



Los Angeles Unified School District Office of the Inspector General

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Inspector General

October 15, 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 Southwest School Supply, Inc. – Contract No. 4400009679

Dear Mr. Friedman:

Enclosed is the final report on the audit of Contract No. 4400009679 awarded to Southwest School Supply, Inc.

Please contact our office if you have any questions.

Sincerely,

Mark H. Pearson

Digitally signed by Mark H. Pearson
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Date: 2025.10.15 09:11:29 -0700

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

Sue Stengel

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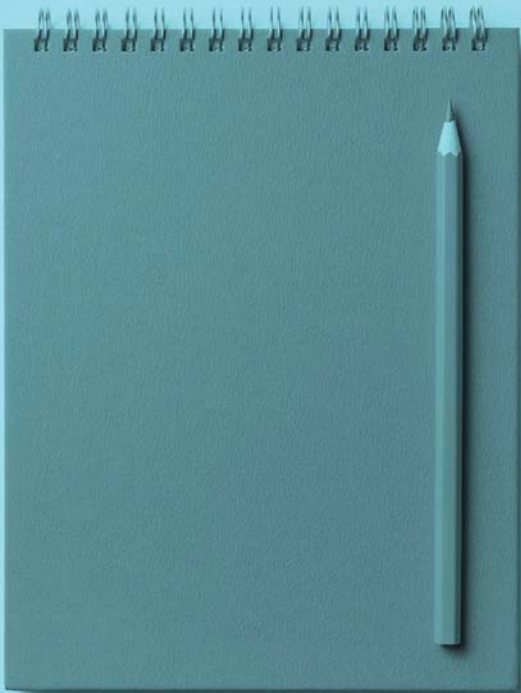
Sue Stengel, Esq., CIG
Inspector General

c. Jorge Ballardo, Cheri Thomas, Ivory King, Dana Greer, Lisette Pacheco, Elizabeth Li

Attachment

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

**Incurred Cost Audit
Southwest School Supply, Inc.
Contract No. 4400009679**



CA 25-1468

October 15, 2025

**Sue Stengel
Inspector General**



**LOS ANGELES UNIFIED SCHOOL DISTRICT
OFFICE OF THE INSPECTOR GENERAL**

**Examination Report on Southwest School Supply, Inc.
Contract No. 4400009679**

For the Period of
August 1, 2021 through July 31, 2024

**Statement on Standards for Attestation Engagements No. 21
Direct Examination Engagements**

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**Los Angeles Unified School District
Office of the Inspector General
Examination Report of Southwest School Supply, Inc.
Contract No. 4400009679**

For the Period of August 1, 2021 through July 31, 2024

Executive Summary

The Los Angeles Unified School District ("District") through the Office of the Inspector General, engaged Davis Farr LLP ("Davis Farr") to perform a direct examination of Southwest School Supply, Inc. ("SSS") Master Contract for professional services, Contract No. 4400009679 (Contract) for the period of August 1, 2021, through July 31, 2024. The examination aimed to assess SSS' compliance with the contract's billing and other requirements.

The objectives of the examination focused on determining the following.

1. The amounts billed were allowable, adequately supported, and in accordance with the terms and conditions of the contract.
2. The billed products were delivered to the District within the specified time and location(s).
3. SSS complied with the applicable volume rebate contract provisions.

Our examination procedures were performed in accordance with the Statement on Standards for Attestation Engagements Direct Examination Engagement (SSAE) No. 21, AT-C section 105 and 206, and Generally Accepted Auditing Standards (GAAS), and Generally Accepted Government Auditing Standards (GAGAS) as applicable.

In our opinion, SSS compliance with the billing and contract provisions for the period August 1, 2021, through July 31, 2024 was in accordance with its contract with the District, in all material respects. However, five findings were identified during the examination which warrant attention.

Summary of Findings

As a result of our examination procedures, we identified the following findings applicable to the District's contract No. 4400009679 with SSS. See the *Findings and Recommendations* section of this report for details.

- Finding No. 01: Missing Contract Number on Invoices
- Finding No. 02: Noncompliance with Purchase Order Delivery Dates
- Finding No. 03: Missing Packing Slips and Stock Keeping Unit (SKU) numbers
- Finding No. 04: Volume Rebate Discrepancy and Untimely Rebate Submission

Background

SSS, was founded in 1976 and based in California, is a privately held distributor of school and office supplies serving over 10,000 school locations across the western United States. Operating from distribution center in Jurupa Valley, California, SSS offers next-day delivery, online ordering, and design services. With a focus on customer service and competitive

pricing, SSS has grown steadily to become one of California's leading independent school supply providers.

On August 1, 2021, the District entered into Contract No. 4400009679 with SSS to provide educational supplies and related materials to the District. The agreement, established through a competitive procurement process, covers the period from August 1, 2021 through July 31, 2024. Under the terms of the contract, SSS is required to furnish supplies in accordance with specified pricing, delivery timeframes, and administrative requirements, including accurate invoicing and the provision of contractually required volume rebates.

To evaluate SSS' compliance with these requirements, the LAUSD Office of the Inspector General (OIG) engaged Davis Farr LLP ("Davis Farr") to perform a billing and compliance examination. The purpose of the engagement was to assess whether SSS complied with the financial and operational provisions of its agreement with the District, including the allowability and accuracy of invoiced amounts and compliance with delivery and rebate obligations.

Objectives

The objectives of the examination focused on determining the following.

