

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

**Incurred Cost Audit  
Beta Investments and Contracts,  
Inc.  
Contract No. 4400009871**

**CA 25-1450  
August 13, 2025**

**Sue Stengel  
Inspector General**





# Los Angeles Unified School District

## Office of the Inspector General

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August 13, 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: Beta Investments and Contracts, Inc.  
Contract No. 2110040/4400009871

Dear Mr. Friedman:

This is the final report on our audit of Beta Investments and Contracts, Inc. - Contract No. 2110040/4400009871.

Please contact our office if you have any questions.

Sincerely,

*Mark H. Pearson*  
Digitally signed by Mark H. Pearson  
DN: cn=Mark H. Pearson, o, ou,  
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Mark H. Pearson, CPA, CFE, CIGA  
Assistant Inspector General

*Sue Stengel*  
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Sue Stengel, Esq., CIG  
Inspector General

c: Krisztina Tokes, Chief Facilities Executive  
Andrea Reyes, Special Assistant to Chief Facilities Executive  
Jorge Ballardo, Deputy Chief Procurement Officer  
Cheri Thomas, Principal Analyst  
Ivory King, Procurement Policy Officer  
Dana Greer, Deputy Chief Procurement Officer  
Lisette Pacheco, Principal Administrative Analyst

## **TABLE OF CONTENTS**

Executive Summary	1
Introduction	2
Scope and Objectives	2
Methodology	2
Results of Audit	4
Audit Team	9
Independent Auditor's Report	10
Exhibit A – Pictures of the Work	11
Exhibit B – Facilities Services Division Response	20
Exhibit C – Beta Investments & Contracts, Inc. Response	22



## Audit of Beta Investment & Contracts, Inc. Contract No. 2110040/4400009871

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### **EXECUTIVE SUMMARY**

The Office of the Inspector General (OIG) audited Contract No. 2110040/4400009871 (Contract) that was awarded to Beta Investments & Contracts, Inc. (Beta) for the Banning High School Cooling and Heating, Ventilation, and Air Conditioning (HVAC) Project. The audit assessed both the procurement process and Beta's invoiced costs, completion of contract deliverables, and the District's administration of change orders, with the goal of supporting transparency and accountability in contract execution.

#### **Key Conclusions:**

- Beta invoiced a total of \$17,056,035 as of December 17, 2024, which represented 100% of the contract amount. All invoiced costs were determined to be allowable, properly supported, and based on the percentage of construction work completed as listed in the Schedule of Values (SOV).<sup>1</sup>
- Beta completed the scope of work according to the terms and conditions of the Contract. Completion was confirmed through the Certificate of Substantial Completion,<sup>2</sup> the Notice of Contract Completion & Acceptance, and a site walkthrough.
- The District issued 150 change orders with a combined value of \$3,266,035 under the Contract, increasing the contract value by 23.7%. A sample of 47 change orders (totaling \$902,323, or 27% of the total value of change orders) was reviewed and found to be supported and awarded according to Facilities Services Division (FSD)'s policies and procedures.
- For change orders issued before January 17, 2024, a 2% bond rate was used instead of the applicable 0.51% rate, resulting in \$29,293.65 in overstated bond costs.
- The procurement process for the Contract was executed in accordance with the District's best value procurement policies and procedures.

#### **Recommendation:**

FSD should recover the \$29,293.65 in overstated bond costs resulting from the use of an incorrect bond rate on change orders.

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<sup>1</sup> 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.

<sup>2</sup> Substantial completion is realized when the contracted scope of work can be fully utilized and occupied by the District for its intended purpose except for minor outstanding items; the District's Office of Environmental Health and Safety Essential Safety Checklist is completed; all permits, approvals, and certificates by governmental authorities required to occupy and use the work have been issued; and all systems included in the scope of work are installed and operational as specified, all required inspections and certifications have been made and posted, and instruction of District personnel in the operation of such systems has been completed.



## **Audit of Beta Investment & Contracts, Inc. Contract No. 2110040/4400009871**

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### **Responses:**

FSD concurred with the finding and stated it will place a permanent withhold of \$29,293.65 against the remaining retention to be withheld at final payment (target date: August 30, 2025). Beta Investments & Contracts, Inc. indicated via email that it had no comments on the draft.

### **INTRODUCTION**

On September 27, 2021, the District executed Contract No. 2110040/4400009871 with Beta Investments & Contracts, Inc. for the Banning High School Cooling and HVAC Project. The project's scope included upgrading the HVAC systems in several buildings and addressing the gymnasium's cooling requirements. This involved equipment demolition, asbestos abatement, duct cleaning and leak testing, structural upgrades, and electrical power enhancements.

