

LOS ANGELES UNIFIED SCHOOL DISTRICT
Proposition BB, Measure K, Measure R, Measure Y,
and Measure Q School Bond Construction Programs
Statements of Bond Expenditures
and Supplementary Schedules as of June 30, 2019
(With Independent Auditor's Reports Thereon),
Performance Audit Reports
For the Year Ended June 30, 2019



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
PROPOSITION BB
STATEMENT OF BOND EXPENDITURES
AND SUPPLEMENTARY SCHEDULES AS OF
JUNE 30, 2019
(WITH INDEPENDENT AUDITOR'S REPORT
THEREON)**



LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM
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Independent Auditor's Report

The Honorable Board of Education and
School Construction Bond Citizens' Oversight Committee
Los Angeles Unified School District:

We have audited the accompanying statement of bond expenditures (Statement) of the **Proposition BB School Bond Construction Program** of the Los Angeles Unified School District (the District) for the year ended June 30, 2019 and the related notes to the Statement.

Management's Responsibility for the Statement of Bond Expenditures

Management is responsible for the preparation and fair presentation of the Statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures of the Proposition BB School Bond Construction Program of the Los Angeles Unified School District for the year ended June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the statement of bond expenditures of the Proposition BB School Bond Construction Program of the Los Angeles Unified School District. The accompanying supplementary schedule of sources and uses of funds and fund balance and supplementary schedule of bond expenditures for the period from April 8, 1997 (inception) to June 30, 2019 (Supplementary Schedules), are presented for purposes of additional analysis, and are not a required part of the statement of bond expenditures.

The Supplementary Schedules have not been subjected to the auditing procedures applied in the audit of the statement of bond expenditures, and accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
February 20, 2020

**LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Statement of Bond Expenditures
Year Ended June 30, 2019

Cost Category	2019
Facilities Services Division (FSD) Capital Programs	
New Construction	\$ 7,940
School Modernization	474,035
Indirects	8,000,001
Total FSD Capital Programs	<u> 8,481,976</u>
Total Expenditures, June 30, 2019	<u> \$ 8,481,976</u>

See accompanying notes to statement of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Year Ended June 30, 2019

(1) Proposition BB School Bond Construction Program Background

Proposition BB Initiative (Proposition BB) authorized the Los Angeles Unified School District (District) to issue \$2.4 billion in general obligation bonds. Bond proceeds are to be utilized for projects such as the repair of safety hazards, asbestos removal, installation of air-conditioning, making classrooms accessible to the disabled, upgrading security, and the construction of new classrooms. Proposition BB specifically states that no bond proceeds are to be used for administrator salaries.

The Proposition BB School Bond Construction Program (Program) is intended to provide needed health and safety improvements to more than 800 deteriorating schools and 15,000 buildings and to match state funds for new construction and modernization projects. The District Board of Education has established a Citizen's Oversight Committee to ensure that the proceeds of the Proposition BB School Bond Construction Program bond issuances are used for the purposes stated in the resolution, which placed the Proposition BB on the 1997 ballot.

(2) Basis of Presentation

The accompanying statement of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The accompanying statement of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting.

a) Actual Expenditures Incurred

The amounts included within the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the year ended June 30, 2019, adjusted by discounts received from the vendors. The actual expenditure amounts included expenditures of bond proceeds, reimbursements of bond proceeds, and interest earned on the bond proceeds and reimbursements.

b) Cost Category

The major cost categories in the statement of bond expenditures for Proposition BB represent bond programs funded by the bond.

An example of "Indirect" cost is program management. Program management includes program-level support costs for staff members of the Facilities Executive Office and Facilities Services Division (FSD) branches as well as non-FSD support which includes costs of support staff outside of FSD charged to the bond program, such as the Office of the General Counsel, Inspector General, Accounts Payable, and Risk Management.

UNAUDITED SUPPLEMENTARY SCHEDULES

LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM
 Unaudited Supplementary Schedule of Sources and Uses of Funds and Fund Balance
 Period from April 8, 1997 (inception) through June 30, 2019
 (Unaudited)

Sources of Funds from Inception through June 30, 2019:	
Bonds Issued - FY 1997-98 through FY 2002-03 (final issuance)	\$ 2,400,000,000
Interest Income - FY 1997-98 through FY 2017-18	177,544,324
Interest Income - FY 2018-19	182,978
Local Income - FY 2001-02 through FY 2017-18	1,966,538
Transfers In (Reimbursements) - Other Financing Sources (OFS)	
FY 2006-07 through FY 2017-18	203,862,472
FY 2018-19	4,283,000
Total Sources of Funds, June 30, 2019	\$ 2,787,839,312
Uses of Funds (Expenditures) from Inception through June 30, 2019	(2,782,453,420)
Fund Balance, June 30, 2019	\$ 5,385,892

Note to Schedule:

Other Financing Sources

Transfers In and Other Financing Sources (OFS) represent financial accounting transfers of resources to the bond fund from other funds, such as: the general fund, special reserve fund, or county school facilities (state) fund. The primary example is when a project uses bond funds in place of approved state funding until the state funding has been received. Upon receipt of state funding the bond fund is reimbursed from the state fund. For cost accounting purposes when project tracking is required, these transfers are represented as project expenditures in the state or other fund. Project expenditures are credited in the project's bond resource and debited to the projects state resource.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM

Unaudited Supplementary Schedule of Bond Expenditures
 Period from April 8, 1997 (inception) through June 30, 2019
 (Unaudited)

Cost Category	Adjusted Budget	Actual Expenditures Incurred			Unexpended Balance
		April 8, 1997 (Inception) through June 30, 2018	Expenditures Year Ended June 30, 2019	Total Expenditures through June 30, 2019	
Facilities Services Division (FSD)					
Capital Programs					
New Construction	\$ 828,112,718	\$ 823,205,715	\$ 7,940	\$ 823,213,655	\$ 4,899,063
School Modernization	1,920,155,828	1,919,584,954	474,035	1,920,058,989	96,839
Charter Schools	116,215	103,335	-	103,335	12,880
Indirects	16,118,440	7,741,333	8,000,001	15,741,334	377,106
Total FSD Capital Programs	<u>2,764,503,201</u>	<u>2,750,635,337</u>	<u>8,481,976</u>	<u>2,759,117,313</u>	<u>5,385,888</u>
Other Costs					
Employee Benefits	3,100,417	3,100,417	-	3,100,417	-
Cost of Issuance	1,140,865	1,140,865	-	1,140,865	-
Office of Inspector General	3,750,000	3,749,996	-	3,749,996	4
Total Other Costs	<u>7,991,282</u>	<u>7,991,278</u>	<u>-</u>	<u>7,991,278</u>	<u>4</u>
Other Financing Uses					
COPs Defeasance: Transfers Out to					
Debt Service Fund	15,344,829	15,344,829	-	15,344,829	-
Total Other Financing Uses	<u>15,344,829</u>	<u>15,344,829</u>	<u>-</u>	<u>15,344,829</u>	<u>-</u>
Total Proposition BB Bond Expenditures	<u>\$ 2,787,839,312</u>	<u>\$ 2,773,971,444</u>	<u>\$ 8,481,976</u>	<u>\$ 2,782,453,420</u>	<u>\$ 5,385,892</u>

See accompanying independent auditor's report and notes to unaudited supplementary schedule of bond expenditures.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Unaudited Supplementary Schedule of Bond Expenditures

Period from April 8, 1997 (inception) through June 30, 2019

(Unaudited)

(1) Background

The unaudited supplementary schedule of bond expenditures presents expenditures of the Proposition BB School Bond Construction Program for the period from April 8, 1997 (inception) through June 30, 2019.

(2) Basis of Presentation

The accompanying unaudited supplementary schedule of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The accompanying unaudited supplementary schedule of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting.

a) Adjusted Budget

The amounts included within the adjusted budget column in the accompanying unaudited supplementary schedule of bond expenditures represent the prior year expenditures from April 8, 1997 (inception) through June 30, 2018 and fiscal year 2018-19 budget authority requested from the Board of Education for costs that are expected to be expended and/or obligated to complete the various projects.

b) Actual Expenditures Incurred

The amounts included within the actual expenditures incurred columns in the accompanying unaudited supplementary schedule of bond expenditures represent actual expenditures paid and accrued by the District for the period from April 8, 1997 (inception) through June 30, 2019, adjusted by discounts received from the vendors. The actual expenditure amounts included expenditures of bond proceeds, reimbursements of bond proceeds, and interest earned on the bond proceeds and reimbursements.

c) Unexpended Balance

The amounts included within the unexpended balance column in the accompanying unaudited supplementary schedule of bond expenditures represent the difference between the adjusted budget column and the total expenditures through June 30, 2019 column.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Unaudited Supplementary Schedule of Bond Expenditures

Period from April 8, 1997 (inception) through June 30, 2019

(Unaudited)

d) Cost Category

The major cost categories in the unaudited supplementary schedule of bond expenditures for Proposition BB represent bond programs funded by the bond. The cost category “Indirects” refer to all expenditures that should not or cannot be reasonably attributed to individual projects.

An example of “Indirect” cost is program management. Program management includes program-level support costs for staff members of the Facilities Executive Office and Facilities Services Division (FSD) branches as well as non-FSD support which includes costs of support staff outside of FSD charged to the bond program, such as the Office of the General Counsel, Inspector General, Accounts Payable, and Risk Management.

(3) Other Financing Uses

Transfers Out and Other Financing Uses (OFU) represent financial accounting transfers of bond proceeds (inter-fund transactions of revenue) from the bond fund to other funds for approved financing uses of bond funds. One example is reimbursement of prior year bond eligible capital expenditures in the general fund. For cost accounting purposes when project tracking is required, these transfers are represented as project expenditures in the bond fund.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM**

MEASURE K

**STATEMENT OF BOND EXPENDITURES
AND SUPPLEMENTARY SCHEDULES AS OF
JUNE 30, 2019**

**(WITH INDEPENDENT AUDITOR'S REPORT
THEREON)**



LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM
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Independent Auditor's Report

The Honorable Board of Education and
School Construction Bond Citizens' Oversight Committee
Los Angeles Unified School District:

We have audited the accompanying statement of bond expenditures (Statement) of the **Measure K School Bond Construction Program** of the Los Angeles Unified School District (the District) for the year ended June 30, 2019 and the related notes to the Statement.