1. The amounts billed by SSS to LAUSD were allowable, reasonable, and adequately supported in accordance with the terms of the contract;
2. The billed products were delivered to the District within the specified time and location(s).
3. SSS complied with the applicable volume rebate provisions per the contract.

Scope

The examination focused on SSS' billing and contractual compliance under the contract during the examination period August 1, 2021 through July 31, 2024. Our examination procedures were performed in accordance with SSAE No. 21 (AT-C section 105 and 206), GAAS, and where applicable, GAGAS. Our work included test-based inspection of evidence supporting SSS' compliance with contract terms, as well as other procedures necessary to form a reasonable basis for our opinion. These procedures included interviews and the inspection of invoices, purchase orders, shipping documents, financial discount and rebate calculations.

INDEPENDENT ACCOUNTANT'S REPORT

Mr. Mark Pearson
Assistant Inspector General
Los Angeles Unified School District
Office of the Inspector General

We have directly examined Southwest School Supply, Inc. ("SSS") Master Contract for professional services, Contract No. 4400009679 (Contract) with the Los Angeles Unified School District's ("District") for the period August 1, 2021 through July 31, 2024. SSS' management is responsible for the amounts billed and for complying with the terms and conditions of the contract. Our responsibility is to obtain reasonable assurance by measuring or evaluating SSS' compliance with the billing and contract provisions of its contract with the District and performing other procedures to obtain sufficient appropriate evidence to express an opinion that conveys the results of our measurement or evaluation based on our examination.

Our examination was conducted in accordance with the attestation standards for a direct examination engagement established by the American Institute of Certified Public Accountants (AICPA) and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we obtain reasonable assurance by measuring or evaluating SSS' compliance with the billing and contract provisions for the period August 1, 2021 through July 31, 2024 and performing other procedures to obtain sufficient appropriate evidence to express an opinion that conveys the results of our measurement or evaluation of SSS' compliance with the billing and contract provisions for the period August 1, 2021 through July 31, 2024. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks that SSS' compliance with the billing and contract provisions was not in accordance with the contract in all material respects, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent of the District and SSS, and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to the examination engagement.

In our opinion, SSS' compliance with the billing and contract provisions for the period August 1, 2021 through July 31, 2024 was in accordance with its contract with the District, in all material respects.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the subject matter; and any other instances that warrant the attention of those charged with governance. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as

well as any planned corrective actions. We performed our examination to express an opinion on whether the subject matter is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the subject matter or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed five findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of responsible officials, are described in the accompanying *Findings and Recommendations* section of this report.

Restriction on Use

This report is intended solely for the information and use of the District and SSS and is not intended to be and should not be used by anyone other than these specified parties.

The image shows a handwritten signature in blue ink that reads "DAVIS FARR LLP". The signature is written in a cursive, stylized font.

Irvine, California
September 26, 2025

**Los Angeles Unified School District
Office of the Inspector General
Examination Report of Southwest School Supply, Inc.
Contract No. 4400009679**

For the Period of August 1, 2021 through July 31, 2024

Methodology

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

1. Entrance Conference and Interviews

We conducted an entrance conference with the District and SSS to discuss the examination objectives. Interviews with SSS' management were performed to gain an understanding of internal controls in place related to billing, shipping, and overall contract compliance.

2. Contract

We examined the contract and all applicable amendments between the District and SSS.

3. Invoice Testing

We reconciled invoice listings from both SSS and the District for the examination period. A judgmental sample of invoices was selected and tested for supporting documentation, including purchase orders, delivery receipts, and payment confirmations. For each selected invoice, we verified the inclusion of appropriate contract and purchase order references, confirmed that no unallowable charges (e.g., delivery, packaging, pallet fees) were billed separately, and ensured compliance with applicable tax treatment. Lastly, we verified pricing accuracy and the proper application of discounts, credits, and adjustments. Billed amounts were reconciled with the District's payment records.

4. Delivery Compliance Testing

We tested samples of purchased products and vouched the products to delivery documentation (e.g. packing slips) to confirm SSS delivered the products to the specified District locations and assessed whether the products were delivered timely as indicated in the District's purchase orders, 30 calendar days of the Purchase Order issue date, or by the delivery date specified in the purchase order.

Further, we reviewed delivery documents for completeness, including the presence of the Purchase Order number, SKU number, quantity delivered, and delivery date. We also confirmed that deliveries were made F.O.B. Destination with no separate charges for freight, packaging, or pallets, and verified that no unauthorized product substitutions occurred without prior written District approval.

5. Volume Rebate Testing

We examined a sample of applicable transactions to verify the calculation and remittance of the 1% volume rebate, excluding non-qualifying costs such as taxes. We reconciled the rebate payments with LAUSD records, evaluated whether payments were made within 30 days of the quarter-end, and confirmed that interest penalties were applied when required. We also examined the products' pricing to ensure no rebate costs were improperly passed back to LAUSD.

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Examination Report of Southwest School Supply, Inc.
Contract No. 4400009679**

For the Period of August 1, 2021 through July 31, 2024

Procedures and Results

Based on our examination procedures performed on SSS' compliance with the billing and contract provisions of its contract with the District for the period August 1, 2021 through July 31, 2024, we have determined the following stated objectives results.

A. Invoice Population and Sample Selection

To evaluate whether the amounts billed by SSS to the District were allowable, reasonable, and adequately supported, we first assessed the completeness and reliability of the invoice population before selecting samples for testing.

