

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

**Audit of Bond Rate Accuracy in
Change Orders:
Evaluating Facilities Services
Division Policy 14.22
Implementation and Effectiveness**

**OA 25-1453
June 10, 2025**

**Sue Stengel
Inspector General**





Los Angeles Unified School District Office of the Inspector General

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June 10, 2025

Ms. Krisztina Tokes, Chief Facilities Executive
Facilities Services Division
Los Angeles Unified School District
333 S. Beaudry Avenue, 19th Floor Los Angeles, CA 90017

RE: Audit of Bond Rate Accuracy in Change Orders

Dear Ms. Tokes:

Enclosed is the final report on our audit of Bond Rate Accuracy in Change Orders.

Please contact our office if you have any questions.

Sincerely,

Mark H. Pearson

Digitally signed by Mark H. Pearson
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Mark H. Pearson, CPA, CFE, CIGA
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Sue Stengel, Esq., CIG
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Attachment

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EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) conducted an audit to evaluate the accuracy of bond rates¹ applied in change orders² for construction projects managed by the Facilities Services Division (FSD) Project Execution Group (PEX) within the Los Angeles Unified School District (LAUSD). The objective was to determine the effectiveness of the updated Cost Estimating Operational Standards (Policy 14.22)³ in reducing excessive bond costs charged by contractors for change order work.

Prior OIG audits identified discrepancies between bond rates used in change orders and actual bond premiums, resulting in the District being overcharged for bond costs. By reviewing change orders issued from February 1, 2024, through June 30, 2024, the audit aimed to determine whether the revised procedures, implemented following previous audit findings, are being followed and whether improvements have been made in estimating accuracy. The conclusions and recommendations from our audit are summarized below.

Audit Conclusions

1. Updated Policy Effectiveness

Our analysis found a notable improvement in bond rate accuracy after the updated policy was implemented.

During the audit period, FSD executed 1,962 change orders valued at approximately \$37 million. A review of a sample of 201 change orders valued at approximately \$12.9 million issued after the updated policy implementation found that 80% of the 201 change orders had correct bond rates applied, while 20% contained errors. In contrast, before the policy update, 58% of the change orders had correct bond rates applied, resulting in a 42% exception rate. This reduction of the exception rate from 42% to 20% indicates significant progress in ensuring bond rate accuracy under the updated policy.

2. Regional and Unit-Level Accuracy

Bond rate accuracy varied across the District's three regions and the Facilities Access Compliance Unit:

- The Facilities Access Compliance Unit demonstrated the highest accuracy at 95%.
- The Central Region achieved 79%, North Region and South Region both achieved 75%.
- Accuracy rates improved over time, particularly after the second training session held in April 2024, with the overall accuracy rate exceeding 80% in May and June.

¹ Bond rate is the rate used by surety companies to determine the performance bond premium for a construction contract. It depends on factors such as the contractor's financial health, experience, and project complexity.

² 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.

³ [14.22 PEX Cost Estimating Procedures signed.pdf](#)

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3. Trend Analysis and Training Impact

Bond rate accuracy improved throughout the audit period. The overall accuracy rate increased from 74% in February 2024 to 82% in June 2024, demonstrating the positive impact of the updated policy and training efforts. Notably, accuracy exceeded 80% in May and June, with the Central Region and Facilities Access Compliance Unit reaching 100% accuracy rate by June 2024 following training sessions in March and April 2024.

Our review initially found that 53% of Owner Authorized Representatives⁴ (OARs) responsible for the reviewed change orders did not attend the March and April 2024 training sessions, which may have contributed to continued errors in bond rate application noted through June 2024. In response to the audit's observations, FSD conducted additional training in early 2025 and now provides materials to newly hired OARs. We verified that all OARs responsible for our test sample have now completed the required training.

Conclusion

The audit results indicate that the updated Policy 14.22 has been effective in improving the accuracy of bond costs included in change orders. The accuracy rate increased from a baseline of 58% before the policy update to 80% after its implementation, demonstrating a significant improvement. Additionally, accuracy continued to rise throughout the audit period, reaching 82% in June 2024. These findings suggest that the policy update, along with training efforts, has had a positive impact on reducing excessive bond costs and improving estimating accuracy.