Management's Responsibility for the Statement of Bond Expenditures

Management is responsible for the preparation and fair presentation of the Statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





Opinion

In our opinion, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures of the Measure K School Bond Construction Program of the Los Angeles Unified School District for the year ended June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As described in note 2 to the statement of bond expenditures, the accompanying statement of bond expenditures was prepared to comply with the requirements of California's Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act*.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the statement of bond expenditures of the Measure K School Bond Construction Program of the Los Angeles Unified School District. The accompanying supplementary schedule of sources and uses of funds and fund balance and supplementary schedule of bond expenditures for the period from November 5, 2002 (inception) to June 30, 2019 (Supplementary Schedules), are presented for purposes of additional analysis, and are not a required part of the statement of bond expenditures.

The Supplementary Schedules have not been subjected to the auditing procedures applied in the audit of the statement of bond expenditures, and accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
February 20, 2020

**LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM**

Statement of Bond Expenditures
Year Ended June 30, 2019

Cost Category	2019
Facilities Services Division (FSD) Capital Programs	
New Construction	\$ 2,698,398
School Modernization	46,653,665
Early Childhood Education	30,349
Charter Schools	845,012
Indirects	86,099,363
Total FSD Capital Programs	136,326,787
Information Technology Division (ITD) Capital Programs	
Virtual Learning Complex Planning	178
School Network Modernization	57,778
Safety, Communications and Security Modernization	3,370,236
Total ITD Capital Programs	3,428,192
Library Services	238
Total Library Services	238
Total Expenditures, June 30, 2019	\$ 139,755,217

See accompanying notes to statement of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Year Ended June 30, 2019

(1) Measure K School Bond Construction Program Background

The Measure K School Bond Construction Program (Program) approved by the voters under California Proposition 39, known as the *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39), is intended to provide the Los Angeles Unified School District (District) funding for continued improvements to schools and to build new neighborhood schools that will provide an additional 112,000 new seats for children. Additionally, the Program has set funds aside for improving the neighboring communities by enhancing recreational activities and providing after-school space by constructing new schools, new parks and libraries.

The Board of Education has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of the Program's bond issuances are used for the purposes stated in the resolution, which placed Measure K on the 2002 ballot. The Measure K School Bond initiative authorized the issuance of \$3.35 billion in bonds. \$3.35 billion has since been issued between February 2003 and June 2010. The proceeds from the Measure K School Bonds are to be used for projects such as repairing leaky roofs, connecting classrooms to intranets and the internet, equipping libraries at new schools with the initial stock of new books, and construction of new schools and early education centers. All projects to be funded under the Program must be included in the Strategic Execution Plans (SEP) approved by the Board of Education. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for the Program. Such guidelines specifically state that no funds will be spent for teacher, administrator salaries, or for operating expenses. All projects are managed by District-approved project managers. Each project manager is responsible for managing all project-related activities, including the maintenance of the District's master schedule and the master project budget.

(2) Basis of Presentation

The accompanying statement of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The statement of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting. Prop 39 requires an annual, independent financial audit of the expenditures of proceeds from the sale of the school facilities bonds until all of the proceeds have been expended. Accordingly, the statement of bond expenditures includes all amounts expended using bond proceeds regardless of expenditure types.

a) Actual Expenditures Incurred

The amounts included within the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the year ended June 30, 2019, adjusted by discounts received from the vendors. The actual expenditure amounts included expenditures of bond proceeds, reimbursements of bond proceeds, and interest earned on the bond proceeds and reimbursements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Year Ended June 30, 2019

b) Cost Category

The major cost categories in the statement of bond expenditures for Measure K represent bond programs funded by the bond. The cost category “Indirects” refer to all expenditures that should not or cannot be reasonably attributed to individual projects.

An example of “Indirect” cost is program management. Program management includes program-level support costs for staff members of the Facilities Executive Office and Facilities Services Division (FSD) branches as well as non-FSD support which includes costs of support staff outside of FSD charged to the bond program, such as the Office of the General Counsel, Accounts Payable, and Risk Management.

UNAUDITED SUPPLEMENTARY SCHEDULES

**LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM**

Unaudited Supplementary Schedule of Sources and Uses of Funds and Fund Balance
Period from November 5, 2002 (Inception) to June 30, 2019
(Unaudited)

Sources of Funds from Inception through June 30, 2019:

Bonds Issued - FY 2002-03 through FY 2009-10 (final issuance)	\$ 3,350,000,000
Adjustments - Bond Premium, net of Cost of Issuance (COI) FY 2006-07	5,482,312
Adjustments - COI/Underwriter's Discount FY 2008-09	(1,111,624)
Interest Income - FY 2002-03 through FY 2017-18	148,327,948
Interest Income - FY 2018-19	5,037,528
Local Income - FY 2013-14 through FY 2017-18	1,041,097
Local Income - FY 2018-19	772
Transfers In (Reimbursements) - Other Financing Sources (OFS) FY 2006-07 through FY 2017-18	672,142,278
Transfers In (Reimbursements) - OFS FY 2018-19	23,786,293
Total Sources of Funds, June 30, 2019	\$ 4,204,706,604
Uses of Funds (Expenditures) from Inception through June 30, 2019	(4,027,850,838)
Fund Balance, June 30, 2019	\$ 176,855,766

Note to Schedule:

Other Financing Sources

Transfers In and Other Financing Sources (OFS) represent financial accounting transfers of resources to the bond fund from other funds, such as: the general fund, special reserve fund, or county school facilities (state) fund. The primary example is when a project uses bond funds in place of approved state funding until the state funding has been received. Upon receipt of state funding the bond fund is reimbursed from the state fund. For cost accounting purposes when project tracking is required, these transfers are represented as project expenditures in the state or other fund. Project expenditures are credited in the project's bond resource and debited to the projects state resource.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM
 Unaudited Supplementary Schedule of Bond Expenditures
 Period from November 5, 2002 (Inception) to June 30, 2019
 (Unaudited)

<u>Cost Category</u>	<u>Adjusted Budget</u>	<u>Actual Expenditures Incurred</u>			<u>Unexpended Balance</u>
		<u>November 5, 2002 (Inception) through June 30, 2018</u>	<u>Expenditures Year Ended June 30, 2019</u>	<u>Total Expenditures through June 30, 2019</u>	
Facilities Services Division (FSD)					
Capital Programs					
New Construction	\$ 2,975,965,646	\$ 2,874,681,823	\$ 2,698,398	\$ 2,877,380,221	\$ 98,585,425
School Modernization	761,710,421	642,106,082	46,653,665	688,759,747	72,950,674
Early Childhood Education	80,000,000	76,794,859	30,349	76,825,208	3,174,792
Charter Schools	53,500,000	51,281,672	845,012	52,126,684	1,373,316
Indirects	147,342,170	60,770,328	86,099,363	146,869,691	472,479
Total FSD Capital Programs	<u>4,018,518,237</u>	<u>3,705,634,764</u>	<u>136,326,787</u>	<u>3,841,961,551</u>	<u>176,556,686</u>
Information Technology Division (ITD)					
Capital Programs					
Virtual Learning Complex Planning	1,909,867	1,890,345	178	1,890,523	19,344
School Network Modernization	120,298,050	120,011,210	57,778	120,068,988	229,062
Safety, Communications and Security Modernization	5,292,083	1,921,847	3,370,236	5,292,083	-
Total ITD Capital Programs	<u>127,500,000</u>	<u>123,823,402</u>	<u>3,428,192</u>	<u>127,251,594</u>	<u>248,406</u>
Library Services	<u>38,000,000</u>	<u>37,949,088</u>	<u>238</u>	<u>37,949,326</u>	<u>50,674</u>
Total Library Services	<u>38,000,000</u>	<u>37,949,088</u>	<u>238</u>	<u>37,949,326</u>	<u>50,674</u>
Other Costs					
Employee Benefits	3,780,148	3,780,148	-	3,780,148	-
Cost of Issuance	5,658,218	5,658,218	-	5,658,218	-
Office of Inspector General	11,250,001	11,250,001	-	11,250,001	-
Total Other Costs	<u>20,688,367</u>	<u>20,688,367</u>	<u>-</u>	<u>20,688,367</u>	<u>-</u>
Total Measure K Bond Expenditures	<u>\$ 4,204,706,604</u>	<u>\$ 3,888,095,621</u>	<u>\$ 139,755,217</u>	<u>\$ 4,027,850,838</u>	<u>\$ 176,855,766</u>

See accompanying independent auditor's report and notes to unaudited supplementary schedule of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Bond Expenditures
Period from November 5, 2002 (inception) to June 30, 2019
(Unaudited)

(1) Background

The unaudited supplementary schedule of bond expenditures presents expenditures of the Measure K School Bond Construction Program for the period from November 5, 2002 (inception) through June 30, 2019.

(2) Basis of Presentation

The accompanying unaudited supplementary schedule of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The accompanying unaudited supplementary schedule of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting. The Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39) requires an annual, independent audit of the expenditures of proceeds from the sale of school facilities bonds until all of the proceeds have been expended. Accordingly, the unaudited supplementary schedule of bond expenditures includes all amounts expended using bond proceeds regardless of expenditure types, from inception.

a) Adjusted Budget

The amounts included within the adjusted budget column in the accompanying unaudited supplementary schedule of bond expenditures represent the prior year expenditures from November 5, 2002 (inception) through June 30, 2018 and fiscal year 2018-19 budget authority requested from the Board of Education for costs that are expected to be expended and/or obligated to complete the various projects.

b) Actual Expenditures Incurred

The amounts included within the actual expenditures incurred columns in the accompanying unaudited supplementary schedule of bond expenditures represent actual expenditures paid and accrued by the District for the period from November 5, 2002 (inception) through June 30, 2019, adjusted by discounts received from the vendors. The actual expenditure amounts included expenditures of bond proceeds, reimbursements of bond proceeds, and interest earned on the bond proceeds and reimbursements.

c) Unexpended Balance

The amounts included within the unexpended balance column in the accompanying unaudited supplementary schedule of bond expenditures represent the difference between the adjusted budget column and the total expenditures through June 30, 2019 column.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Bond Expenditures
Period from November 5, 2002 (inception) to June 30, 2019
(Unaudited)

d) Cost Category

The major cost categories in the unaudited supplementary schedule of bond expenditures for Measure K represent bond programs funded by the bond. The cost category “Indirects” refer to all expenditures that should not or cannot be reasonably attributed to individual projects.

An example of “Indirect” cost is program management. Program management includes program-level support costs for staff members of the Facilities Executive Office and Facilities Services Division (FSD) branches as well as non FSD support which includes costs of support staff outside of FSD charged to the bond program, such as the Office of the General Counsel, Accounts Payable, and Risk Management.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM**

MEASURE R

**STATEMENT OF BOND EXPENDITURES
AND SUPPLEMENTARY SCHEDULES AS OF
JUNE 30, 2019**

**(WITH INDEPENDENT AUDITOR'S REPORT
THEREON)**



LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM
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Independent Auditor's Report

The Honorable Board of Education and
School Construction Bond Citizens' Oversight Committee
Los Angeles Unified School District:

We have audited the accompanying statement of bond expenditures (Statement) of the **Measure R School Bond Construction Program** of the Los Angeles Unified School District (the District) for the year ended June 30, 2019 and the related notes to the Statement.