We examined invoice population data independently provided by both SSS and the District, and performed a reconciliation of invoice numbers and amounts. This reconciliation identified discrepancies, including:

- (1) Invoices reported by SSS but not reflected in the District's dataset;
- (2) Invoices reported by the District but not found in SSS' dataset;
- (3) Purchase orders with mismatched totals between SSS and the District data due to miscoding or timing differences; and
- (4) Invoices outside the period of scope (excluded per District/OIG guidance).

To resolve these discrepancies, we obtained clarification and supporting documentation from the District. Revised invoice datasets were subsequently submitted and examined. Based on this inspection, we established a validated invoice population for the examination period. From the finalized population, we selected a judgmental sample of invoices to test for compliance with billing accuracy and delivery requirements. **No exceptions were noted.**

B. Invoice Testing

We selected a sample of 20 invoices submitted by SSS to the District for the purchase and delivery of products. For each invoice, we examined supporting documentation to assess whether the amounts billed were allowable, properly supported, and in accordance with the contract terms.

Each invoice was tested against the following criteria:

- (1) Invoice is mathematically correct and supported with a District's purchase order.
- (2) Unit prices matched the approved rates and no separate charges for delivery, packaging, or pallets were included.
- (3) Sales tax (California Sales and Use Tax and/or Los Angeles County Uniform Local Sales and Use Tax) were charged separately and appropriately; Federal Excise Tax was not included.
- (4) Invoice included the District's contract and purchase order numbers.
- (5) The invoice reflected SSS' name as shown on the purchase order.
- (6) Quantities invoiced matched the purchase order.

As a result of the procedures, we determined that all 20 invoices tested did not include the required disclosure of the District's Contract No. 4400009679. In addition, it was

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noted that one invoice reflected a product quantity that exceeded the quantity requested per the District's purchase order. See ***Finding No. 01: Missing Contract Number on Invoices*** for details.

C. Delivery Compliance

We selected a sample of 20 invoices submitted by SSS to the District for the purchase and delivery of products. For each product billed, we vouched the product from the invoice to the purchase order and examined the delivery packing slip to determine SSS' compliance with the specified delivery date, location, and quantity.

Specifically, we verified whether deliveries were completed by the required delivery date specified in the purchase order or, where no such date was stated, within 30 calendar days of the purchase order's issued date. Additional tests included confirmation that shipments adhered to freight on-board (F.O.B.) destination terms (with no separate charges for freight, pallets, or packaging), evaluation of packing slip completeness, validation of delivery timing for grid-based orders, and verification that no unauthorized product substitutions occurred.

Each invoice was evaluated based on the following criteria:

- (1) Delivery was made within 30 calendar days of the order date, or within the timeframe specified on the purchase order.
- (2) Delivery was made F.O.B. Destination with no separate charges for freight, packaging, or pallets.
- (3) Delivery packing slip included the correct purchase order number, District SKU number, and quantity delivered.
- (4) For deliveries to grid locations, the delivery was made on the date specified in the purchase order.
- (5) Delivered products match the items ordered; no substitutions were made without prior written District approval.

As a result of the procedures, we determined that 29 purchased products were delivered after the requested delivery date noted in the District's purchase order. Additionally, we identified 27 deliveries did not include packing slips reflecting the District's SKU number and 3 deliveries were not accompanied by a packing slip at all. See ***Finding No. 02: Noncompliance with Purchase Orders Delivery Dates*** and ***Finding No. 03: Missing Packing Slips and SKU numbers*** for details.

D. Compliance with Volume Rebate Terms

We examined the contract and applicable amendments to determine SSS' compliance with the contract volume rebate requirements. The contract required a 1% rebate on the sales price of all invoiced and paid purchases, excluding charges such as taxes, hazardous or material disposal fees, CRV, and shipping, handling, or delivery charges.

Using the invoice data, we calculated the expected quarterly rebate amounts and compared them to the rebate payments received from SSS. We verified that the rebates were generally based on the correct purchase amounts and applied the appropriate 1% rate to eligible purchases. Further, we examined the invoices and rate schedules to ensure

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that SSS did not increase product prices or passed-through costs to offset the rebate obligation.

As a result of our procedures, we determined that, for the 12 quarters within the period of scope, SSS invoiced the District a total amount of \$1,271,075, from which rebate payments of \$12,711 were due to the District. We noted that SSS paid a total of \$13,724 in rebates which amounts to a rebate discrepancy of \$1,013. However, we were unable to resolve the discrepancy as we could not agree each rebate payment issued to the specific purchase orders and invoices as the rebate checks issued by SSS did not include a list identifying the purchase orders and invoice numbers related to the rebate payments.

Furthermore, it was noted that in 11 out of the 12 quarters, SSS submitted rebate payments beyond the 30-day deadline following the end of each respective quarter. Accordingly, interest was assessed at a rate of 1.5% per month on each late payment, resulting in a total calculated interest amount of \$1,635, which is due to the District. See **Finding No. 04: Volume Rebate Discrepancy and Untimely Rebate Submission** for details.

Conclusions

We conducted a direct examination in accordance with SSAE No. 21, AT-C section 105 and 206, and GAAS, and GAGAS as applicable, to assess SSS' compliance with the billing and contractual provisions of Contract No. 4400009679 with the District for the period August 1, 2021 through July 31, 2024. Our procedures focused on the allowability and support of billed amounts, adherence to delivery timelines and correct application of financial terms.