Ensuring complete accuracy across all regions remains a priority, especially given the high volume of change orders—totaling approximately \$37 million from just the first six months of 2024. Even small discrepancies can result in substantial overpayments over time. Addressing gaps in training participation and enhancing the existing random spot checks performed by PEX staff with a more structured approach will help address remaining gaps. These measures will help ensure bond rates are consistently applied with accuracy, enhancing cost control and financial oversight of construction projects.

Recommendations

To improve the application of bond rates and reduce discrepancies, we recommend the following:

Recommendation No. 1 – Sustain and Institutionalize Training Compliance:

- **Maintain comprehensive training coverage:** Ensure that all new OARs and relevant staff receive the updated bond rate training as part of the onboarding process.
- **Provide periodic refreshers:** Conduct periodic refresher sessions to reinforce proper application of bond rates and address any recurring errors or policy updates.

⁴ The Owner Authorized Representative (OAR) is the designated authorized representative of the owner who administers the contract.

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- **Monitor ongoing compliance:** Track bond rate training completion and follow-up with staff who require clarification or additional guidance.

Recommendation No. 2 – Sustain and Enhance Systematic Spot Checks:

- **Strengthen verification procedures:** Strengthen the existing PEX random spot checks by applying a more structured and documented process to ensure consistency and thoroughness in bond rate verification.
- **Leverage data-driven oversight:** Use trend data from past reviews to identify trends and focus on areas with higher discrepancies to improve oversight.
- **Pilot and assess effectiveness:** Monitor the effectiveness of the training process and assess whether it improves the accuracy and completeness of bond rate application across projects.

Recommendation No. 3 – Strengthen Change Order Document Controls:

- **Update the Change Order Checklist:** Add a dedicated "Bond" checkbox to the Change Order Checklist, requiring OARs to confirm that bond information is included in the change order package.
- **Prompt early bond rate verification:** Use the updated Change Order Checklist to ensure OARs obtain bond documentation early, enabling them to apply the correct bond rate when preparing Fair Cost Estimates (FCE) for change orders.

INTRODUCTION

Previous OIG audits of construction contracts found that the bond rates used in calculating the change order amounts were higher than the actual bond rates, leading to overcharged bond costs paid to contractors for change order work. These audits found that both contractors and the District's Construction Management Team applied fixed bond rates when calculating the change order amounts, regardless of the actual bond rates, which were typically much lower. In many cases, contractors charged a fixed rate of 2%, while their actual bond rate was closer to 1%.

In nine OIG audits completed since July 1, 2023, the OIG identified approximately \$231,700 in overpaid bond costs related to change orders totaling about \$39.6 million.

While the exact number of change orders with incorrect bond rates and the precise rate differences are unknown, our previous audit findings illustrated the potential financial impact. In 2023, the District issued approximately \$80 million in change orders.

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Policy Implementation Efforts

In response to the OIG's findings in the previous audits, FSD developed the *Cost Estimating Operational Standards, Policies and Procedures (Policy 14.22)*, which requires the use of actual bond rates (calculated as the actual bond premium divided by the contract award value) when preparing the Fair Cost Estimates⁵ (FCE) for change orders.

To support the implementation, PEX management took the following steps:

- The former PEX Director emphasized the importance of using correct bond rates in an email sent in December 2023 to senior management, stating that training should be provided to OARs, Estimators, Senior Project Managers, Project Engineers, and Assistant Project Engineers and documented through sign-in sheets.
- In December 2023 and January 2024, advance notices about the new policy were distributed via email by Regional Directors and Administrative Assistants.
- Policy 14.22 was officially distributed in January 2024 and posted on the District website.
- Formal training presentations were held in March and April 2024, and copies of the presentations were subsequently sent to all OARs.
- Based on gaps in training attendance and potential effects on bond rate accuracy identified during the audit, FSD conducted additional training sessions in January and February 2025 for OARs who did not attend the earlier sessions.
- To support ongoing implementation, training materials are now provided to OARs hired after the February 2025 training.
- PEX staff conduct random spot checks to monitor and ensure that accurate bond rates are being used.

