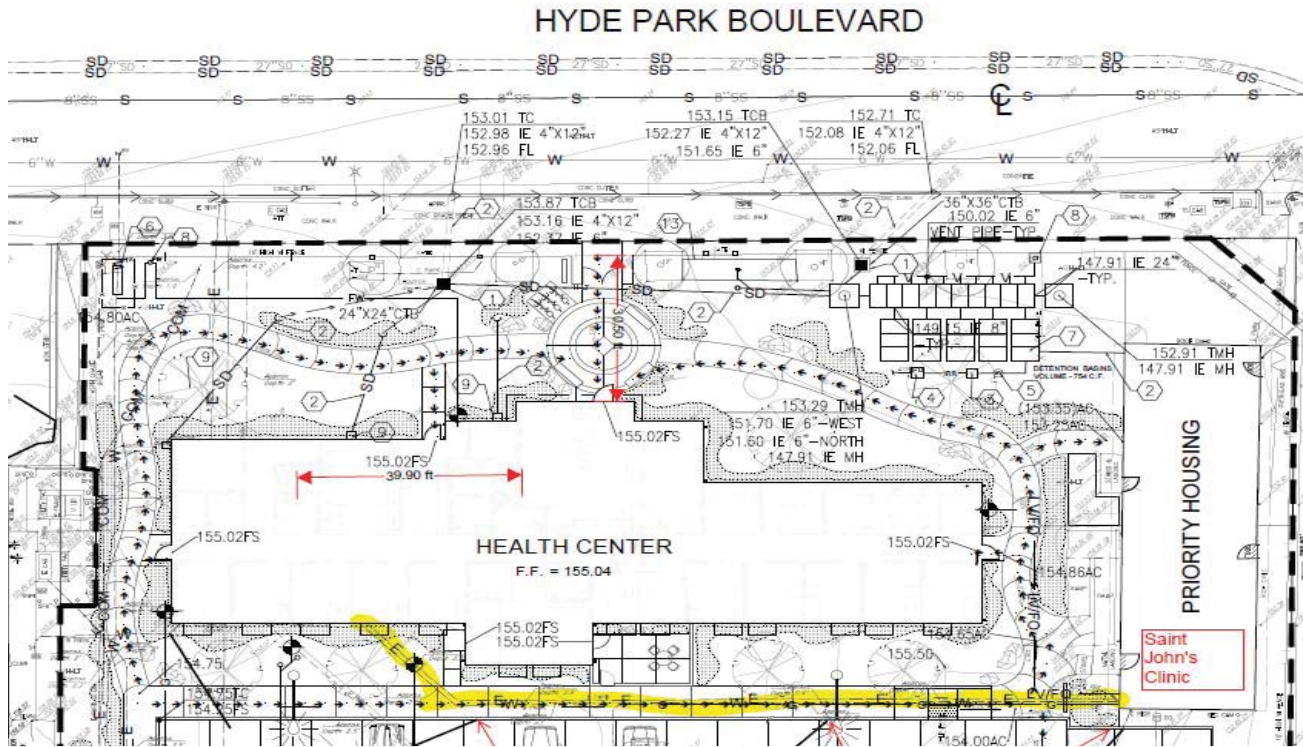


CO T-518 Removal of a segment of an abandoned pipe discovered during excavation

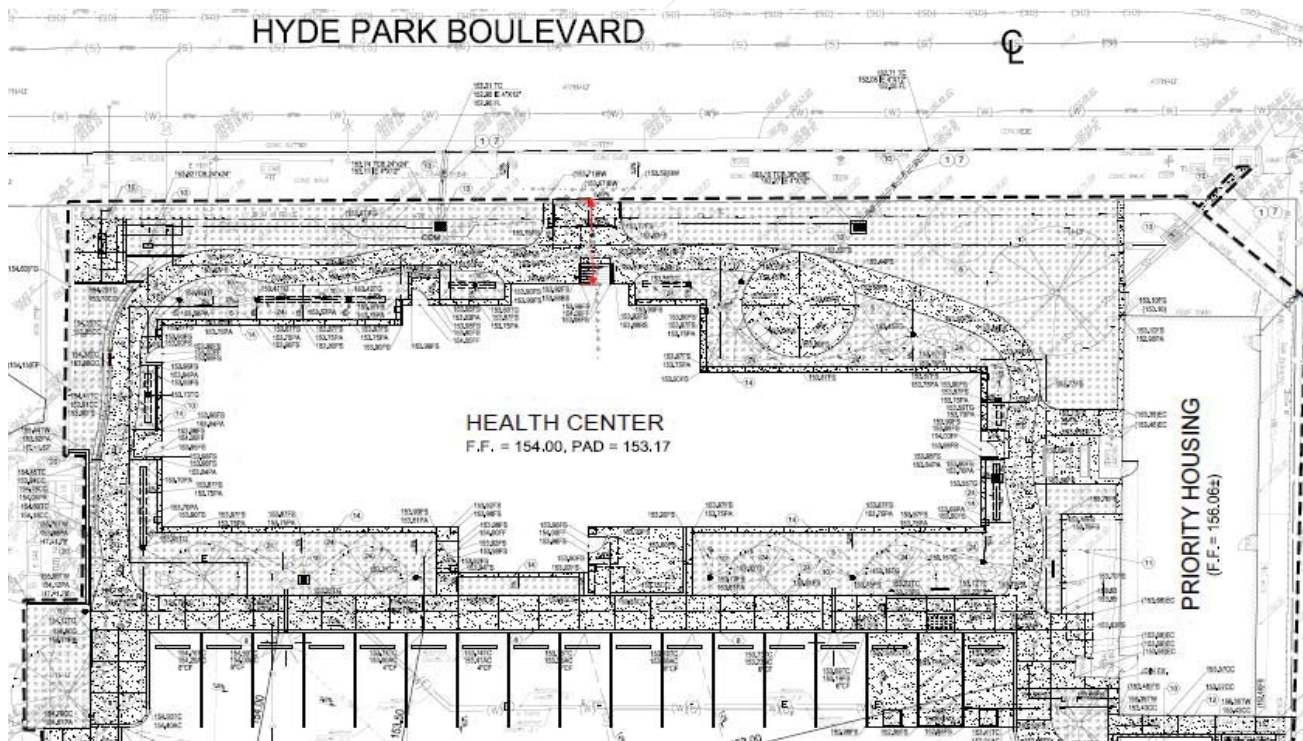


CO T-525 Export of non-hazardous soil

EXHIBIT C – Change Order Work



CO T-501 Building relocation to accommodate additional parking – previous grading plan



CO T-501 Building relocation to accommodate additional parking – revised grading plan

EXHIBIT C – Change Order Work



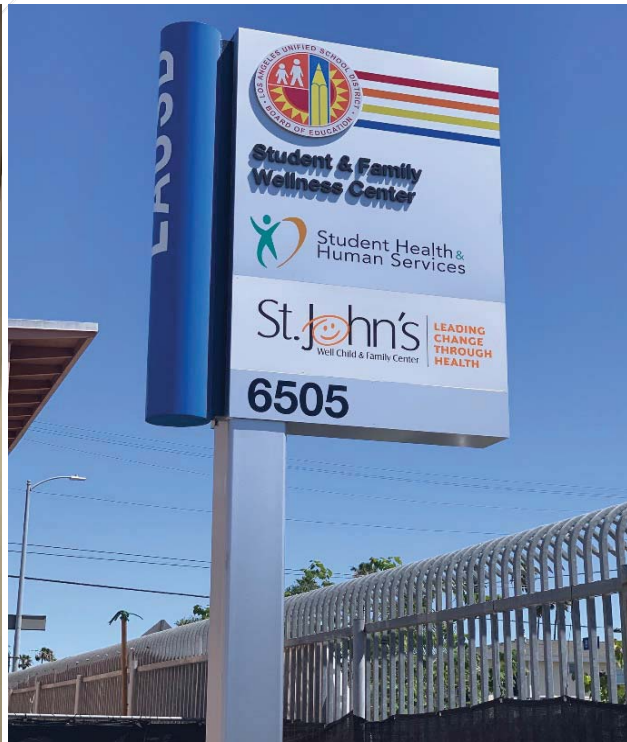
CO T-519 Internal PA system at waiting area



CO T-504 Chain link gate



CO T- 504 Overhead medical cabinets



CO T-506 Monument sign

Know about fraud, waste, or abuse?

Tell us about it.

Maybe you are a school District employee, a parent or just a concerned citizen. Regardless, you can make a difference!

Maybe you know something about fraud, waste, or some other type of abuse in the school district.

The Office of the Inspector General has a hotline for you to call. You can also email or write to us.

If you wish, we will keep your identity confidential. You can remain anonymous, if you prefer. And you are protected by law from reprisal by your employer.

Whistleblower Protection

The Board approved the Whistleblower Protection Policy on February 12, 2002. This policy protects LAUSD employees who make allegations of improper governmental activity from retaliation or reprisal. To assure the reporting of any activity that threatens the efficient administration of the LAUSD, reports that disclose improper governmental activities shall be kept confidential.

General Contact Information

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