Based on the procedures performed, we identified five findings, which are detailed in the *Findings and Recommendations* section of this report.

**Los Angeles Unified School District
Office of the Inspector General
Examination Report of Southwest School Supply, Inc.
Contract No. 4400009679**

For the Period of August 1, 2021 through July 31, 2024

Findings and Recommendations

Finding No. 01: Missing Contract Number on Invoices

Condition:

We selected a sample of 20 invoices submitted by SSS to the District for the purchase and delivery of products. Out of the 20 invoices tested, all 20 invoices did not include the required disclosure of the District's Contract No. 4400009679.

Criteria:

Master Contract, Section II(A)(9) – Invoices and Payments states, in part:

"All coinciding invoices submitted for payment must include the District Contract Number and related Purchase Order (P.O.) Numbers, and shall be under the same firm name as shown on the P.O/Contract".

Cause:

Due to the District's submitted purchase orders that include multiple line items spanning several state contracts, SSS was unable to indicate a specific contract number on its invoices.

Effect:

The omission of the contract number on invoices hinders the District's ability to efficiently reconcile charges with the corresponding contract terms, thereby increasing the risk of misclassification, processing delays, and challenges in obtaining approval.

Recommendation:

We recommend that SSS include a contract number field in the invoice template to properly capture the information requested by the District.

District's Response:

The District's Procurement Services Division (PSD) agrees that SSS must include the contract number on every invoice to support timely payments and submissions. PSD will emphasize this requirement to ensure consistent compliance.

SSS's Response:

SSS proposed that the District place orders using the appropriate contract by submitting a purchase order for each transaction. SSS would then include the relevant contract number on each corresponding invoice.

Finding No. 02: Noncompliance with Purchase Order Delivery Dates

Condition:

We selected a sample of 20 invoices submitted by SSS to the District for the purchase and delivery of products. Out of the 20 invoices tested, we identified 29 instances where deliveries were made after the requested delivery dates specified in the District's purchase orders.

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Criteria:

Master Contract, Section II(C)(1)(a) - Delivery Requirements and Locations, states, in part:

"The Contractor shall be responsible for delivery (F.O.B. Destination) and shall pay all costs, including drayage, freight, pallets, and packaging, which shall be included in the item's unit cost... Deliveries shall be set on the District's dock and/or pallet(s) as required by the District and must include a detailed delivery/packing slip. Delivery shall be within 30 calendar days or as specified on the purchase order."

Cause:

Due to the quantities included in the sizeable orders from the District, many times the on-hand stock were not sufficient to accommodate the huge quantities requiring additional resources.

Effect:

Failure to adhere to specified delivery dates can negatively impact the District's operations. Late deliveries may lead to inventory shortages, particularly for perishable or time-sensitive goods, potentially disrupting meal services or program schedules.

Recommendation:

We recommend that the District actively monitor SSS' performance against the delivery dates specified in the purchase orders. The District should enforce compliance by applying liquidated damages or other contractual remedies when warranted. Additionally, SSS should implement procedures to improve scheduling accuracy and proactively notify the District of any anticipated delivery delays or changes. This will help mitigate operational disruptions and support more effective inventory planning.

District's Response:

PSD concurred that the District should actively monitor SSS's performance. They also noted that while the delivery dates outlined in purchase orders are the best estimates available at the time they are issued, the District occasionally allows changes to the delivery schedule to accommodate contractor requests. However, these adjustments are not always reflected in the updated purchase orders.

SSS's Response:

SSS stated that they always strive to meet customers' expectations when it comes to delivering accurately and on time, and they are proactive in notifying customers of any delays.

Finding No. 03: Missing Packing Slips and SKU numbers

Condition:

We selected a sample of 20 invoices submitted by SSS to the District for the purchase and delivery of products. Out of the 20 invoices tested, we identified 27 instances where packing slips associated with the product delivery did not include the District's SKU number as required under the delivery terms of the contract. Further, SSS did not provide 3 delivery packing slips associated with 3 invoices. As a result, SSS is subject to a charge of \$250 per packing slip at the discretion of the District, for a total amount of \$7,500 (30 packing slips X \$250).

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Criteria:

Master Contract, Section II(C)(4)(b) – Packaging and Identification, states:

"Packing Slip: Shall clearly show the District Purchase order number, District SKU number, quantity delivered, and description."

Master Contract, Section II(C)(4)(f) – Packaging and Identification, states:

"Packing list missing all or some of the information required in 4.b. is subject to a charge of \$250 per packing list, upon District discretion. Charge of \$250 will be taken as a credit on the open purchase order."

Cause:

The missing packing slips and SKU numbers were due to an oversight.

Effect:

Missing or incomplete delivery documentation diminishes the District's ability to verify that goods were delivered as ordered. This increases the risk of approving payments without sufficient supporting evidence and may lead to disputes or undetected fulfillment errors.

Recommendation:

We recommend the District require SSS to enhance its delivery documentation practices to fully comply with the terms of the Master Contract. Each delivery should include a complete packing slip containing the District's Purchase Order number, SKU number, item description, and quantity delivered.

Additionally, the District should consider exercising its contractual right to impose the \$250 charge for missing or deficient packing slips.

District's Response:

PSD agreed that SSS must include complete packing slips with each delivery, listing the District's purchase order number, SKU, item description, and quantity. These slips are essential for verifying, inspecting, and processing shipments. PSD will remind SSS of this requirement, reinforce the District's right to impose a \$250 charge for missing or incomplete slips, and request a corrective action plan to address the issue.