SCOPE AND OBJECTIVE

The objective of this audit was to determine the effectiveness of the updated Policy 14.22 in reducing excessive bond costs charged by contractors for change order work. The scope of the audit included change orders issued by PEX between February 1, 2024, through June 30, 2024. This period was selected to examine the accuracy of the bond rates applied in the change orders following the implementation of the updated policies and procedures in December 2023.

⁵ 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.

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METHODOLOGY

To achieve the audit objective, we performed the following steps:

1. Document Review:

- a. Reviewed *Policy 14.22: Cost Estimating Operational Standards* to understand the requirements for applying actual bond rates in calculating bond costs for change orders.
- b. Examined training materials and communications, including emails and memos, provided to staff about the new bond rate procedures.

2. Data Collection and Sampling:

- a. Obtained a population of all change orders issued by PEX during the audit period (February 1, 2024, to June 30, 2024).
- b. Selected a stratified random sample of 201 change orders for which FCEs were prepared after the updated policy's implementation, ensuring coverage across PEX's Central, South, and North Regions, as well as the Access Compliance Unit. The sample of change orders represented approximately \$12.9 million in project value and included \$95,916 of bond costs.

3. Analysis of Bond Rate Application:

- a. Reviewed supporting documentation for each sampled change order, including FCEs and bond premium invoices, to verify the accuracy of the bond rates applied.
- b. Identified discrepancies by comparing the bond rates used in the change orders with the actual bond rates derived from invoices.

4. Calculation of Financial Impact:

- a. Quantified the potential financial impact of discrepancies by calculating the overpaid or underpaid bond costs in sampled change orders that did not use the correct bond rates.

5. Trend Analysis:

- a. Assessed the accuracy of bond rates over the five-month period to identify trends and improvements in adherence to the new procedures.
- b. Conducted group-level analysis to compare accuracy rates across the Central, South, and North Regions and the Access Compliance Unit.

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6. Interviews:

- a. Conducted interviews with FSD staff, including construction management team members, to understand the challenges and factors affecting the use of accurate bond rates following the new bond rate procedures.

GAGAS COMPLIANCE STATEMENT

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* (GAGAS), 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

RESULTS OF AUDIT

The Accuracy Rate of Bond Rates Used for PEX Change Orders is at 80%, Highlighting Progress and Signaling Opportunities for Further Improvement.

During the period from January 1, 2024, through June 30, 2024, PEX issued a total of 1,962 change orders across its three regions--Central, South, and North--and the Access Compliance Unit, with a combined value of about \$37 million. For this audit, we reviewed a sample of 279 change orders, representing approximately \$18 million in total value.

Of the 279 sampled change orders, 78 had FCEs prepared in 2023, before the updated Policy 14.22 was implemented. Of these 78 change orders, the correct bond rates were applied in 58% of cases. This 58% accuracy rate will serve as a baseline for evaluating the effectiveness of the new policy in the remaining 201 sampled change orders.