Management's Responsibility for the Statement of Bond Expenditures

Management is responsible for the preparation and fair presentation of the Statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures of the Measure R School Bond Construction Program of the Los Angeles Unified School District for the year ended June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As described in note 2 to the statement of bond expenditures, the accompanying statement of bond expenditures was prepared to comply with the requirements of California's Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act*.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the statement of bond expenditures of the Measure R School Bond Construction Program of the Los Angeles Unified School District. The accompanying supplementary schedule of sources and uses of funds and fund balance and supplementary schedule of bond expenditures for the period from March 2, 2004 (inception) to June 30, 2019 (Supplementary Schedules), are presented for purposes of additional analysis, and are not a required part of the statement of bond expenditures.

The Supplementary Schedules have not been subjected to the auditing procedures applied in the audit of the statement of bond expenditures, and accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
February 20, 2020

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM
Statement of Bond Expenditures
Year Ended June 30, 2019

Cost Category	2019
Facilities Services Division (FSD) Capital Programs	
New Construction	\$ 3,199,598
School Modernization	46,039,468
Information Technology Network Upgrade	274,192
Adult and Career Education	8,969
Early Childhood Education	1,986,082
Charter Schools	161,645
Indirects	371,141
Total FSD Capital Programs	52,041,095
Information Technology Division (ITD) Capital Programs	
Classroom Technology Modernization	882,204
School Network Modernization	914,271
Safety, Communications and Security Modernization	1,965,715
My Integrated Student Information System	3,379
Total ITD Capital Programs	3,765,569
Library Services	529,285
Total Library Services	529,285
Total Expenditures, June 30, 2019	\$ 56,335,949

See accompanying notes to statement of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Year Ended June 30, 2019

(1) Measure R School Bond Construction Program Background

The Measure R School Bond Construction Program (Program) or "the Safe and Healthy Neighborhood Schools Improvement Act of 2004" approved by the voters under California Proposition 39, known as the *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39), is intended to provide the Los Angeles Unified School District (District) funding for continued improvement to schools and to provide an additional 163,233 new seats for children and to build approximately 50 new neighborhood schools.

The Board of Education has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of the Program's bond issuances are used for the purposes stated in the resolution, which placed Measure R on the 2004 ballot. The Measure R School Bond initiative authorized the issuance of \$3.87 billion in bonds. \$3.710 billion has since been issued between March 2004 and June 2015. The proceeds from the Measure R School Bonds are to be used for projects such as: continue repair/upgrade of aging classrooms, restrooms; build neighborhood schools, early education centers; improve security systems, fire/earthquake safety; purchase library books; upgrade computer technology; eliminate asbestos and lead paint hazards; create small learning communities; and construct/upgrade science laboratories and other buildings. All projects to be funded under the Program must be included in the Strategic Execution Plans (SEP) approved by the Board of Education. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for the Program. Such guidelines specifically state that no funds will be spent for teacher or administrator salaries or for operating expenses.

(2) Basis of Presentation

The accompanying statement of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The statement of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting. Prop 39 requires an annual, independent financial audit of the expenditures of proceeds from the sale of the school facilities bonds until all of the proceeds have been expended. Accordingly, the statement of bond expenditures includes all amounts expended using bond proceeds regardless of expenditure types.

a) Actual Expenditures Incurred

The amounts included within the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the year ended June 30, 2019, adjusted by discounts received from the vendors. The actual expenditure amounts included expenditures of bond proceeds, reimbursements of bond proceeds, and interest earned on the bond proceeds and reimbursements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Bond Expenditures
Year Ended June 30, 2019

b) Cost Category

The major cost categories in the statement of bond expenditures for Measure R represent bond programs funded by the bond. The cost category “Indirects” refer to all expenditures that should not or cannot be reasonably attributed to individual projects.

An example of “Indirect” cost is program management. Program management includes program-level support costs for staff members of the Facilities Executive Office and Facilities Services Division (FSD) branches as well as non FSD support which includes costs of support staff outside of FSD charged to the bond program, such as the Office of the General Counsel, Accounts Payable, and Risk Management.

UNAUDITED SUPPLEMENTARY SCHEDULES

**LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM**

Unaudited Supplementary Schedule of Sources and Uses of Funds and Fund Balance
Period from March 2, 2004 (Inception) to June 30, 2019
(Unaudited)

Sources of Funds from Inception through June 30, 2019:	
Bonds Issued - FY 2004-05 through FY 2014-15	\$ 3,710,010,000
Adjustments - Bond Premium, net of Cost of Issuance (COI) FY 2004-05 through FY 2006-07	11,082,578
Adjustments - COI/Underwriter's Discount FY 2008-09	(2,447,946)
Interest Income - FY 2005-06 through FY 2017-18	149,201,227
Interest Income - FY 2018-19	2,762,063
Local Income - FY 2014-15 through FY 2017-18	41,471,683
Local Income - FY 2018-19	2,075,744
Federal Income - FY 2014-15	1,752,450
Transfers In (Reimbursements) - Other Financing Sources (OFS) FY 2005-06 through FY 2017-18	994,535,220
Transfers In (Reimbursements) - OFS FY 2018-19	8,933,703
Total Sources of Funds, June 30, 2019	\$ 4,919,376,722
Uses of Funds (Expenditures) from Inception through June 30, 2019	(4,817,720,971)
Fund Balance, June 30, 2019	\$ 101,655,751

Note to Schedule:

Other Financing Sources

Transfers In and Other Financing Sources (OFS) represent financial accounting transfers of resources to the bond fund from other funds, such as: the general fund, special reserve fund, or county school facilities (state) fund. The primary example is when a project uses bond funds in place of approved state funding until the state funding has been received. Upon receipt of state funding the bond fund is reimbursed from the state fund. For cost accounting purposes when project tracking is required, these transfers are represented as project expenditures in the state or other fund. Project expenditures are credited in the project's bond resource and debited to the projects state resource.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM
 Unaudited Supplementary Schedule of Bond Expenditures
 Period from March 2, 2004 (Inception) to June 30, 2019
 (Unaudited)

Cost Category	Adjusted Budget	Actual Expenditures Incurred			Unexpended Balance
		March 2, 2004 (Inception) through June 30, 2018	Expenditures Year Ended June 30, 2019	Total Expenditures through June 30, 2019	
Facilities Services Division (FSD)					
Capital Programs					
New Construction	\$ 1,867,656,958	\$ 1,798,865,317	\$ 3,199,598	\$ 1,802,064,915	\$ 65,592,043
School Modernization	1,906,792,950	1,858,548,004	46,039,468	1,904,587,472	2,205,478
Information Technology Network Upgrade	302,747	28,555	274,192	302,747	-
Adult and Career Education	25,000,000	24,548,609	8,969	24,557,578	442,422
Early Childhood Education	94,195,609	81,611,938	1,986,082	83,598,020	10,597,589
Charter Schools	71,885,324	68,963,353	161,645	69,124,998	2,760,326
Indirects	213,640,196	213,180,857	371,141	213,551,998	88,198
Total FSD Capital Programs	<u>4,179,473,784</u>	<u>4,045,746,633</u>	<u>52,041,095</u>	<u>4,097,787,728</u>	<u>81,686,056</u>
Information Technology Division (ITD)					
Capital Programs					
Classroom Technology Modernization	154,179,552	151,015,664	882,204	151,897,868	2,281,684
School Network Modernization	257,845,406	245,632,115	914,271	246,546,386	11,299,020
Safety, Communications and Security Modernization	10,886,188	5,706,923	1,965,715	7,672,638	3,213,550
My Integrated Student Information System	52,154,428	51,331,727	3,379	51,335,106	819,322
Disaster Recovery & Business Continuity	21,809,074	21,335,067	-	21,335,067	474,007
Total ITD Capital Programs	<u>496,874,648</u>	<u>475,021,496</u>	<u>3,765,569</u>	<u>478,787,065</u>	<u>18,087,583</u>
Library Services	53,000,000	50,872,947	529,285	51,402,232	1,597,768
Total Library Services	<u>53,000,000</u>	<u>50,872,947</u>	<u>529,285</u>	<u>51,402,232</u>	<u>1,597,768</u>
Other Costs					
Employee Benefits and Other Post-Employment Benefits (OPEB)	11,065,191	11,065,191	-	11,065,191	-
Cost of Issuance	12,162,733	12,162,733	-	12,162,733	-
Office of Chief Financial Officer	436,175	157,119	-	157,119	279,056
Office of Inspector General	10,000,000	10,000,000	-	10,000,000	-
Total Other Costs	<u>33,664,099</u>	<u>33,385,043</u>	<u>-</u>	<u>33,385,043</u>	<u>279,056</u>
Other Financing Uses					
COPs Defeasance: Transfers Out to Debt Service Fund	150,000,000	149,994,712	-	149,994,712	5,288
Reimbursements: Transfers Out to Special Reserve Fund	1,752,450	1,752,450	-	1,752,450	-
Information Technology Initiative Phase I Reimbursements: Transfers Out to Special Reserve Fund	4,611,741	4,611,741	-	4,611,741	-
Total Other Financing Uses	<u>156,364,191</u>	<u>156,358,903</u>	<u>-</u>	<u>156,358,903</u>	<u>5,288</u>
Total Measure R Bond Expenditures	<u>\$ 4,919,376,722</u>	<u>\$ 4,761,385,022</u>	<u>\$ 56,335,949</u>	<u>\$ 4,817,720,971</u>	<u>\$ 101,655,751</u>

See accompanying independent auditor's report and notes to unaudited supplementary schedule of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Bond Expenditures
Period from March 2, 2004 (inception) to June 30, 2019
(Unaudited)

(1) Background

The unaudited supplementary schedule of bond expenditures presents expenditures of the Measure R School Bond Construction Program for the period from March 2, 2004 (inception) through June 30, 2019.