SSS's Response:

SSS reiterated that the absence of packing slips in some cases may be due to human error or mishandling, not necessarily SSS's fault, and emphasized their commitment to transparency and partnership.

Finding No. 04: Volume Rebate Discrepancy and Untimely Rebate Submission

Condition:

Under the contract terms, the District was eligible for a 1% rebate on the sales price of all invoiced and paid purchases. Using the invoice data, we calculated an eligible rebate amount

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of \$12,711 applicable to the 12 quarters within the period of scope. Additionally, we determined that SSS provided 4 rebate checks to the District totaling \$13,724 applicable to the 12 quarters. As a result, we calculated a rebate discrepancy of \$1,013. However, we were unable to resolve the discrepancy as we could not agree each rebate payment issued to the specific purchase orders and invoices as the rebate checks issued by SSS did not include a list identifying the purchase orders and invoice numbers related to the rebate payments. Lastly, it was noted that in 11 out of 12 quarters, SSS submitted rebate payments beyond the 30-day deadline following the end of each quarter. Accordingly, interest assessed at a rate of 1.5% per month on each late payment was calculated resulting in \$1,635 total interest due to the District.

Quarter	Total Sales for the Quarter	Rebate Amount (1% of sales)	SSS Rebate Check Amount	Rebate Variance Over / (Under) Paid	Quarter End Date	Rebate Payment Due Date (30 days)	SSS Rebate Check Date	Late Months	Interest Penalty (1.5%)
Q4 2021	\$ 188,425	\$ 1,884	\$ 1,884	\$ 0	12/31/21	01/30/22	03/28/22	2	\$ 56
Q1 2022	\$ 123,110	\$ 1,231	\$ 1,114	\$ (117)	03/31/22	04/30/22	12/28/23	21	\$ 388
Q2 2022	\$ 67,987	\$ 680	\$ 1,026	\$ 346	06/30/22	07/30/22	12/28/23	18	\$ 184
Q3 2022	\$ 241,347	\$ 2,414	\$ 2,204	\$ (209)	09/30/22	10/30/22	12/28/23	15	\$ 543
Q4 2022	\$ 162,872	\$ 1,629	\$ 1,776	\$ 147	12/31/22	01/30/23	12/28/23	12	\$ 293
Q1 2023	\$ 13,240	\$ 132	\$ 131	\$ (1)	03/31/23	04/30/23	12/28/23	9	\$ 18
Q2 2023	\$ 62,417	\$ 624	\$ 591	\$ (34)	06/30/23	07/30/23	12/28/23	6	\$ 56
Q3 2023	\$ 159,066	\$ 1,591	\$ 1,742	\$ 151	09/30/23	10/30/23	12/28/23	2	\$ 48
Q4 2023	-	-	-	-	12/31/23	01/30/24	-	-	-
Q1 2024	\$ 178,347	\$ 1,784	\$ 1,784	\$ (0)	03/31/24	04/30/24	05/06/24	1	\$ 27
Q2 2024	\$ 25,344	\$ 253	\$ 242	\$ (11)	06/30/24	07/30/24	11/14/24	4	\$ 15
Q3 2024	\$ 48,920	\$ 489	\$ 1,230	\$ 741	09/30/24	10/30/24	11/14/24	1	\$ 7
Totals	\$1,271,075	\$12,711	\$13,724	\$ 1,013					\$ 1,635

Criteria:

Master Contract, Section II(A)(7) – LAUSD “Volume Rebate Program” states, in part:

“Contractor shall pay the District a one percent (1%) volume rebate on the total sales price of all purchases invoiced and paid pursuant to the Master Contract...volume rebate shall be due and payable to the District within 30 days of the end of each calendar quarter for purchases invoiced and paid during such calendar quarter...”

Further, *“All rebate checks should reference the contract number and be accompanied by a list identifying each contract number and purchase order number for which payment is being made.”*

Cause:

The volume rebate discrepancy and untimely rebate submission can be partially attributed to the merger of SSS with Staples. There were difficulties in determining the rebate amounts, and reportedly there were challenges in arriving at a consensus as to what the rebate amounts should have been and for which SSS ultimately used the District’s supplied files to pay the rebate.

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Effect:

The District did not receive the volume rebate payments within the contractually required timeframe. Further, the District is owed interest for the late rebate submissions. The delay reflected a failure to comply with the volume rebate terms.

Recommendation:

We recommend that the District implement automated or manual controls to monitor quarterly purchase totals and expected SSS' volume rebate payments. The system should track the timeliness of rebate submissions. These measures will help ensure compliance with contract terms and facilitate timely collection of rebate payments. Further, we recommend that SSS provide the District with the missing purchase order detail related to each rebate payment made to enable a reconciliation of the noted rebate discrepancy.

The District completed a Volume Rebate Program Audit¹ on June 23, 2025 which illustrated noted Volume Rebate deficiencies. The District's Procurement Services Division is implementing improved processes, which should mitigate late payments.

District's Response:

PSD partially agreed with the finding and explained that the District already employs both manual and automated controls to monitor quarterly purchase totals and track anticipated rebate payments from SSS. These controls are designed to support contract compliance and facilitate the timely collection of rebates. To further strengthen oversight, PSD has designated a dedicated staff member responsible for managing and tracking all rebates owed to the District.