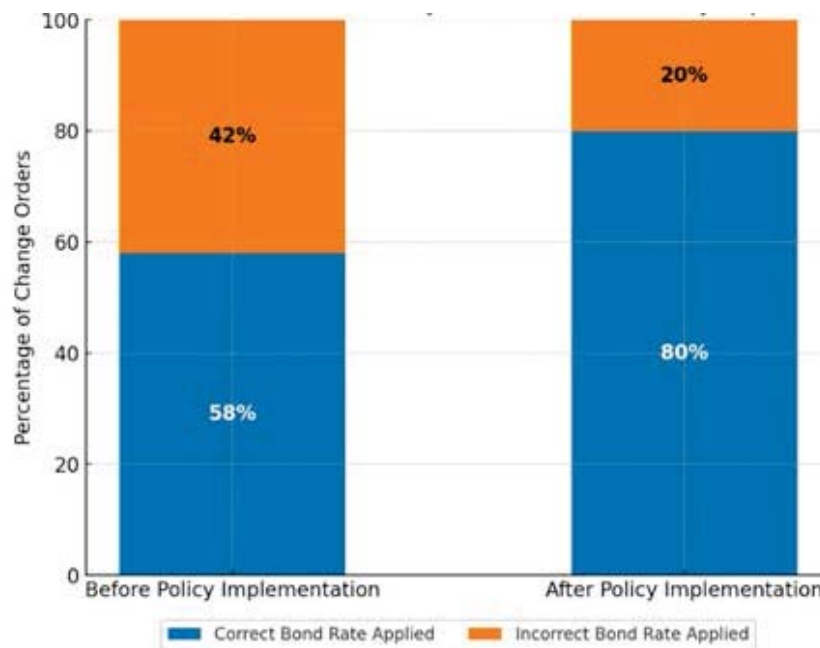
Accuracy of the Bond Rates in the Test Sample

- **Comparison to baseline:** The audit found that 80% of the 201 change orders used correct bond rates, a significant improvement compared to the baseline rate of 58% for change orders with Fair Cost Estimates (FCEs) prepared prior to the new policy's implementation.
 - 161 of the 201 change orders (80%) correctly applied actual bond rates.
 - 40 of the 201 change orders (20%) contained discrepancies.
 - 29 change orders used bond rates that were higher than the actual bond rates.
 - 11 change orders used bond rates that were lower than the actual bond rates.

The following chart compares the percentage of change orders that correctly applied actual bond rates before and after the implementation of the updated policy.

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Improvement in Bond Rate Accuracy Before and After Policy Implementation

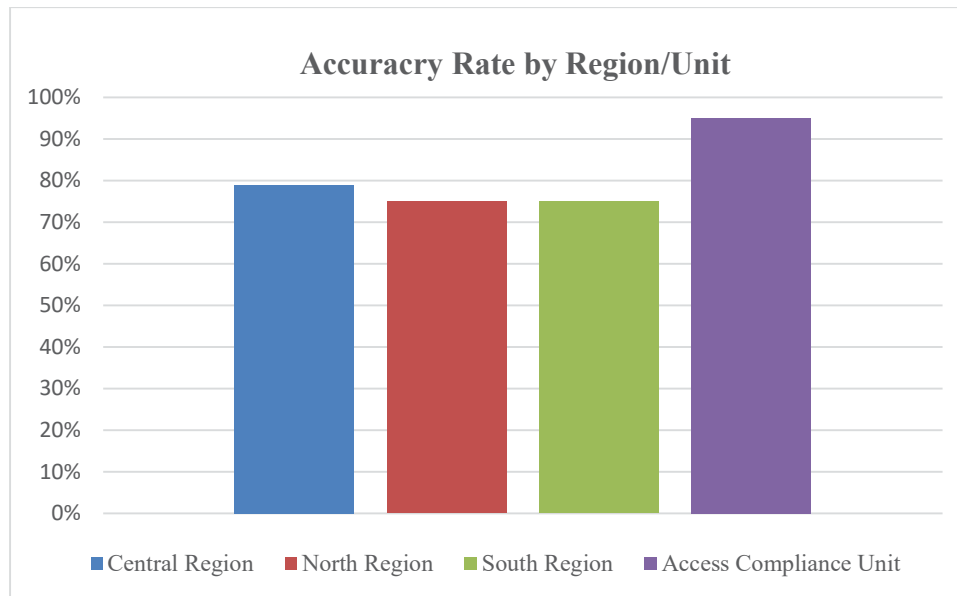


Region/Unit-Level Accuracy Rate

All three FSD regions and the Facilities Access Compliance Unit demonstrated improvement in the use of correct bond rates, exceeding the 58% baseline.