(2) Basis of Presentation

The accompanying unaudited supplementary schedule of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The accompanying unaudited supplementary schedule of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting. The Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39) requires an annual, independent audit of the expenditures of proceeds from the sale of school facilities bonds until all of the proceeds have been expended. Accordingly, the unaudited supplementary schedule of bond expenditures includes all amounts expended using bond proceeds regardless of expenditure types, from inception.

a) Adjusted Budget

The amounts included within the adjusted budget column in the accompanying unaudited supplementary schedule of bond expenditures represent the prior year expenditures from March 2, 2004 (inception) through June 30, 2018 and fiscal year 2018-19 budget authority requested from the Board of Education for costs that are expected to be expended and/or obligated to complete the various projects.

b) Actual Expenditures Incurred

The amounts included within the actual expenditures incurred columns in the accompanying unaudited supplementary schedule of bond expenditures represent actual expenditures paid and accrued by the District for the period from March 2, 2004 (inception) through June 30, 2019, adjusted by discounts received from the vendors. The actual expenditure amounts included expenditures of bond proceeds, reimbursements of bond proceeds, and interest earned on the bond proceeds and reimbursements.

c) Unexpended Balance

The amounts included within the unexpended balance column in the accompanying unaudited supplementary schedule of bond expenditures represent the difference between the adjusted budget column and the total expenditures through June 30, 2019 column.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Bond Expenditures
Period from March 2, 2004 (inception) to June 30, 2019
(Unaudited)

d) Cost Category

The major cost categories in the unaudited supplementary schedule of bond expenditures from inception for Measure R represent bond programs funded by the bond. The cost category “Indirects” refer to all expenditures that should not or cannot be reasonably attributed to individual projects.

An example of “Indirect” cost is program management. Program management includes program-level support costs for staff members of the Facilities Executive Office and Facilities Services Division (FSD) branches as well as non FSD support which includes costs of support staff outside of FSD charged to the bond program, such as the Office of the General Counsel, Accounts Payable, and Risk Management.

(3) Other Financing Uses

Transfers Out and Other Financing Uses (OFU) represent financial accounting transfers of bond proceeds (inter-fund transactions of revenue) from the bond fund to other funds for approved financing uses of bond funds. One example is reimbursement of prior year bond eligible capital expenditures in the general fund. For cost accounting purposes when project tracking is required, these transfers are represented as project expenditures in the bond fund.

(4) Other Costs – Category Change

The Office of Chief Financial Officer Cost Category within Other Costs presented in the fiscal year 2018-19 Statement of Bond Expenditures was previously presented in fiscal year 2017-18 as the Office of Bond Compliance.

The Statement of Bond Expenditures has been updated to reflect this change.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM**

MEASURE Y

**STATEMENT OF BOND EXPENDITURES
AND SUPPLEMENTARY SCHEDULES AS OF
JUNE 30, 2019**

**(WITH INDEPENDENT AUDITOR'S REPORT
THEREON)**



LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM
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Independent Auditor's Report

The Honorable Board of Education and
School Construction Bond Citizens' Oversight Committee
Los Angeles Unified School District:

We have audited the accompanying statement of bond expenditures (Statement) of the **Measure Y School Bond Construction Program** of the Los Angeles Unified School District (the District) for the year ended June 30, 2019 and the related notes to the Statement.

Management's Responsibility for the Statement of Bond Expenditures

Management is responsible for the preparation and fair presentation of the Statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures of the Measure Y School Bond Construction Program of the Los Angeles Unified School District for the year ended June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As described in note 2 to the statement of bond expenditures, the accompanying statement of bond expenditures was prepared to comply with the requirements of California's Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act*.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the statement of bond expenditures of the Measure Y School Bond Construction Program of the Los Angeles Unified School District. The accompanying supplementary schedule of sources and uses of funds and fund balance and supplementary schedule of bond expenditures for the period from November 8, 2005 (inception) to June 30, 2019 (Supplementary Schedules), are presented for purposes of additional analysis, and are not a required part of the statement of bond expenditures.

The Supplementary Schedules have not been subjected to the auditing procedures applied in the audit of the statement of bond expenditures, and accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
February 20, 2020

**LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM**

Statement of Bond Expenditures
Year Ended June 30, 2019

Cost Category	2019
Facilities Services Division (FSD) Capital Programs	
New Construction	\$ 6,766,410
School Modernization	21,623,526
Information Technology Network Upgrade	(36,535)
Adult and Career Education	804,970
Early Childhood Education	(358)
Charter Schools	8,198
Indirects	4,938
Total FSD Capital Programs	29,171,149
Information Technology Division (ITD) Capital Programs	
Classroom Technology Modernization	2,162,708
School Network Modernization	256,076
Safety, Communications and Security Modernization	(10,892)
Total ITD Capital Programs	2,407,892
Transportation (Buses)	24,389
Total Transportation (Buses)	24,389
Library Services	24,205
Total Library Services	24,205
Total Expenditures, June 30, 2019	\$ 31,627,635

See accompanying notes to statement of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Year Ended June 30, 2019

(1) Measure Y School Bond Construction Program Background

The Measure Y School Bond Construction Program (Program) or "the Safe and Healthy Neighborhood Schools Repair and Construction Measure of 2005" approved by the voters under California Proposition 39, known as the *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39), is intended to provide the Los Angeles Unified School District (District) funding to continue the repair and modernization of existing schools, replace bungalows with permanent classrooms, abate asbestos hazards, upgrade fire and safety systems, expand early education facilities, and provide sufficient core facilities at hundreds of schools.

The Board of Education has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of the Program's bond issuances are used for the purposes stated in the resolution, which placed Measure Y on the 2005 ballot. The Measure Y School Bond initiative authorized the issuance of \$3.985 billion in bonds. \$3.73 billion has since been issued between November 2005 and June 2018. The proceeds from the Measure Y School Bonds are to be used for projects such as the following: build neighborhood schools; bungalow repair and removal; upgrade and redesign campuses to create smaller schools; install and upgrade fire alarm systems; undertake complete asbestos hazard removal program; air condition remaining non-air-conditioned buildings; perform school alterations and improvements; upgrade and reinforce computer networks, school information systems, and technology capability; upgrade emergency radio systems; build new and repair existing early education centers in neediest areas; promote alternative education models like joint use and small learning communities; build, plan, and equip charter schools; replace all special education buses; give low performing schools added resources to improve results; audit and oversight of bond projects; and open new schools with sufficient number of library books. All projects to be funded under the Program must be included in the Strategic Execution Plans (SEP) approved by the Board of Education. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for the Program. Such guidelines specifically state that no funds will be spent for teacher, administrator salaries or for operating expenses.

(2) Basis of Presentation

The accompanying statement of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The statement of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting. Prop 39 requires an annual, independent financial audit of the expenditures of proceeds from the sale of the school facilities bonds until all of the proceeds have been expended. Accordingly, the statement of bond expenditures includes all amounts expended using bond proceeds regardless of expenditure types.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Year Ended June 30, 2019

a) Actual Expenditures Incurred

The amounts included within the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the year ended June 30, 2019, adjusted by discounts received from the vendors. The actual expenditure amounts included expenditures of bond proceeds, reimbursements of bond proceeds, and interest earned on the bond proceeds and reimbursements.

b) Cost Category

The major cost categories in the statement of bond expenditures for Measure Y represent bond programs funded by the bond. The cost category “Indirects” refer to all expenditures that should not or cannot be reasonably attributed to individual projects.

An example of “Indirect” cost is program management. Program management includes program-level support costs for staff members of the Facilities Executive Office and Facilities Services Division (FSD) branches as well as non FSD support which includes costs of support staff outside of FSD charged to the bond program, such as the Office of the General Counsel, Accounts Payable, and Risk Management.

UNAUDITED SUPPLEMENTARY SCHEDULES

**LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM**

Unaudited Supplementary Schedule of Sources and Uses of Funds and Fund Balance
Period from November 8, 2005 (Inception) to June 30, 2019
(Unaudited)

Sources of Funds from Inception through June 30, 2019:

Bonds Issued - FY 2005-06 through FY 2016-17	\$ 3,602,850,000
Bond Issued - FY 2017-18	130,000,000
Adjustments - Bond Premium, net of Cost of Issuance (COI) FY 2005-06	6,614,884
Adjustments - COI/Underwriter's Discount FY 2008-09	(667,495)
Interest Income - FY 2005-06 through FY 2017-18	101,035,951
Interest Income - FY 2018-19	1,225,045
Local Income - FY 2007-08 through FY 2015-16	37,038,000
Transfers In (Reimbursements) - Other Financing Sources (OFS) FY 2005-06 through FY 2017-18	515,236,753
Transfers In (Reimbursements) - OFS FY 2018-19	15,085,820
Total Sources of Funds, June 30, 2019	\$ 4,408,418,958
Uses of Funds (Expenditures) from Inception through June 30, 2019	(4,357,547,374)
Fund Balance, June 30, 2019	\$ 50,871,584

Notes to Schedule:

Other Financing Sources

Transfers In and Other Financing Sources (OFS) represent financial accounting transfers of resources to the bond fund from other funds, such as: the general fund, special reserve fund, or county school facilities (state) fund. The primary example is when a project uses bond funds in place of approved state funding until the state funding has been received. Upon receipt of state funding the bond fund is reimbursed from the state fund. For cost accounting purposes when project tracking is required, these transfers are represented as project expenditures in the state or other fund. Project expenditures are credited in the project's bond resource and debited to the projects state resource.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM
 Unaudited Supplementary Schedule of Bond Expenditures
 Period from November 8, 2005 (Inception) to June 30, 2019
 (Unaudited)