SSS's Response:

SSS accepted the audit finding regarding volume rebates, acknowledging an overpayment of \$1,013 and an interest penalty of \$1,635. They agreed to reimburse the District \$622 to reconcile the difference

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¹ The OIG previously issued a report pertaining to the volume rebate program and issues: [Report No. 25-1455 Volume Rebate Program Audit.pdf](#)

ATTACHMENT I

Responses From Procurement Services Division (PSD)

INTER-OFFICE CORRESPONDENCE LOS ANGELES UNIFIED SCHOOL DISTRICT

TO: Mark Pearson, Assistant Inspector General
Office of the Inspector General **Date:** September 22, 2025

FROM: Matthew A. Friedman, Chief Procurement Officer 
Procurement Services Division

SUBJECT: **RESPONSE TO DRAFT REPORT OF SOUTHWEST SCHOOL SUPPLY, INC. –
CONTRACT NO. 4400009679**

The following is in response to the draft incurred cost audit report of Southwest School Supply, Inc. – Contract No. 4400009679. The results of the audit indicated the following:

Finding No. 1, Page 9: Missing Contract Number on Invoices

Report states: “We recommend that SSS (Southwest School Supply, Inc.) include a contract number field in the invoice template to properly capture the information requested by the District.”

i. View:

PSD agrees with the audit findings that the contractor must follow the contract’s instructions to include the contract number on all invoices. Correctly submitted invoices help facilitate timely payments to the vendor and timely rebate submittals to the District.

ii. Actions Planned:

PSD will request Southwest School Supply, Inc. to include contract numbers on all submitted invoices. PSD will also conduct a bi-annual review of the contractor’s invoicing practices. Additionally, we will discuss the findings from the audit with the contractor and have them develop a corrective action plan.

iii. Target Date:

PSD will reinforce the need to include the contract number on all invoices submitted. The target date to implement the above action will begin in September 2025.

Recommendation for Finding No. 2, Page 10, Noncompliance with Purchase Order Delivery Dates:

Report states: “We recommend that the District actively monitor SSS’ performance against the delivery dates specified in the purchase orders. The District should enforce compliance by applying liquidated damages or other contractual remedies when warranted. Additionally, SSS should implement procedures to improve scheduling accuracy and proactively notify the District of any anticipated delivery delays or changes. This will help mitigate operational disruptions and support more effective inventory planning.”

i. View:

PSD agrees with the findings that the District actively monitor SSS’ performance, although delivery dates provided to the vendor in the purchase order are best estimates at the time of

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PO issuance. District staff does sometime allow a change to the delivery schedule at the request of the contractor and the District will occasionally change the delivery schedule with the contractor. The purchase order's delivery schedule does not always get modified to reflect the change.

ii. Actions Planned:

PSD will continue to actively monitor the contractor's performance against the delivery dates specified in the purchase orders.

iii. Target Date:

The target date to implement the above action will begin in September 2025.

Recommendation for Finding No. 3, Page 11, Missing Packing Slips and SKU numbers:

Report states: "We recommend the District require SSS to enhance its delivery documentation practices to fully comply with the terms of the Master Contract. Each delivery should include a complete packing slip containing the District's Purchase Order number, SKU number, item description, and quantity delivered.

Additionally, the District should consider exercising its contractual right to impose the \$250 charge for missing or deficient packing slips."

i. View:

PSD agrees with the audit findings that the contractor must follow the contract's instructions to include packing slips containing the District's Purchase Order number, SKU number, item description and quantity delivered. Packing slips assist the receiving department with verification, inspection and the processing of shipments for Goods Receipt (GR) entry.

ii. Actions Planned:

PSD will request Southwest School Supply, Inc. to include packing slips with all deliveries. PSD will also remind SSS that the District has the contractual right to impose a \$250 charge for missing or deficient packing slips. Additionally, we will discuss the findings from the audit with the contractor and have them develop a corrective action plan.

iii. Target Date:

PSD will reinforce the need to include packing slips with all deliveries. The target date to implement the above action will begin in September 2025.

Recommendation for Finding No. 4, Page 12, Volume Rebate Discrepancy and Untimely Rebate Submission:

Report states: "We recommend that the District implement automated or manual controls to monitor quarterly purchase totals and expected SSS' volume rebate payments. The system should track the timeliness of rebate submissions. These measures will help ensure compliance with contract terms and facilitate timely collection of rebate payments. Further, we recommend that SSS provide the District with the missing purchase order detail related to each rebate payment made to enable a reconciliation of the noted rebate discrepancy.

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The District completed a Volume Rebate Program Audit on June 23, 2025, which illustrated noted Volume Rebate deficiencies. The District's Procurement Services Division is implementing improved processes, which should mitigate late payments."

i. View:

PSD partially agrees with audit findings regarding Volume Rebates. PSD already has manual and automated controls to monitor quarterly purchase totals and expected SSS volume rebate payments. PSD agrees with the audit findings that these controls would help ensure compliance with the contract terms and facilitate timely collection of rebate payments.

ii. Actions Planned:

PSD has already restructured rebate collection by assigning a dedicated staff member to collect and track all rebates due to the District.

iii. Target Date:

Actively engaging contractors, such as SSS, with rebate-dedicated staff began in August 2025.

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Findings and Recommendations

Finding No. 01: Missing Contract Number on Invoices

Condition:

We selected a sample of 20 invoices submitted by SSS to the District for the purchase and delivery of products. Out of the 20 invoices tested, all 20 invoices did not include the required disclosure of the District's Contract No. 4400009679.