- **Central Region:**
 - Achieved an overall accuracy rate of 79% for the sample of 48 change orders reviewed.
- **North Region:**
 - Recorded an accuracy rate of 75% for the sample of 52 change orders reviewed.
- **South Region:**
 - Achieved an accuracy rate of 75% for the sample of 59 change orders reviewed.
- **Facilities Access Compliance Unit:**
 - Demonstrated the highest accuracy rate with an overall accuracy rate of 95% for the sample of 42 change orders reviewed.
 - Achieved 100% accuracy rate in three of the five months evaluated.

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Accuracy Rate Trend and Analysis

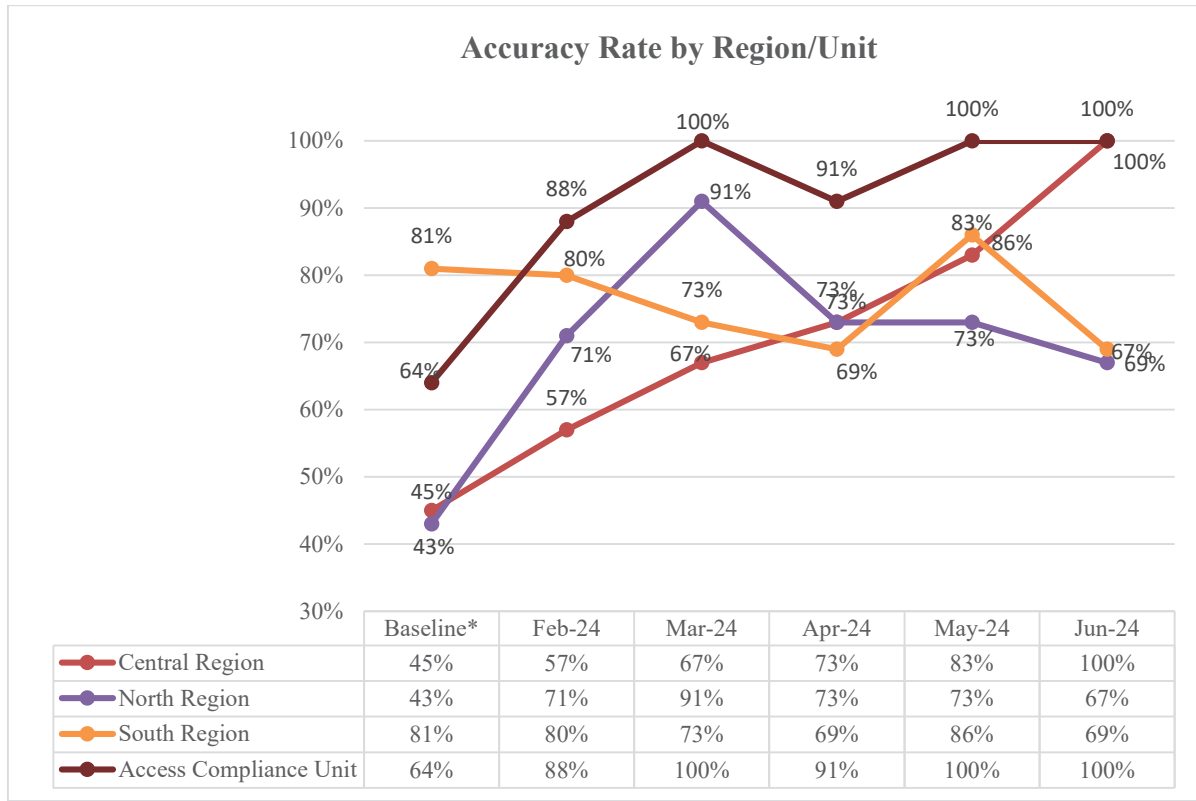
Region/Unit Accuracy Rate Trends

Accuracy rate trends varied across different regions during the five-month audit period:

- Central Region showed steady improvement, rising from 57% in February to 100% in June.
- North Region experienced fluctuations in accuracy rates over the audit period, without a consistent upward or downward trend.
- South Region also showed inconsistency in accuracy rates throughout the five-month period.
- Facilities Access Compliance Unit demonstrated strong adherence to the updated policy, achieving 100% accuracy rate in three of the five months evaluated.