Cost Category	Adjusted Budget	Actual Expenditures Incurred			Unexpended / Over-expended Balance
		November 8, 2005 (Inception) through June 30, 2018	Expenditures Year Ended June 30, 2019	Total Expenditures through June 30, 2019	
Facilities Services Division (FSD)					
New Construction	\$ 2,364,262,660	\$ 2,344,342,898	\$ 6,766,410	\$ 2,351,109,308	\$ 13,153,352
School Modernization	1,055,931,042	1,026,935,872	21,623,526	1,048,559,398	7,371,644
Information Technology Network Upgrade	165,294,210	163,873,189	(36,535)	163,836,654	1,457,556
Adult and Career Education	70,485,965	67,276,033	804,970	68,081,003	2,404,962
Early Childhood Education	32,000,000	31,784,833	(358)	31,784,475	215,525
Charter Schools	50,000,000	47,288,127	8,198	47,296,325	2,703,675
Indirects	17,196,022	16,211,302	4,938	16,216,240	979,782
Total FSD Capital Programs	<u>3,755,169,899</u>	<u>3,697,712,254</u>	<u>29,171,149</u>	<u>3,726,883,403</u>	<u>28,286,496</u>
Information Technology Division (ITD)					
Virtual Learning Complex Planning	2,030,131	1,878,689	-	1,878,689	151,442
Classroom Technology Modernization	20,557,965	18,326,381	2,162,708	20,489,089	68,876
School Network Modernization	133,192,104	123,874,243	256,076	124,130,319	9,061,785
Safety, Communications and Security Modernization	30,316,963	20,091,050	(10,892)	20,080,158	10,236,805
Total ITD Capital Programs	<u>186,097,163</u>	<u>164,170,363</u>	<u>2,407,892</u>	<u>166,578,255</u>	<u>19,518,908</u>
Transportation (Buses)					
Total Transportation (Buses)	<u>25,000,000</u>	<u>23,648,437</u>	<u>24,389</u>	<u>23,672,826</u>	<u>1,327,174</u>
Library Services					
Total Library Services	<u>5,000,000</u>	<u>3,909,537</u>	<u>24,205</u>	<u>3,933,742</u>	<u>1,066,258</u>
Other Costs					
Employee Benefits and Other Post-Employment Benefits (OPEB)	25,280,723	25,280,723	-	25,280,723	-
Cost of Issuance	8,553,710	8,553,710	-	8,553,710	-
Office of Chief Financial Officer	2,828,497	2,155,766	-	2,155,766	672,731
Office of Inspector General	17,000,000	16,999,983	-	16,999,983	17
Total Other Costs	<u>53,662,930</u>	<u>52,990,182</u>	<u>-</u>	<u>52,990,182</u>	<u>672,748</u>
Other Financing Uses					
COPs Defeasance: Transfers Out to Debt Service Fund	193,738,416	193,738,416	-	193,738,416	-
COPS Defeasance Cafeteria: Transfers Out to Special Reserve Fund Capital Outlay	20,554,147	20,554,147	-	20,554,147	-
COPS Defeasance ISIS: Transfers Out to Special Reserve Fund Capital Outlay	12,663,712	12,663,712	-	12,663,712	-
CIPR Cafeteria: Transfers Out to Cafeteria Fund	4,999,580	4,999,580	-	4,999,580	-
Buses: Transfer Out to General Fund Restricted	3,460,803	3,460,803	-	3,460,803	-
CIPR Integrated Student Information Systems (ISIS): Transfers Out to General Fund Restricted	26,400,000	26,400,000	-	26,400,000	-
Deferred Maintenance Match: Transfers Out to General Fund Restricted	120,000,000	120,000,000	-	120,000,000	-
Transfers Out to General Fund	1,672,308	1,672,308	-	1,672,308	-
Total Other Financing Uses	<u>383,488,966</u>	<u>383,488,966</u>	<u>-</u>	<u>383,488,966</u>	<u>-</u>
Total Measure Y Bond Expenditures	<u>\$ 4,408,418,958</u>	<u>\$ 4,325,919,739</u>	<u>\$ 31,627,635</u>	<u>\$ 4,357,547,374</u>	<u>\$ 50,871,584</u>

See accompanying independent auditor's report and notes to unaudited supplementary schedule of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Bond Expenditures
Period from November 8, 2005 (inception) to June 30, 2019
(Unaudited)

(1) Background

The unaudited supplementary schedule of bond expenditures presents expenditures of the Measure Y School Bond Construction Program for the period from November 8, 2005 (inception) through June 30, 2019.

(2) Basis of Presentation

The accompanying unaudited supplementary schedule of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The accompanying unaudited supplementary schedule of bond expenditures from inception reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting. The Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39) requires an annual, independent audit of the expenditures of proceeds from the sale of school facilities bonds until all of the proceeds have been expended. Accordingly, the unaudited supplementary schedule of bond expenditures includes all amounts expended using bond proceeds regardless of expenditure types, from inception.

a) Adjusted Budget

The amounts included within the adjusted budget column in the accompanying unaudited supplementary schedule of bond expenditures from inception represent the prior year expenditures from November 8, 2005 (inception) through June 30, 2018 and fiscal year 2018-19 budget authority requested from the Board of Education for costs that are expected to be expended and/or obligated to complete the various projects.

b) Actual Expenditures Incurred

The amounts included within the actual expenditures incurred columns in the accompanying unaudited supplementary schedule of bond expenditures from inception represent actual expenditures paid and accrued by the District for the period from November 8, 2005 (inception) through June 30, 2019, adjusted by discounts received from the vendors. The actual expenditure amounts included expenditures of bond proceeds, reimbursements of bond proceeds, and interest earned on the bond proceeds and reimbursements.

c) Unexpended Balance

The amounts included within the fund balance column in the accompanying unaudited supplementary schedule of bond expenditures from inception represent the difference between the adjusted budget column and the total expenditures through June 30, 2019 column.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Bond Expenditures
Period from November 8, 2005 (inception) to June 30, 2019
(Unaudited)

d) Cost Category

The major cost categories in the unaudited supplementary schedule of bond expenditures from inception for Measure Y represent bond programs funded by the bond. The cost category “Indirects” refer to all expenditures that should not or cannot be reasonably attributed to individual projects.

An example of “Indirect” cost is program management. Program management includes program-level support costs for staff members of the Facilities Executive Office and Facilities Services Division (FSD) branches as well as non FSD support which includes costs of support staff outside of FSD charged to the bond program, such as the Office of the General Counsel, Accounts Payable, and Risk Management.

(3) Other Financing Uses

Transfers Out and Other Financing Uses (OFU) represent financial accounting transfers of bond proceeds (inter-fund transactions of revenue) from the bond fund to other funds for approved financing uses of bond funds. One example is reimbursement of prior year bond eligible capital expenditures in the general fund. For cost accounting purposes when project tracking is required, these transfers are represented as project expenditures in the bond fund.

(5) Other Costs – Category Change

The Office of Chief Financial Officer Cost Category within Other Costs presented in the fiscal year 2018-19 Statement of Bond Expenditures was previously presented in fiscal year 2017-18 as the Office of Bond Compliance.

The Statement of Bond Expenditures has been updated to reflect this change.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM**

MEASURE Q

**STATEMENT OF BOND EXPENDITURES
AND SUPPLEMENTARY SCHEDULES AS OF
JUNE 30, 2019**

**(WITH INDEPENDENT AUDITOR'S REPORT
THEREON)**



LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Q SCHOOL BOND CONSTRUCTION PROGRAM
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Independent Auditor's Report

The Honorable Board of Education and
School Construction Bond Citizens' Oversight Committee
Los Angeles Unified School District:

We have audited the accompanying statement of bond expenditures (Statement) of the **Measure Q School Bond Construction Program** of the Los Angeles Unified School District (the District) for the year ended June 30, 2019 and the related notes to the Statement.

Management's Responsibility for the Statement of Bond Expenditures

Management is responsible for the preparation and fair presentation of the Statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures of the Measure Q School Bond Construction Program of the Los Angeles Unified School District for the year ended June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As described in note 2 to the statement of bond expenditures, the accompanying statement of bond expenditures was prepared to comply with the requirements of California's Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act*.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the statement of bond expenditures of the Measure Q School Bond Construction Program of the Los Angeles Unified School District. The accompanying supplementary schedule of sources and uses of funds and fund balance and supplementary schedule of bond expenditures for the period from November 4, 2008 (inception) to June 30, 2019 (Supplementary Schedules), are presented for purposes of additional analysis, and are not a required part of the statement of bond expenditures.

The Supplementary Schedules have not been subjected to the auditing procedures applied in the audit of the statement of bond expenditures, and accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
February 20, 2020

**LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Q SCHOOL BOND CONSTRUCTION PROGRAM**

Statement of Bond Expenditures
Year Ended June 30, 2019

Cost Category	2019
Facilities Services Division (FSD) Capital Programs	
New Construction	\$ 15,177,758
School Modernization	440,375,638
Adult and Career Education	10,750,981
Early Childhood Education	3,830,887
Charter Schools	38,061,792
Indirects	52,587,451
Total FSD Capital Programs	560,784,507
Information Technology Division (ITD) Capital Programs	
Classroom Technology Modernization	5,096,301
School Network Modernization	1,014,693
Safety, Communications and Security Modernization	446,124
My Integrated Student Information System	6,228,819
Disaster Recovery & Business Continuity	5,182,463
Enterprise Software Systems	16,133,057
Total ITD Capital Programs	34,101,457
Other Costs	
Office of Chief Financial Officer	849,889
Office of the Inspector General	3,518,570
Total Other Costs	4,368,459
Other Financing Uses	
Transfers Out to General Fund - Transportation (Buses)	3,477,729
Total Other Financing Uses	3,477,729
Total Expenditures and Other Uses, June 30, 2019	\$ 602,732,152

See accompanying notes to statement of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Q SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Year Ended June 30, 2019

(1) Measure Q School Bond Construction Program Background

The Measure Q School Bond Construction Program (Program) or "the Safe and Healthy Neighborhood Schools Repair and Construction Measure of 2008" approved by the voters under California Proposition 39, known as the *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39), is intended to provide the Los Angeles Unified School District (District) funding to continue the repair and modernization of existing schools, replace bungalows with permanent classrooms, abate asbestos hazards, upgrade fire and safety systems, expand early education facilities, and provide sufficient core facilities at hundreds of schools.

The Board of Education has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of the Program's bond issuances are used for the purposes stated in the resolution, which placed Measure Q on the 2008 ballot. The Measure Q School Bond initiative authorized the issuance of \$7.0 billion in bonds. \$1.87 billion has since been issued between November 2008 and June 2018. The proceeds from the Measure Q School Bonds are to be used for projects such as the following: build neighborhood schools; bungalow repair and removal; upgrade and redesign campuses to create smaller schools; install and upgrade fire alarm systems; undertake complete asbestos hazard removal program; air condition remaining non-air-conditioned buildings; perform school alterations and improvements; upgrade and reinforce computer networks, school information systems, and technology capability; upgrade emergency radio systems; build new and repair existing early education centers in neediest areas; promote alternative education models like joint use and small learning communities; build, plan, and equip charter schools; replace all special education buses; give low performing schools added resources to improve results; audit and oversight of bond projects; and open new schools with sufficient number of library books. All projects to be funded under the Program must be included in the Strategic Execution Plans (SEP) approved by the Board of Education. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for the Program. Such guidelines specifically state that no funds will be spent for teacher, administrator salaries or for operating expenses.

(2) Basis of Presentation

The accompanying statement of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The statement of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting. Prop 39 requires an annual, independent financial audit of the expenditures of proceeds from the sale of the school facilities bonds until all of the proceeds have been expended. Accordingly, the statement of bond expenditures includes all amounts expended using bond proceeds regardless of expenditure types.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Q SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Year Ended June 30, 2019

a) Actual Expenditures Incurred

The amounts included within the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the year ended June 30, 2019, adjusted by discounts received from the vendors. The actual expenditure amounts included expenditures of bond proceeds, reimbursements of bond proceeds, and interest earned on the bond proceeds and reimbursements.

b) Cost Category

The major cost categories in the statement of bond expenditures for Measure Q represent bond programs funded by the bond. The cost category “Indirects” refer to all expenditures that should not or cannot be reasonably attributed to individual projects.