The Contract's original amount was \$13,790,000. During construction, the District issued 150 change orders<sup>3</sup> totaling \$3,266,035 to Beta, increasing the contract value by 23.7% to \$17,056,035. The project was completed and formally accepted by the District on September 16, 2024.

### **SCOPE AND OBJECTIVES**

The objectives of our examination were to determine whether:

1. The amounts billed by Beta were adequately supported and allowable according to the Contract's terms and conditions.
2. The Contractor completed the required scope of work.
3. The change orders were supported and approved in accordance with the District's procedures.
4. The procurement process for the Contract was executed in accordance with the District's policies and procedures.

Our examination included a review of \$902,323 in invoiced costs associated with contract work through December 17, 2024, along with related documentation supporting project completion and change order approvals.

### **METHODOLOGY**

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

- Interviewed District staff to obtain an understanding of the District's internal control process for

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<sup>3</sup> A Change Order is a written instrument confirming a change or adjustment to the contract amount, milestones, and/or contract time and/or addition, deletion, or revision in the work.



## **Audit of Beta Investment & Contracts, Inc.**

### **Contract No. 2110040/4400009871**

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construction projects.

- Interviewed the project's Owner Authorized Representative<sup>4</sup> (OAR) to obtain an understanding of the Contract's scope of work and the status of the project.
- Interviewed Beta's management about their internal controls and business operations.
- Examined payment applications to ensure that District personnel reviewed and approved them. This included a review of the project schedule of values, the percentage of completion, and the amount billed for each line item of work, as well as the total retainage for each Application for Payment submitted to the District.
- Reviewed District policies and procedures for approving and issuing change orders.
- Verified the following:
  - The project change order packages were properly authorized by the District representative.
  - The proposed amounts were supported by a district-prepared Fair Cost Estimate<sup>5</sup> and a contractor cost proposal.
  - The final negotiated costs were justified based on the required scope of work.
- Reviewed inspection reports to substantiate the progress claimed on the payment applications.
- Reviewed approved change orders to verify that the correct bond cost was charged based on the contractor's actual project bond rate.
- Conducted a site visit at Banning High School with the project's OAR to visually confirm that the installation of the new HVAC system was completed according to the project's scope of work.
- Interviewed school staff for feedback on the completed scope of work.
- Interviewed Project Execution staff/management regarding the District's best value contract bid/award.
- Reviewed bid documents to determine whether Procurement Services Division staff followed the

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<sup>4</sup> The Owner Authorized Representative is the designated authorized representative of the owner who administers the contract.

<sup>5</sup> 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.



## Audit of Beta Investment & Contracts, Inc. Contract No. 2110040/4400009871

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best value contract bid/award policies and procedures.

- Reviewed supporting documents for the bid tabulation and evaluation scoring.

### RESULTS OF AUDIT

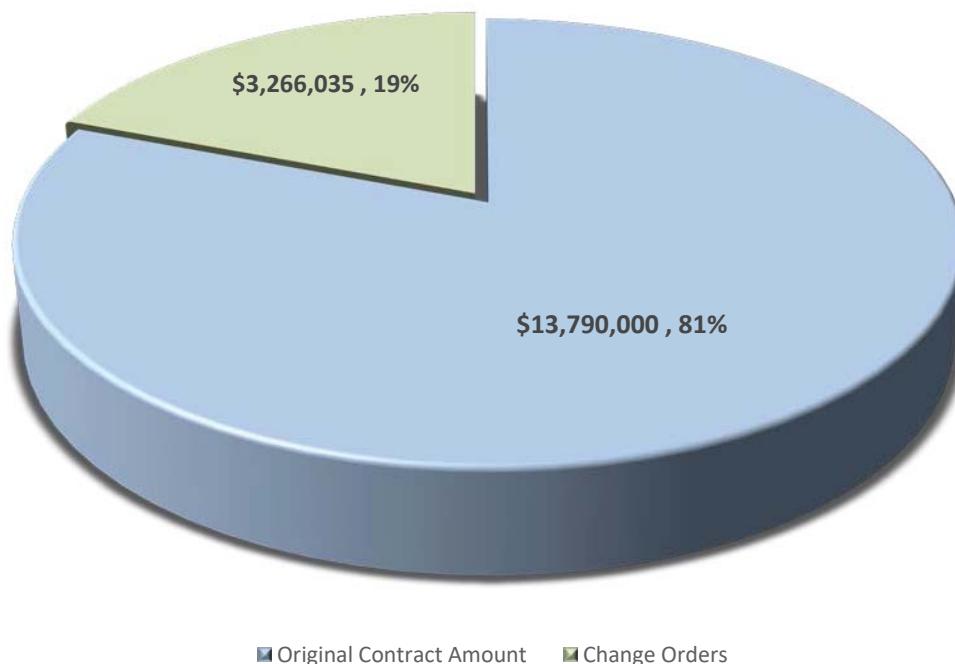
#### 1. Billing and Completion of Scope of Work