The following line chart displays the monthly accuracy rates for the Central, South, and North regions, along with the Facilities Access Compliance Unit, highlighting regional variations over time. These trends reflect a range of implementation patterns across groups, with some regions showing consistent improvement and others experiencing month-to-month variability.

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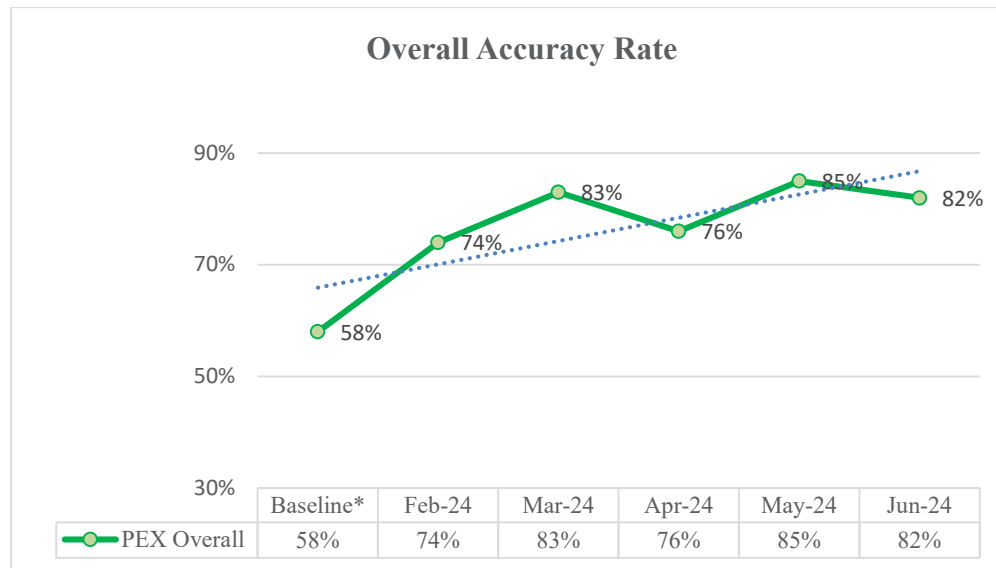
Overall Accuracy Rate Trend

Despite regional variations, the overall accuracy rate trend showed a steady increase over time:

- The overall accuracy rate for the audit period began at 74% in February and increased to 82% in June, reflecting a steady improvement in the use of correct bond rates.
- The accuracy rate improved significantly from a baseline of 58% before the policy update to 74% in February, eventually reaching 82% in June. This indicates a positive response to the updated policies for reducing discrepancies in bond rate applications.
- The two training sessions, completed in April 2024, appear to have contributed to this improvement. Following the training, the accuracy rate rose from 76% in April to 85% in May before stabilizing at 82% in June.

The following chart illustrates the monthly accuracy rate trend, highlighting the improvement from February 2024 to June 2024:

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Assessment and Key Considerations

While the accuracy rate has generally improved, the continued use of incorrect bond rates in 18% of change orders by June 2024 suggests that additional measures may be needed to ensure consistent, correct application of bond rates in change orders.

Two potential contributing factors were identified:

1. **Need for a more structured verification approach** – PEX management currently conducts random spot checks of change orders to ensure bond rate accuracy required by the updated policies. However, a more structured and systematic approach could further enhance consistency and effectiveness.
2. **Inconsistent training attendance** – While training appears to have positively influenced the accuracy rate, gaps remain. Our review found that 53% of the OARs responsible for the change orders we reviewed did not attend the March and April 2024 training sessions, which may have contributed to ongoing discrepancies in bond rate application.

FSD took the following actions to address the gaps in training and its potential effects on bond rate accuracy identified during the audit:

- Conducted additional training in January and February 2025 for those OARs who did not attend the 2024 training sessions.
- Provided training materials to OARs hired after the February 2025 training.

We verified that all OARs responsible for the change orders in our test sample have now completed the required training.