An example of “Indirect” cost is program management. Program management includes program-level support costs for staff members of the Facilities Executive Office and Facilities Services Division (FSD) branches as well as non FSD support which includes costs of support staff outside of FSD charged to the bond program, such as the Office of the General Counsel, Accounts Payable, and Risk Management.

(3) Other Financing Uses

Transfers Out and Other Financing Uses (OFU) represent financial accounting transfers of bond proceeds (inter-fund transactions of revenue) from the bond fund to other funds for approved financing uses of bond funds. One example is reimbursement of prior year bond eligible capital expenditures in the general fund. For cost accounting purposes when project tracking is required, these transfers are represented as project expenditures in the bond fund.

(4) Other Costs – Category Change

The Office of Chief Financial Officer Cost Category within Other Costs presented in the fiscal year 2018-19 Statement of Bond Expenditures was previously presented in fiscal year 2017-18 as the Office of Bond Compliance.

The Statement of Bond Expenditures has been updated to reflect this change.

UNAUDITED SUPPLEMENTARY SCHEDULES

**LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Q SCHOOL BOND CONSTRUCTION PROGRAM**

Unaudited Supplementary Schedule of Sources and Uses of Funds and Fund Balance
Period from November 4, 2008 (Inception) to June 30, 2019
(Unaudited)

Sources of Funds from Inception through June 30, 2019:	
Bonds Issued - FY 2015-16	\$ 648,955,000
Bonds Issued - FY 2017-18	1,220,000,000
Interest Income - FY 2005-06 through FY 2017-18	11,978,052
Interest Income - FY2018-19	17,797,674
Local Income - FY 2015-16	1,196,948
Local Income - FY 2018-19	13,387
Transfers In (Reimbursements) - Other Financing Sources (OFS) FY 2017-18	14,305,585
Transfers In (Reimbursements) OFS FY 2018-19	197,361,248
Total Sources of Funds, June 30, 2019	\$ 2,111,607,894
Uses of Funds (Expenditures) from Inception through June 30, 2019	(1,529,083,994)
Fund Balance, June 30, 2019	\$ 582,523,900

Note to Schedule:

Other Financing Sources

Transfers In and Other Financing Sources (OFS) represent financial accounting transfers of resources to the bond fund from other funds, such as: the general fund, special reserve fund, or county school facilities (state) fund. The primary example is when a project uses bond funds in place of approved state funding until the state funding has been received. Upon receipt of state funding the bond fund is reimbursed from the state fund. For cost accounting purposes when project tracking is required, these transfers are represented as project expenditures in the state or other fund. Project expenditures are credited in the project's bond resource and debited to the projects state resource.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Q SCHOOL BOND CONSTRUCTION PROGRAM
 Unaudited Supplementary Schedule of Bond Expenditures
 Period from November 4, 2008 (Inception) to June 30, 2019
 (Unaudited)

Cost Category	Adjusted Budget	Actual Expenditures Incurred		Unexpended Balance	
		November 4, 2008 (Inception) through June 30, 2018	Expenditures Year Ended June 30, 2019		Total Expenditures through June 30, 2019
Facilities Services Division (FSD)					
New Construction	\$ 64,240,459	\$ -	\$ 15,177,758	\$ 15,177,758	\$ 49,062,701
School Modernization	1,337,793,694	453,685,371	440,375,638	894,061,009	443,732,685
Adult and Career Education	16,832,264	5,192,635	10,750,981	15,943,616	888,648
Early Childhood Education	11,997,112	2,365,496	3,830,887	6,196,383	5,800,729
Charter Schools	48,007,252	4,955,282	38,061,792	43,017,074	4,990,178
Indirects	294,207,225	241,619,774	52,587,451	294,207,225	-
Total FSD Capital Programs	<u>1,773,078,006</u>	<u>707,818,558</u>	<u>560,784,507</u>	<u>1,268,603,065</u>	<u>504,474,941</u>
Information Technology Division (ITD)					
Classroom Technology Modernization	25,356,000	7,081,204	5,096,301	12,177,505	13,178,495
School Network Modernization	8,540,696	2,526,266	1,014,693	3,540,959	4,999,737
Safety, Communications and Security Modernizat	8,007,566	-	446,124	446,124	7,561,442
My Integrated Student Information System	119,971,097	110,345,839	6,228,819	116,574,658	3,396,439
Cafeteria Management System (CMS) - Point of Sale (POS) Technology Upgrade	6,300,000	4,821,356	-	4,821,356	1,478,644
Disaster Recovery & Business Continuity	47,878,366	29,296,586	5,182,463	34,479,049	13,399,317
Enterprise Software Systems	43,047,786	10,460,901	16,133,057	26,593,958	16,453,828
Total ITD Capital Programs	<u>259,101,511</u>	<u>164,532,152</u>	<u>34,101,457</u>	<u>198,633,609</u>	<u>60,467,902</u>
Other Costs					
Cost of Issuance	1,156,246	1,156,246	-	1,156,246	-
Office of Chief Financial Officer	12,740,237	2,243,231	849,889	3,093,120	9,647,117
Office of Inspector General	12,548,514	6,941,760	3,518,570	10,460,330	2,088,184
Total Other Costs	<u>26,444,997</u>	<u>10,341,237</u>	<u>4,368,459</u>	<u>14,709,696</u>	<u>11,735,301</u>
Other Financing Uses					
School Upgrade Program (SUP) Transfers Out to Cafeteria Fund - Upgrade Food Services Kitchen Equipment	483,380	483,380	-	483,380	-
Transfers Out to General Fund - Transportation (Buses)	22,500,000	13,176,515	3,477,729	16,654,244	5,845,756
Transfers Out to General Fund - Routine Restricted General Maintenance (RRGM)	30,000,000	30,000,000	-	30,000,000	-
Total Other Financing Uses	<u>52,983,380</u>	<u>43,659,895</u>	<u>3,477,729</u>	<u>47,137,624</u>	<u>5,845,756</u>
Total Measure Q Bond Expenditures	<u>\$ 2,111,607,894</u>	<u>\$ 926,351,842</u>	<u>\$ 602,732,152</u>	<u>\$ 1,529,083,994</u>	<u>\$ 582,523,900</u>

See accompanying independent auditor's report and notes to unaudited supplementary schedule of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Q SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Bond Expenditures
Period from November 4, 2008 (inception) to June 30, 2019
(Unaudited)

(1) Background

The unaudited supplementary schedule of bond expenditures presents expenditures of the Measure Q School Bond Construction Program for the period from November 4, 2008 (inception) through June 30, 2019.

(2) Basis of Presentation

The accompanying unaudited supplementary schedule of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The accompanying unaudited supplementary schedule of bond expenditures from inception reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting. The Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39) requires an annual, independent audit of the expenditures of proceeds from the sale of school facilities bonds until all of the proceeds have been expended. Accordingly, the unaudited supplementary schedule of bond expenditures includes all amounts expended using bond proceeds regardless of expenditure types, from inception.

a) Adjusted Budget

The amounts included within the adjusted budget column in the accompanying unaudited supplementary schedule of bond expenditures from inception represent the prior year expenditures from November 4, 2008 (inception) through June 30, 2018 and fiscal year 2018-19 budget authority requested from the Board of Education for costs that are expected to be expended and/or obligated to complete the various projects.

b) Actual Expenditures Incurred

The amounts included within the actual expenditures incurred columns in the accompanying unaudited supplementary schedule of bond expenditures from inception represent actual expenditures paid and accrued by the District for the period from November 4, 2008 (inception) through June 30, 2019, adjusted by discounts received from the vendors. The actual expenditure amounts included expenditures of bond proceeds, reimbursements of bond proceeds, and interest earned on the bond proceeds and reimbursements.

c) Unexpended Balance

The amounts included within the fund balance column in the accompanying unaudited supplementary schedule of bond expenditures represent the difference between the adjusted budget column and the total expenditures through June 30, 2019 column.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Q SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Bond Expenditures
Period from November 4, 2008 (inception) to June 30, 2019
(Unaudited)

d) Cost Category

The major cost categories in the unaudited supplementary schedule of bond expenditures from inception for Measure Q represent bond programs funded by the bond. The cost category “Indirects” refer to all expenditures that should not or cannot be reasonably attributed to individual projects.

An example of “Indirect” cost is program management. Program management includes program-level support costs for staff members of the Facilities Executive Office and Facilities Services Division (FSD) branches as well as non FSD support which includes costs of support staff outside of FSD charged to the bond program, such as the Office of the General Counsel, Accounts Payable, and Risk Management.

(3) Other Financing Uses

Transfers Out and Other Financing Uses (OFU) represent financial accounting transfers of bond proceeds (inter-fund transactions of revenue) from the bond fund to other funds for approved financing uses of bond funds. One example is reimbursement of prior year bond eligible capital expenditures in the general fund. For cost accounting purposes when project tracking is required, these transfers are represented as project expenditures in the bond fund.

(6) Other Costs – Category Change

The Office of Chief Financial Officer Cost Category within Other Costs presented in the fiscal year 2018-19 Statement of Bond Expenditures was previously presented in fiscal year 2017-18 as the Office of Bond Compliance.

The Statement of Bond Expenditures has been updated to reflect this change.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
JUNE 30, 2019**



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
June 30, 2019**

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FOUNDING PARTNERS
BRANARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

Independent Auditor’s Report

The Honorable Board of Education and
School Construction Bond Citizens’ Oversight Committee
Los Angeles Unified School District

We have conducted a performance audit of the Los Angeles Unified School District’s (the District), **Measure K School Bond Construction Program** for the year ended June 30, 2019.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

Our audit was limited to the objective listed on page 4 of this report which includes determining the District’s compliance with the performance requirements for the Proposition 39 Measure K General Obligation Bonds and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District’s compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District’s internal control to determine if the internal controls were adequate to help ensure the District’s compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

The results of our tests indicated that the District expended Measure K School Bond Construction Program funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Los Angeles, California
February 20, 2020



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
LEGISLATIVE HISTORY
June 30, 2019**

On November 7, 2000, California voters approved Proposition 39, the *Smaller Classes, Safer Schools and Financial Accountability Act*. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, “for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities”, upon approval by 55% of the electorate. Additional accountability measures, as stipulated in Education Code Section 15278 – 15282, and 15286, are as follows:

1. A requirement that the school district establish and appoint members to an independent citizens’ oversight committee.
2. A requirement that the proceeds from the sale of the bonds be used only for the purposes described in Article XIII A, Section 1(b)(3)(A) of the California Constitution, and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenses.
3. A requirement that the school district list the specific school facilities projects to be funded and certification that the school district board has evaluated safety, class size reduction, and information technology needs in developing that list.
4. A requirement that the school district conduct an annual independent performance audit, in accordance with Government Auditing Standards issued by the Comptroller General of the United States, required by Article XIII A, Section 1(b)(3)(C) of the California Constitution, ensuring that the funds have been expended only on the specific projects listed.
5. A requirement that the school district conduct an annual independent financial audit, in accordance with Government Auditing Standards issued by the Comptroller General of the United States, required by Article XIII A, Section 1(b)(3)(D) of the California Constitution, of the proceeds from the sale of the bonds until all of those proceeds have been expended for the school facilities projects.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
MEASURE K GENERAL OBLIGATION BONDS
June 30, 2019**

The Measure K School Bond Construction Program (Measure K) approved by the voters under California Proposition 39, known as the *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39), is intended to provide the Los Angeles Unified School District (the District) funding for continued improvements to schools and to build new neighborhood schools that will provide an additional 112,000 new seats for children. Additionally, the Program has set funds aside for improving the neighboring communities by enhancing recreational activities and providing after-school space by constructing new schools, new parks and libraries.