*The amounts billed by Beta were determined to be adequately supported and allowable according to the Contract's terms and conditions in all material respects, and Beta completed the Contract's scope of work.*

#### Contract Billing and Change Orders

The original budget for the project was \$13,790,000. From contract inception through December 17, 2024, the District issued 150 change orders totaling \$3,266,035, increasing the contract value to \$17,056,035. This increase represented a 23.7% change from the original contract amount. The following chart shows the breakdown of the total contract between the original contract amount and the portion attributable to the change orders.

**Breakdown of Total Contract Value (\$17,056,035)**



#### Invoice and Completion Verification



## Audit of Beta Investment & Contracts, Inc. Contract No. 2110040/4400009871

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As of December 17, 2024 -the date the final invoice was submitted - Beta invoiced the District \$17,056,035, the full amount of the total contract. This total was based on the percentage of completion of the construction line items on the Schedule of Values.

To verify that the work was completed in accordance with the Contract, we reviewed key project completion documents and conducted an on-site verification walkthrough.

### Verification of Completed Work

- ✓ Notice of Contract Completion & Acceptance – reviewed and signed
- ✓ Certificate of Substantial Completion – reviewed and signed
- ✓ Walkthrough conducted with the OAR
- ✓ Photographs were taken of the work – see Exhibit A

### Field Interview Feedback

Interviews with the Principal, Assistant Principal, Athletic Director, physical education teachers, and coaches indicated high satisfaction with the HVAC improvements. The school principal and other staff stated that the HVAC and cooling system upgrades significantly improved indoor conditions and usability.



#### ***Stakeholder Feedback – Banning High School***

- The gym was previously too hot to conduct testing but is now comfortable for regular use.
- They are satisfied with the HVAC upgrades made to both the gym and other affected buildings.
- Although the project took six months longer than expected, they were relieved it was completed.
- Indoor conditions were said to have improved significantly, supporting the intended outcomes of the project.



## Audit of Beta Investment & Contracts, Inc. Contract No. 2110040/4400009871

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### Conclusion

Based on our review of the final invoice, supporting documentation, physical verification, and user feedback, we conclude that the total amount billed by Beta was consistent with the contract terms and appropriately reflected the completed work.

### 2. Change Order Review

*The change orders were supported and approved according to Facilities Services Division's change order policies and procedures.*

As of December 17, 2024, Facilities Services Division (FSD) awarded 150 change orders totaling \$3,266,035. We selected a sample of 47 change orders, totaling \$902,323 (or 27% of the total value of change orders) for detailed review. For each of these change orders, we examined the following:

- Documentation initiating the change order, such as requests for proposals, construction directives, and DSA-approved construction changes
- The District's FCE
- Beta's change order proposal, including supporting documents for labor, materials, equipment, and subcontractor estimates
- Beta's subcontractor change orders
- Record of negotiation
- Authorization and approval from District representatives

### Conclusion

We found that the change orders complied with all tested requirements of FSD's policies and procedures.

### Additional Observations (Beyond Compliance Scope)

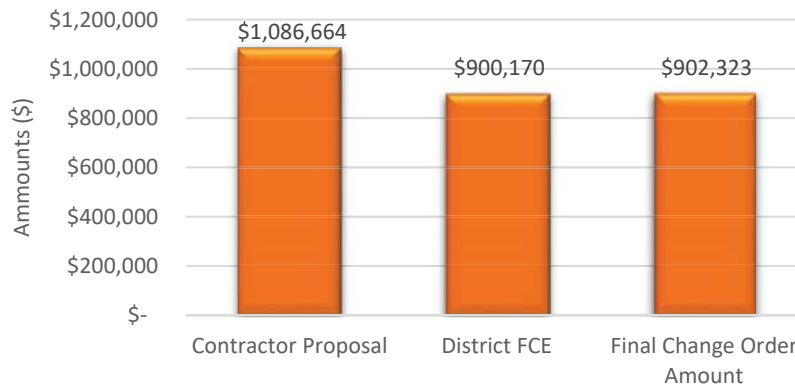
In addition to policy compliance, we reviewed the reasonableness of pricing and evaluated bond cost calculations and subcontractor payments:



## Audit of Beta Investment & Contracts, Inc. Contract No. 2110040/4400009871

- The following chart compares the total proposed change order costs submitted by Beta, the District's FCEs, and the final negotiated change order amounts for the 47 sampled change orders.