Audit of Bond Rate Accuracy in Change Orders: Evaluating Facilities Services Division Policy 14.22 Implementation and Effectiveness

RECOMMENDATIONS AND MANAGEMENT RESPONSES

To improve the application of bond rates and reduce discrepancies, we recommend the following:

Recommendation No. 1 – Sustain and Institutionalize Training Compliance:

- **Maintain comprehensive training coverage:** Ensure that all new OARs and relevant staff receive the updated bond rate training as part of the onboarding process.
- **Provide periodic refreshers:** Conduct periodic refresher sessions to reinforce proper application of bond rates and address any recurring errors or policy updates.
- **Monitor ongoing compliance:** Track bond rate training completion and follow-up with staff who require clarification or additional guidance.

FSD's Response:

FSD agreed with the recommendation and reported the following actions:

- Estimating training materials are now provided to all new staff, who are required to sign an acknowledgment confirming their understanding of bond rate calculation.
- An annual estimating training course, which includes instruction on bond rate calculation, has been established. A recent training session was completed.
- PEX is actively tracking training completion through the Central Office.

Recommendation No. 2 – Sustain and Enhance Systematic Spot Checks:

- **Strengthen verification procedures:** Strengthen the existing PEX random spot checks by applying a more structured and documented process to ensure consistency and thoroughness in bond rate verification.
- **Leverage data-driven oversight:** Use trend data from past reviews to identify trends and focus on areas with higher discrepancies to improve oversight.
- **Pilot and assess effectiveness:** Monitor the effectiveness of the training process and assess whether it improves the accuracy and completeness of bond rate application across projects.

FSD's Response:

FSD agreed with the recommendation and provided the following updates:

- Senior Project Managers have been assigned quality control responsibilities and are required to validate bond rate accuracy with their signature.

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- As of February 2025, all current staff have been trained on the correct procedure for calculating bond rates. FSD expects all staff to consistently follow the established process.
- A survey of change orders submitted for Board approval is underway. Regional Construction Directors (RCDs) are reviewing submissions and will follow up with staff as needed. This process is expected to be completed during the third quarter of 2025.

Recommendation No. 3 – Strengthen Change Order Document Controls:

- **Update the Change Order Checklist:** Add a dedicated "Bond" checkbox to the Change Order Checklist, requiring OARs to confirm that bond information is included in the change order package.
- **Prompt early bond rate verification:** Use the updated Change Order Checklist to ensure OARs obtain bond documentation early, enabling them to apply the correct bond rate when preparing Fair Cost Estimates (FCE) for change orders.

FSD's Response:

FSD agreed with the recommendation and reported the following:

- FSD has requested that Information Technology Services (ITS) update the Change Order Checklist in COLIN to include a dedicated field for bond rate confirmation. The update is expected to be implemented in the third quarter of 2025.
- The bond rate must now be verified by invoice and received prior to applying the Schedule of Values. No change order should be issued without confirming the bond rate.

AUDIT TEAM

This audit was performed by the following auditors:

Stella Lai, Audit Manager
Shelly Guo, Principal Auditor
Rachel Chow, Senior Auditor
Victor Reyes, Senior Auditor

Exhibit A – Response from Facilities Services Division



LOS ANGELES UNIFIED SCHOOL DISTRICT Facilities Services Division

DATE: June 06, 2025

TO: Mark H. Pearson, Assistant Inspector General
Office of the Inspector General

Stella Lai, C.P.A., Audit Manager
Office of the Inspector General

FROM: Krisztina Tokes, Chief Facilities Executive
Facilities Services Division

Krisztina Tokes

Digitally signed by Krisztina Tokes
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School District, ou=Chief Facilities Executive,
email=krisztina.tokes@lausd.net, c=US
Date: 2025.06.06 15:38:25 -0700

SUBJECT: Audit of Bond Rate Accuracy in Change Orders: Evaluating Facilities Services Division
Policy 14.22 Implementation and Effectiveness.