The Board of Education (the Board) has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of the Measure K's bond issuances are used for the purposes stated in the Board Resolution (the Resolution), which placed Measure K on the 2002 ballot.

The proceeds from the Measure K School Bonds are to be used for projects such as:

- repairing leaky roofs,
- connecting classrooms to intranets and the internet,
- equipping libraries at new schools with the initial stock of new books, and
- construction of new schools and early education centers.

All projects to be funded under Measure K must be included in the Strategic Execution Plans (SEPs) approved by the Board. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for Measure K. Such guidelines specifically state that no funds will be spent for teacher, administrator salaries or for operating expenditures.

The Measure K initiative authorized the issuance of \$3.35 billion in bonds. \$3.35 billion has since been issued between February 2003 and June 2010. The bonds are included in the audited financial statements of the District.

The District tracks the financial activities related to Measure K in the District Bonds Fund. The District Bonds Fund are comprised of multiple funds in the District's Audited Annual Financial Report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
OBJECTIVE, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

OBJECTIVE OF THE AUDIT

The following represents the objective of our performance audit:

1. Bond Expenditures and Recordkeeping

Determine that the District expended Measure K funds for the year ended June 30, 2019 only for the purpose approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution.

The scope, methodology and conclusions of the above objective is enumerated in pages 5 through 9 of this report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
OBJECTIVE, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING

Objective

Determine that the District expended Measure K funds for the year ended June 30, 2019 only for the purpose approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Scope

The scope covers the period of July 1, 2018 to June 30, 2019. The population of expenditures tested includes object codes and specific projects associated with Measure K.

A total of \$139.8 million in expenditures were identified for fiscal year ended June 30, 2019, which consists of the following (thousands):

Non-Payroll Expenditures:	
Books and supplies	\$ 849
Services and other operating expenditures	8,165
Capital outlay	<u>20,255</u>
<i>Total non-payroll expenditures</i>	<u>29,269</u>
Payroll Expenditures:	
Classified salaries	5,308
Employee benefits	<u>2,434</u>
<i>Total payroll expenditures</i>	<u>7,742</u>
Other Financing Uses:	
Transfers out	<u>102,744</u>
<i>Total other financing uses</i>	<u>102,744</u>
Total Measure K Expenditures per AAFR - District Bonds Fund	<u>\$ 139,755</u>

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
OBJECTIVE, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

a. Procedure Performed

We obtained a general ledger report prepared by the District detailing balances for all funds which made up the District Bonds Fund to reconcile the totals to the balances reported as of June 30, 2019 in the AAFR. We extracted from the general ledger report all activities pertaining to Measure K, Fund 213, as of June 30, 2019.

Conclusion

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

b. Procedures Performed

We selected a total of 30 individual invoices (sampled project expenditures) representing non-payroll expenditures amounting to \$8.9 million or 30% of the total population of non-payroll expenditures.

We obtained the original invoices and other relevant supporting documentation for expenditures sampled to determine compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure K's approved specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments. We performed the following procedures:

- i. Determined that the sampled project expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were consistent with the work scope of Measure K's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments.
- ii. Determined that the sampled project expenditures were not expended on school operating expenditures.
- iii. Verified that the appropriate District personnel had approved and reviewed all sampled project expenditures before payment was made.
- iv. Verified that corresponding projects or non-project allocations in each of the sampled project expenditures were included in the cumulative and various SEPs and amendments. For invoices which covered multiple projects, up to 5 projects were selected and tested.
- v. For sampled project expenditures representing Facilities Services Division (FSD) related construction payments, we verified construction project payment procedures had been met by testing the following:
 - The Contractor certified the Application for Payment by evidence of a signature.
 - The Owner Authorized Representative (OAR) certified that the services had been rendered by evidence of a signature.
 - The payment package included the Encumbrance/Payment request form, the Application for Payment, the Owner Assessment Summary, and other necessary supporting documents.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
OBJECTIVE, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

Conclusions

The results of our tests indicated that sampled non-payroll expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were not expended on school operating expenditures.

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

c. Procedures Performed

We selected a total of 17 employees' payroll expenditures (sampled employees) for the entire fiscal year amounting to \$64,888 of the total population of payroll expenditures. We performed the following procedures:

- i. Determined that the sampled employees' payroll expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were consistent with the work scope of Measure K's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments.
- ii. Verified, based on interviews with the sampled employees, the work conducted in connection with the time charged to Measure K was in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and was not related to teacher or school administrative activities.
- iii. Verified that the District maintained adequate time and effort reporting controls and procedures for regular review of appropriate charges to Measure K by testing the following:
 - Sampled employees working under FSD or Information Technology Division (ITD), who were Measure K funded classified employees, and tracked time in Colin, Maximo, Project Accounting Timetables Management (PATS), or custom forms on an internal order or project basis, or
 - Sampled employees Semi-Annual Certification Forms of Bond-Funded Work (Certification) were submitted to the Office of Chief Financial Officer's (CFO) Office of Capital Fund Compliance in accordance to District's Bulletin BUL-6521.1 dated July 1, 2016, for the entire fiscal year.
- iv. For employees whose submitted Certification with a "% of Regular Time Spent on Bond-Eligible Projects/Activities" under 100% or whose time was not tracked on a project basis, we determined that payroll expenditures were based on time associated with actual activities performed on Measure K, and not based on a predetermined budgeted rate/allocation, by reviewing supporting documentation to verify that payroll expenditures charged to Measure K were based on actual time spent on Measure K related activities.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
OBJECTIVE, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

Conclusions

The results of our tests indicated that the sampled payroll expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were not expended on teacher or school administrative activities.

The sampled employees maintained adequate time and effort reporting documents by either tracking time in Colin, Maximo, PATS, or custom forms on an internal order or project basis or submitting Semi-Annual Certifications of Bond-Funded Work.

Additionally, for employees whose submitted Certification with a “% of Regular Time Spent on Bond-Eligible Projects/Activities” under 100% or whose time was not tracked on a project basis, the results of our tests indicated that payroll expenditures were based on time associated with actual activities performed on Measure K, and not based on a predetermined budgeted rate/allocation, by reviewing supporting documentation which verified that payroll expenditures charged to Measure K were based on actual time spent on Measure K related activities.

d. Procedures Performed

We selected a total of 59 Transfers Out (sampled transfers) representing non-payroll expenditures.

We performed the following procedures:

- i. Determined that the sampled non-payroll project expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were consistent with the work scope of Measure K’s Resolution as presented to the voters and further defined by various Board approved SEPs and amendments, and not expended on school operating expenditures.
- ii. We reviewed the supporting documents for the transfers out and determined that the amounts expended were consistent with the Board approved SEPs and amendments or Board Report authorizing use of Measure K funds.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
OBJECTIVE, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

Conclusion

We identified a total of 3 out of the selected 59 sampled transfers represents non-payroll expenditures which originally were charged outside of Measure K and the District Bonds Fund, and therefore are subject to the above procedures. The remaining 56 sampled transfers represents transfers occurring in-between funds within the District Bonds Fund, and therefore is not subject to the above procedures.

The results of our tests indicated that sampled expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were not expended on school operating expenditures. Additionally, the amounts expended were consistent with the Board approved SEPs and amendments or Board Report authorizing use of Measure K funds.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019**

No matters were reported.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
June 30, 2019**

Procedure 4.2 – Payroll Expenditures - Semi-Annual Certifications

Results

Of the 48 employees sampled, we noted a total of 19 employees who reported time on Colin, Maximo, or SAP Controlling Module. We obtained their time charged throughout the fiscal year and confirmed they consistently reported their time.

We noted 29 employees who were required to submit a Certification to the CFO's Office of Capital Fund Compliance, per BUL-6521.1, for the time period of July 1, 2017 through December 31, 2017, and January 1, 2018 through June 30, 2018. Of the 58 forms over the 29 employees, we noted the following:

- 1 form covering 1 employee was not submitted as stipulated per BUL-6521.1.

Management Response

The CFO's Office of Capital Fund Compliance will continue to find ways of improving the process of notifying and reminding employees and supervisors of the requirement to submit Certifications in a timely manner.

Current Status

Implemented. The CFO's Office of Capital Fund Compliance notified the departments well in advance of the upcoming due dates for Certifications. The correspondence provided a listing of all the department's positions funded with Measure K.