**Comparison of Change Order Cost for  
Sampled COs**



- For 45 out of the 47 change orders, the final negotiated amounts matched the District's FCEs. The remaining two were approved at amounts of \$1,000 (0.7%) and \$1,153 (1.2%) above the respective FCEs, but both were still significantly below the contractor's original proposals.
- Beta paid all subcontractors in full according to the subcontractor change orders.
- A 2% bond rate was used to calculate bond costs in 111 change orders issued before January 17, 2024, rather than the correct rate of 0.51%, resulting in \$29,293.65 in overstated bond costs. The use of incorrect bond rates on change orders had been identified in prior audits, indicating a recurring issue at the time. In early January 2024, the Facilities Services Division (FSD) implemented revised policies and procedures requiring the use of the applicable bond rate at the time change order work is performed. All change orders issued after the new procedures were implemented were found to have used the correct rate, reflecting a marked improvement and demonstrating FSD's effective corrective action.



### **Key Financial Impact:**

Incorrect bond rate application led to \$29,293.65 in overstated costs on change orders issued before February 2024.



## Audit of Beta Investment & Contracts, Inc. Contract No. 2110040/4400009871

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### Recommendation:

FSD should recover the \$29,293.65 in overstated bond costs resulting from the use of an incorrect bond rate on change orders.

### Responses:

FSD concurred with the finding and stated it will place a permanent withhold of \$29,293.65 against the remaining retention to be withheld at final payment (target date: August 30, 2025).

Beta Investments & Contracts, Inc. indicated via email that it had no comments on the draft.

### 3. Procurement Review

*The procurement process for the Contract was executed in accordance with the District's policies and procedures.*

We reviewed the District's procurement process to determine whether the contract was awarded in accordance with applicable policies and procedures, including the *Facilities Contracts Best Value Construction Contracts Policy* and the *Bid and Award Standard Procedures*, which govern the procurement of formal, competitively bid construction projects.

The following table summarizes the key procurement activities reviewed and corresponding results:

Area Reviewed	Result
Advertising of Bid	Advertised once a week for two consecutive weeks
Selection Panel Composition	Comprised of experienced Project Execution Construction Managers and a Senior Project Manager
Prequalification of Bidders	All proposers and subcontractors prequalified by FSD's Prequalification Unit
Evaluation of Proposers' Qualifications	Statements of Qualification reviewed and scored
Shortlisting Process	Top scorers shortlisted and invited to bid
Site Walk	Mandatory site walk attended by all shortlisted proposers
Addenda Preparation	Addenda issued at least 72 hours before bid due date
Calculation of Best Value Score	Price bid divided by qualification score; Beta had best score



## Audit of Beta Investment & Contracts, Inc. Contract No. 2110040/4400009871

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Area Reviewed	Result
Issuance of Notice of Intent to Award	NOIA issued to Beta
Insurance, Bond, and PSA Compliance	All documentation submitted before Notice of Award issuance

### Conclusion

The contract was awarded through the District's best value procurement process. The solicitation, evaluation, and award procedures were carried out in accordance with District requirements, ensuring that the process was fair, competitive, and consistent with public procurement standards. Beta—the proposer with the best evaluated score—was selected for contract award, and all required pre-award documentation was submitted prior to the issuance of the Notice of Award.

### AUDIT TEAM

This audit was conducted by the Office of the Inspector General's Audit Team:

Stella Lai, Audit Manager  
Luceli Ceja, Principal Auditor  
Victor Reyes, Senior Auditor



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

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Scott M. Schmerelson, President  
Sherlett Hendy Newbill  
Dr. Rocio Rivas  
Nick Melvoin  
Karla Griego  
Kelly Gonez  
Tanya Ortiz Franklin  
*Members of the Board*

Alberto M. Carvalho  
*Superintendent*

Sue Stengel  
*Inspector General*

### Independent Auditor's Report

We have examined the amounts billed by Beta Investments and Contracts, Inc. (Beta) under Contract No. 4400009871 (Contract) and Beta's compliance with the terms and conditions of the Contract. Beta's management is responsible for the amounts billed and for complying with the terms and conditions of the Contract. Our responsibility is to express an opinion 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 Beta's compliance with the contract requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of Beta's compliance with the specified requirements.