Criteria:

Master Contract, Section II(A)(9) – Invoices and Payments states, in part:

"All coinciding invoices submitted for payment must include the District Contract Number and related Purchase Order (P.O.) Numbers, and shall be under the same firm name as shown on the P.O/Contract".

Cause:

Due to customer submitted purchase orders that include multiple line items spanning several state contracts, Staples is unable to provide this information as currently ordered. We could include one or all contract numbers, but the result would be the same; confusion as to which contract applied to which transaction. One solution would be for LAUSD to place orders by contract per submitted purchase order and then Staples can affix the 1 applicable contract number to each corresponding invoice.

Effect:

The omission of the contract number on invoices hinders the District's ability to efficiently reconcile charges with the corresponding contract terms, thereby increasing the risk of misclassification, processing delays, and challenges in obtaining approval.

Recommendation:

We recommend that SSS include a contract number field in the invoice template to properly capture the information requested by the District.

Finding No. 02: Noncompliance with Purchase Order Delivery Dates

Condition:

We selected a sample of 20 invoices submitted by SSS to the District for the purchase and delivery of products. Out of the 20 invoices tested, we identified 29 instances where deliveries were made after the requested delivery dates specified in the District's purchase orders.

Criteria:

Master Contract, Section II(C)(1)(a) - Delivery Requirements and Locations, states, in part:

"The Contractor shall be responsible for delivery (F.O.B. Destination) and shall pay all costs, including drayage, freight, pallets, and packaging, which shall be included in the item's unit cost... Deliveries shall be set on the District's dock and/or pallet(s) as required by the District and must include a detailed delivery/packing slip. Delivery shall be within 30 calendar days or as specified on the purchase order."

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Cause:

Staples always strives to meet customer's expectations when it comes to delivering accurately and on time. Due to the quantities included in these sizeable orders, many times the on-hand stock at both Staples and the manufacturer are not sufficient to accommodate the huge quantities requiring additional resources. Sometimes these sources are offshore. Staples is very proactive in notifying the customer contact of any delays and establishing expectations.

Effect:

Failure to adhere to specified delivery dates can negatively impact the District's operations. Late deliveries may lead to inventory shortages, particularly for perishable or time-sensitive goods, potentially disrupting meal services or program schedules.

Recommendation:

We recommend that the District actively monitor SSS' performance against the delivery dates specified in the purchase orders. The District should enforce compliance by applying liquidated damages or other contractual remedies when warranted. Additionally, SSS should implement procedures to improve scheduling accuracy and proactively notify the District of any anticipated delivery delays or changes. This will help mitigate operational disruptions and support more effective inventory planning.

Finding No. 03: Missing Packing Slips and SKU numbers

Condition:

We selected a sample of 20 invoices submitted by SSS to the District for the purchase and delivery of products. Out of the 20 invoices tested, we identified 27 instances where packing slips associated with the product delivery did not include the District's SKU number as required under the delivery terms of the contract. Further, SSS did not provide 3 delivery packing slips associated with 3 invoices. As a result, SSS is subject to a charge of \$250 per packing slip at the discretion of the District, for a total amount of \$7,500 (30 packing slips X \$250).

Criteria:

Master Contract, Section II(C)(4)(b) – Packaging and Identification, states:

"Packing Slip: Shall clearly show the District Purchase order number, District SKU number, quantity delivered, and description."

Master Contract, Section II(C)(4)(f) – Packaging and Identification, states:

"Packing list missing all or some of the information required in 4.b. is subject to a charge of \$250 per packing list, upon District discretion. Charge of \$250 will be taken as a credit on the open purchase order."

Cause:

Since SSS became part of the Staples organization many updates and improvements have been made in several areas of the servicing of LAUSD accounts, including packing slips. Staples audit has confirmed that all details required above ("District's Purchase Order number, SKU number, item description, and quantity delivered") are now consistently present on all LAUSD packing slips.

Also, it is Staples standard that all shipments to any customer include a packing slip. It is not clear to Staples audit how a missing packing slip is determined. However, it is conceivable due to human interaction or oversight that a slip could be missing or overlooked. Staples has the capacity to quickly duplicate a missing packing slip at any time and though perhaps not ideal can certainly clarify the delivery quickly given notice the document is not found.

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Staples would hope the state agrees we work with them in good faith and partnership. Though not really outlined in this section, materially, Staples would like to underline the fact the audit was a success with no instances of mis-billings or non-compliant charges. It's our position that given the 100% pricing accuracy to the state's contract we've demonstrated our dedication to executing the spirit of the contract and it's our desire that some of the administrative issues would be given some leniency.

In conclusion, if the state wishes to pursue the charge of \$250 we would require some sort of substantiating backup: Which packing slips were missing detail and which were missing entirely and how was that determined.

Effect:

Missing or incomplete delivery documentation diminishes the District's ability to verify that goods were delivered as ordered. This increases the risk of approving payments without sufficient supporting evidence and may lead to disputes or undetected fulfillment errors.

Recommendation:

We recommend the District require SSS to enhance its delivery documentation practices to fully comply with the terms of the Master Contract. Each delivery should include a complete packing slip containing the District's Purchase Order number, SKU number, item description, and quantity delivered.

Additionally, the District should consider exercising its contractual right to impose the \$250 charge for missing or deficient packing slips.