Please find below Facilities Services Division's (FSD) response to recommendations provided in the Office of the Inspector General's (OIG) Draft Report of Audit of Bond Rate Accuracy in Change Orders: Evaluating Facilities Services Division Policy 14.22 Implementation and Effectiveness.

Objective: Determine the effectiveness of the updated Policy 14.22 in reducing excessive bond costs charged by contractors for change order work.

To improve the application of bond rates and reduce discrepancies, OIG recommends the following:

Recommendation No. 1

OIG recommends that FSD Sustains and Institutionalizes Training Compliance by:

- A. **Maintaining comprehensive training coverage:** Ensure that all new OARs and relevant staff receive the updated bond rate training as part of the onboarding process.
- B. **Providing periodic refreshers:** Conduct periodic refresher sessions to reinforce proper application of bond rates and address any recurring errors or policy updates.
- C. **Monitoring ongoing compliance:** Track bond rate training completion and follow-up with staff who require clarification or additional guidance.

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Exhibit A – Response from Facilities Services Division

Facilities Response to Recommendation No. 1A:

- i. Response: Agreed.
- ii. Action: New staff will be provided the estimating training materials, and they will sign off that they understand the bond rate calculation.
- iii. Target: Complete.

Facilities Response to Recommendation No. 1B:

- i. Response: Agreed.
- ii. Action: We will have an annual estimating class that will include bond rate calculation in which staff can participate. We just completed a training course.
- iii. Target: Complete.

Facilities Response to Recommendation No. 1C:

- i. Response: Agreed.
- ii. Action: PEX is currently tracking training in the Central office.
- iii. Target: Complete.

Recommendation No. 2

OIG recommends FSD to Sustain and Enhance Systematic Spot Checks by:

- A. Strengthening the verification procedures: Strengthen the existing PEX random spot checks by applying a more structured and documented process to ensure consistency and thoroughness in bond rate verification.
- B. Leveraging data-driven oversight: Use trend data from past reviews to identify trends and focus on areas with higher discrepancies to improve oversight.
- C. Piloting and assessing effectiveness: Monitor the effectiveness of the training process and assess whether it improves the accuracy and completeness of bond rate application across projects.

Facilities Response to Recommendation No. 2A:

- i. Response: Agreed.
- ii. Action: SPM staff have quality control responsibility with their signature to validate the bond rate accuracy.
- iii. Target: Complete.

Facilities Response to Recommendation No. 2B:

- i. Response: Agreed.
- ii. Action: As of February 2025, all staff working at the time have been trained. The expectation is ALL staff will follow the correct procedure for calculating the bond rate.
- iii. Target: Complete.

Exhibit A – Response from Facilities Services Division

Facilities Response to Recommendation No. 2C:

- i. Response: Agreed.
- ii. Action: We are currently surveying change orders submitted for Board Approval for 2 weeks. RCD's will follow up with staff for corrective action as needed.
- iii. Target: Q3-2025.

Recommendation No. 3

OIG recommends FSD to strengthened change order document controls by:

- A. Updating the Change Order Checklist: Add a dedicated "Bond" checkbox to the Change Order Checklist, requiring OARs to confirm that bond information is included in the change order package.
- B. Prompting early bond rate verification: Use the updated Change Order Checklist to ensure OARs obtain bond documentation early, enabling them to apply the correct bond rate when preparing Fair Cost Estimates (FCE) for change orders.

Facilities Response to Recommendation for Finding No. 3A:

- i. Response: Agreed.
- ii. Action: We have requested ITS to update the change management change order checklist in colin to include the bond rate.
- iii. Target: Q3-2025.

Facilities Response to Recommendation for Observation No. 3B:

- i. Response: Agreed.
- ii. Action: Bond rate to be proven by invoice and received prior to Schedule of Values application (therefore a condition precedent to 1st billing/change order). A change order should not be issued without confirming the bond rate.
- iii. Target: Complete.

C: Sue Stengel
Alix O'Brien
Ed Cadena
Steven Boehm
Chris Alejo
Rachel Chua

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 ensure 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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