In our opinion, the amount billed by Beta against the Contract was supported and allowable in accordance with the contract terms and conditions, in all material respects. The scope of work was completed in compliance with the terms and conditions of the Contract.

*Mark H. Pearson*

Digitally signed by Mark H.  
Pearson  
DN: cn=Mark H. Pearson, o, ou,  
email=mark.pearson1@lausd.net  
, c=US  
Date: 2025.08.13 14:06:43 -07'00'

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

May 8, 2025

## Exhibit A – Pictures of the Work



Cooling Towers



Chiller System

## Exhibit A – Pictures of the Work



Chiller Controls

## Exhibit A – Pictures of the Work



Chiller System Piping

## Exhibit A – Pictures of the Work



Chiller System Controls

## Exhibit A – Pictures of the Work



HVAC Unit



HVAC Unit

## Exhibit A – Pictures of the Work



Air Handling Unit (AHU)



Indoor AHU

## Exhibit A – Pictures of the Work



AHU



HVAC Unit

## Exhibit A – Pictures of the Work



Multi-Zone Unit, Exhaust, and Piping

## Exhibit A – Pictures of the Work



AHU



HVAC Unit



**DATE:** August 06, 2025

**TO:** Mark H. Pearson, Assistant Inspector General, CPA, CFE, CIGA  
Office of the Inspector General

**FROM:** Krisztina Tokes, Chief Facilities Executive  
Facilities Services Division

**SUBJECT:** Draft Incurred Cost Audit Beta Investments and Contracts, Inc. (Contract No. 4400009871)

Krisztina Tokes

digital signature of krisztina tokes  
CN=CS-ARTISTINA TOKES, O=U.S. AIR FORCE, OU=AFMPC, CN=Krisztina Tokes, email=kristina.tokes@us.af.mil, c=US  
date=2025.08.06 16:03:00 -07'00'

Incorrect bond rate application led to \$29,293.65 in overstated costs on change orders issued before February 2024. A 2% bond rate was used to calculate bond costs in 111 change orders issued before January 17, 2024, rather than the correct rate of 0.51%. The use of incorrect bond rates on change orders had been identified in prior audits, indicating a recurring issue at the time. In early January 2024, FSD implemented revised policies and procedures requiring the use

## Exhibit B – Facilities Services Division Response

of the applicable bond rate at the time change order work is performed. All change orders issued after the new procedures were implemented were found to have used the correct rate, reflecting a marked improvement and demonstrating FSD's effective corrective action.

### Recommendations for Additional Observation

OIG recommends that:

1. FSD should recover the \$29,293.65 in overstated bond costs resulting from the use of an incorrect bond rate on change orders.

### Facilities Response to Recommendation for Additional Observation:

- i. **Response:** FSD concurs with the finding regarding the bond costs
- ii. **Action:** A permanent withhold of \$29,293.65 will be placed against the remaining retention and withheld at time of final payment to the contractor.
- iii. **Target:** August 30, 2025

**Objective 4:** Determine whether the procurement process for the Contract was executed in accordance with the District's policies and procedures.

### Observation No. 3 – Procurement Review.

The procurement process for the Contract was executed in accordance with the District's policies and procedures.

C: Sue Stengel  
Matt Friedman  
Jorge Ballardo  
Alix O'Brien  
Ed Cadena  
Steve Boehm  
Chris Alejo  
Rachel Chua

## Exhibit C – Beta Investment & Contracts, Inc. Response



Mon 8/11/2025 12:37 PM

Haro Bezdikian <haro@betacontractsinc.com>

Re: FW: Draft Report on Beta Investments & Contracts Contract No. 4400009871

To Ceja, Luceli

Cc Lai, Stella

Retention Policy LAUSD 2 Year Deletion - Default Folders (2 years)

 Click here to download pictures. To help protect your privacy, Outlook prevented automatic download of some pictures in this message.

### CAUTION: EXTERNAL EMAIL

Luceli,

I have reviewed the Incurred Cost Audit Report for Banning High School Project.  
We do not have any comments.

Thank You,

**Haro Bezdikian**

### **BETA INVESTMENTS & CONTRACTS INC.**

LICENSE #488644 - B, C-10, C-20, C-36

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- ☐ Retaliation for reporting misconduct
- ☐ Anyone can make a report
- ☐ You may remain anonymous

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**Español**