Finding No. 04: Volume Rebate Discrepancy and Untimely Rebate Submission

Condition:

Under the contract terms, the District was eligible for a 1% rebate on the sales price of all invoiced and paid purchases. Using the invoice data, we calculated an eligible rebate amount of \$12,711 applicable to the 12 quarters within the period of scope. Additionally, we determined that SSS provided 4 rebate checks to the District totaling \$13,724 applicable to the 12 quarters. As a result, we calculated a rebate discrepancy of \$1,013. However, we were unable to resolve the discrepancy as we could not agree each rebate payment issued to the specific purchase orders and invoices as the rebate checks issued by SSS did not include a list identifying the purchase orders and invoice numbers related to the rebate payments. Lastly, it was noted that in 11 out of 12 quarters, SSS submitted rebate payments beyond the 30-day deadline following the end of each quarter. Accordingly, interest assessed at a rate of 1.5% per month on each late payment was calculated resulting in \$1,635 total interest due to the District.

Quarter	Total Sales for the Quarter	Rebate Amount (1% of sales)	SSS Rebate Check Amount	Rebate Variance Over / (Under) Paid	Quarter End Date	Rebate Payment Due Date (30 days)	SSS Rebate Check Date	Late Months	Interest Penalty (1.5%)
Q4 2021	\$ 188,425	\$ 1,884	\$ 1,884	\$ 0	12/31/21	01/30/22	03/28/22	2	\$ 56
Q1 2022	\$ 123,110	\$ 1,231	\$ 1,114	\$ (117)	03/31/22	04/30/22	12/28/23	21	\$ 388
Q2 2022	\$ 67,987	\$ 680	\$ 1,026	\$ 346	06/30/22	07/30/22	12/28/23	18	\$ 184
Q3 2022	\$ 241,347	\$ 2,414	\$ 2,204	\$ (209)	09/30/22	10/30/22	12/28/23	15	\$ 543
Q4 2022	\$ 162,872	\$ 1,629	\$ 1,776	\$ 147	12/31/22	01/30/23	12/28/23	12	\$ 293
Q1 2023	\$ 13,240	\$ 132	\$ 131	\$ (1)	03/31/23	04/30/23	12/28/23	9	\$ 18
Q2 2023	\$ 62,417	\$ 624	\$ 591	\$ (34)	06/30/23	07/30/23	12/28/23	6	\$ 56
Q3 2023	\$ 159,066	\$ 1,591	\$ 1,742	\$ 151	09/30/23	10/30/23	12/28/23	2	\$ 48
Q4 2023	-	-	-	-	12/31/23	01/30/24	-	-	-
Q1 2024	\$ 178,347	\$ 1,784	\$ 1,784	\$ (0)	03/31/24	04/30/24	05/06/24	1	\$ 27
Q2 2024	\$ 25,344	\$ 253	\$ 242	\$ (11)	06/30/24	07/30/24	11/14/24	4	\$ 15
Q3 2024	\$ 48,920	\$ 489	\$ 1,230	\$ 741	09/30/24	10/30/24	11/14/24	1	\$ 7
Totals	\$1,271,075	\$12,711	\$13,724	\$ 1,013					\$ 1,635

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Criteria:

Master Contract, Section II(A)(7) – LAUSD “Volume Rebate Program” states, in part:

"Contractor shall pay the District a one percent (1%) volume rebate on the total sales price of all purchases invoiced and paid pursuant to the Master Contract...volume rebate shall be due and payable to the District within 30 days of the end of each calendar quarter for purchases invoiced and paid during such calendar quarter..."

Further, *"All rebate checks should reference the contract number and be accompanied by a list identifying each contract number and purchase order number for which payment is being made."*

Cause:

It's difficult to know what the issues were related to late rebates prior to SSS merging with Staples. Reportedly there had been difficulties arriving at a consensus as to what the rebate amounts should be and that SSS ultimately used customer supplied files to pay the rebate. Staples audit could not determine what timeframe this back and forth occurred or really substantiate this claim at all. Team members on both SSS and LAUSD are no longer with our respective companies so it's unclear if we'll ever know.

Now that rebates are under the Staples umbrella payment turns have been greatly reduced. Staples audit will provide feedback to the rebate dept of these findings/failures to ensure future payments are inside the 30-day window.

With that said, Staples has no dispute with the auditor's findings related to volume rebate. Based on the stated overpayment of rebate by \$1,013 and the interest penalty of \$1,635, Staples agrees to pay the state the difference of \$622.

Effect:

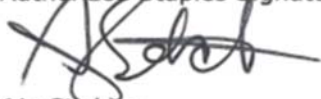
The District did not receive the volume rebate payments within the contractually required timeframe. Further, the District is owed interest for the late rebate submissions. The delay reflected a failure to comply with the volume rebate terms.

Recommendation:

We recommend that the District implement automated or manual controls to monitor quarterly purchase totals and expected SSS' volume rebate payments. The system should track the timeliness of rebate submissions. These measures will help ensure compliance with contract terms and facilitate timely collection of rebate payments. Further, we recommend that SSS provide the District with the missing purchase order detail related to each rebate payment made to enable a reconciliation of the noted rebate discrepancy.

The District completed a Volume Rebate Program Audit¹ on June 23, 2025 which illustrated noted Volume Rebate deficiencies. The District's Procurement Services Division is implementing improved processes, which should mitigate late payments.

Authorized Staples Signature



Aja Stickler
AVP Key Accounts SLED

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