To capture all the Measure K funded positions, the CFO's Office of Capital Fund Compliance generated a listing of all employees using payroll report BU44. This payroll report provided a comprehensive list of actual payroll charges whether it's regular, overtime or Z-time.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
JUNE 30, 2019**



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
June 30, 2019**

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Independent Auditor’s Report

The Honorable Board of Education and
School Construction Bond Citizens’ Oversight Committee
Los Angeles Unified School District

We have conducted a performance audit of the Los Angeles Unified School District’s (the District), **Measure R School Bond Construction Program** for the year ended June 30, 2019.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed on page 4 of this report which includes determining the District’s compliance with the performance requirements for the Proposition 39 Measure R General Obligation Bonds and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District’s compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District’s internal control to determine if the internal controls were adequate to help ensure the District’s compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

The results of our tests indicated that the District expended Measure R School Bond Construction Program funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Los Angeles, California
February 20, 2020



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
LEGISLATIVE HISTORY
June 30, 2019**

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, “for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities”, upon approval by 55% of the electorate. Additional accountability measures, as stipulated in Education Code Section 15278 – 15282, and 15286, are as follows:

1. A requirement that the school district establish and appoint members to an independent citizens’ oversight committee.
2. A requirement that the proceeds from the sale of the bonds be used only for the purposes described in Article XIII A, Section 1(b)(3)(A) of the California Constitution, and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenses.
3. A requirement that the school district list the specific school facilities projects to be funded and certification that the school district board has evaluated safety, class size reduction, and information technology needs in developing that list.
4. A requirement that the school district conduct an annual independent performance audit, in accordance with Government Auditing Standards issued by the Comptroller General of the United States, required by Article XIII A, Section 1(b)(3)(C) of the California Constitution, ensuring that the funds have been expended only on the specific projects listed.
5. A requirement that the school district conduct an annual independent financial audit, in accordance with Government Auditing Standards issued by the Comptroller General of the United States, required by Article XIII A, Section 1(b)(3)(D) of the California Constitution, of the proceeds from the sale of the bonds until all of those proceeds have been expended for the school facilities projects.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
MEASURE R GENERAL OBLIGATION BONDS
June 30, 2019**

The Measure R School Bond Construction Program (Measure R) or "the Safe and Healthy Neighborhood Schools Repair and Construction Measure of 2004" approved by the voters under California Proposition 39, known as the *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39), is intended to provide the Los Angeles Unified School District (the District) funding for continued improvement to schools and to provide an additional 163,233 new seats for children and to build approximately 50 new neighborhood schools.

The Board of Education (the Board) has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of the Measure R's bond issuances are used for the purposes stated in the Board Resolution (the Resolution), which placed Measure R on the 2004 ballot.

The proceeds from the Measure R School Bonds are to be used for projects such as:

- continue repair/upgrade of aging classrooms, restrooms;
- build neighborhood schools, early education centers;
- improve security systems, fire/earthquake safety;
- purchase library books;
- upgrade computer technology;
- eliminate asbestos and lead paint hazards;
- create small learning communities; and
- construct/upgrade science laboratories and other buildings.

All projects to be funded under Measure R must be included in the Strategic Execution Plans (SEPs) approved by the Board. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for Measure R. Such guidelines specifically state that no funds will be spent for teacher, administrator salaries or for operating expenditures.

The Measure R initiative authorized the issuance of \$3.87 billion in bonds. \$3.710 billion has since been issued between March 2004 and June 2015. The bonds are included in the audited financial statements of the District.

The District tracks the financial activities related to Measure R in the District Bonds Fund. The District Bonds Fund are comprised of multiple funds in the District's Audited Annual Financial Report (AAFR).

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

OBJECTIVES OF THE AUDIT

The following represents the objectives of our performance audit:

1. Bond Expenditures and Recordkeeping

Determine that the District expended Measure R funds for the year ended June 30, 2019 only for the purpose approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution.

2. Procurement of Construction Contracts

Determine that the District procured the Construction Contract in accordance with the District's Operational Standards Policies & Procedures and Desk-Top Procedures for Facilities Contracts.

The scope, methodology and conclusions of the above objectives are enumerated in pages 5 through 10 of this report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING

Objective

Determine that the District expended Measure R funds for the year ended June 30, 2019 only for the purpose approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Scope

The scope covers the period of July 1, 2018 to June 30, 2019. The population of expenditures tested includes object codes and specific projects associated with Measure R.

A total of \$56.3 million in expenditures were identified for fiscal year ended June 30, 2019, which consists of the following (thousands):

Non-Payroll Expenditures:	
Books and supplies	\$ 112
Services and other operating expenditures	(3,996)
Capital outlay	40,005
<i>Total non-payroll expenditures</i>	36,121
Payroll Expenditures:	
Classified salaries	2,131
Employee benefits	991
<i>Total payroll expenditures</i>	3,122
Other Financing Uses:	
Transfers out	17,093
<i>Total other financing uses</i>	17,093
Total Measure R Expenditures per AAFR - District Bonds Fund	\$ 56,336

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

a. Procedure Performed

We obtained a general ledger report prepared by the District detailing balances for all funds which made up the District Bonds Fund to reconcile the totals to the balances reported as of June 30, 2019 in the AAFR. We extracted from the general ledger report all activities pertaining to Measure R, Fund 210, as of June 30, 2019.

Conclusion

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

b. Procedures Performed

We selected a total of 79 individual invoices (sampled project expenditures) representing non-payroll expenditures amounting to \$23.9 million or 66% of the total population of non-payroll expenditures.

We obtained the original invoices and other relevant supporting documentation for expenditures sampled to determine compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure R's approved specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments. We performed the following procedures:

- i. Determined that the sampled project expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were consistent with the work scope of Measure R's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments.
- ii. Determined that the sampled project expenditures were not expended on school operating expenditures.
- iii. Verified that the appropriate District personnel had approved and reviewed all sampled project expenditures before payment was made.
- iv. Verified that corresponding projects or non-project allocations in each of the sampled project expenditures were included in the cumulative and various SEPs and amendments. For invoices which covered multiple projects, up to 5 projects were selected and tested.
- v. For sampled project expenditures representing Facilities Services Division (FSD) related construction payments, we verified construction project payment procedures had been met by testing the following:
 - The Contractor certified the Application for Payment by evidence of a signature.
 - The Owner Authorized Representative (OAR) certified that the services had been rendered by evidence of a signature.
 - The payment package included the Encumbrance/Payment request form, the Application for Payment, the Owner Assessment Summary, and other necessary supporting documents.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

Conclusions

The results of our tests indicated that sampled non-payroll expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were not expended on school operating expenditures.

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

c. Procedures Performed

We selected a total of 25 employees' payroll expenditures (sampled employees) for the entire fiscal year amounting to \$627,564 or 22% of the total population of payroll expenditures. We performed the following procedures:

- i. Determined that the sampled employees' payroll expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were consistent with the work scope of Measure R's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments.
- ii. Verified, based on interviews with the sampled employees, the work conducted in connection with the time charged to Measure R was in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and was not related to teacher or school administrative activities.
- iii. Verified that the District maintained adequate time and effort reporting controls and procedures for regular review of appropriate charges to Measure R by testing the following:
 - Sampled employees working under FSD or Information Technology Division (ITD), who were Measure R funded classified employees, and tracked time in Colin, Maximo, Project Accounting Timetables Management (PATS), or custom forms on an internal order or project basis, or
 - Sampled employees Semi-Annual Certification Forms of Bond-Funded Work (Certification) were submitted to the Office of Chief Financial Officer's (CFO) Office of Capital Fund Compliance in accordance to District's Bulletin BUL-6521.1 dated July 1, 2016, for the entire fiscal year.
- iv. For employees whose submitted Certification with a "% of Regular Time Spent on Bond-Eligible Projects/Activities" under 100% or whose time was not tracked on a project basis, we determined that payroll expenditures were based on time associated with actual activities performed on Measure R, and not based on a predetermined budgeted rate/allocation, by reviewing supporting documentation to verify that payroll expenditures charged to Measure R were based on actual time spent on Measure R related activities.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

Conclusions

The results of our tests indicated that the sampled payroll expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were not expended on teacher or school administrative activities.

Additionally, the sampled employees maintained adequate time and effort reporting documents by either tracking time in Colin, Maximo, PATS, or custom forms on an internal order or project basis or submitting Semi-Annual Certifications of Bond-Funded Work.

We identified two instances of non-compliance with Procedure (c)(iv). Refer to finding **MR-2019-001** in the Schedule of Findings and Responses for further details.

d. Procedures Performed

We selected a total of 37 Transfers Out (sampled transfers) representing non-payroll expenditures.

We performed the following procedures:

- i. Determined that the sampled non-payroll project expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were consistent with the work scope of Measure R's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments, and not expended on school operating expenditures.
- ii. We reviewed the supporting documents for the transfers out and determined that the amounts expended were consistent with the Board approved SEPs and amendments or Board Report authorizing use of Measure R funds.

Conclusion

We identified a total of 2 out of the selected 37 sampled transfers represents non-payroll expenditures which originally were charged outside of Measure R and the District Bonds Fund, and therefore are subject to the above procedures. The remaining 35 sampled transfers represents transfers occurring in-between funds within the District Bonds Fund, and therefore is not subject to the above procedures. The results of our tests indicated that sampled expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were not expended on school operating expenditures. Additionally, the amounts expended were consistent with the Board approved SEPs and amendments or Board Report authorizing use of Measure R funds.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

2. PROCUREMENT OF CONSTRUCTION CONTRACTS

Objective

Determine that the District procured Construction Contracts in accordance with the District's Operational Standards Policies & Procedures and Desk-Top Procedures for Facilities Contracts.

Scope

The scope covers Construction Contracts procured during the period of July 1, 2018 to June 30, 2019. The District procured a total of 2 Construction Contracts in which the original funding strategy source assigned was Measure R.

Procedures Performed

We selected 1 Construction Contract to determine the District procured the contract in accordance with the applicable requirements of the Operational Standards Policies & Procedures and Desk-Top Procedures for Facilities Contracts by testing the following:

- i. We verified that the bid was properly advertised by testing the following:
 - Request for Advertising of a Construction Project was submitted by the OAR and approved by authorized District officials.
 - Bid Advertisements were placed in the Los Angeles Daily Journal and bidding information was provided to various trade publications.
 - Bids were advertised for two consecutive weeks.
- ii. We verified that the contract was awarded to a prequalified bidder by testing the following:
 - The prequalified bidder was included in the List of Currently Prequalified Prime/General Contractors for Formal Competitively Bid Projects. Projects that did not require formally pre-qualified bidders were approved by the Acquisition Strategy Board (ASB).
 - The bid date (from the Request for Advertisement) was valid as of the effective date of the List of Currently Prequalified Prime/General Contractors for Formal Competitively Bid Projects.
- iii. We verified that the contract was awarded to the lowest responsive bidder pursuant to Public Contract Code Section 20103.8(b) by reviewing the following:
 - If the Pre-Bid Meeting was mandatory the sign in sheet/attendance sheet showed that the Bidder attended the Pre-Bid Meeting.
 - The required bid forms were submitted by the bidder along with their sealed bid (Bid and Acceptance Form, Bid Security Form, Certification Requirement, and Non-Collusion Affidavit).
 - At least 3 bidders responded to the advertisement (non-mandatory) or were among the attendees of the mandatory pre-bid meeting.
 - The contract was awarded to the lowest bidder as stated on the Tabulation of Bids Received by Facilities Construction Contracts. Lowest bid price is the lowest base bid without consideration of the prices on the additive or deductive bid items.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

2. PROCUREMENT OF CONSTRUCTION CONTRACTS *(continued)*

Procedures Performed *(continued)*

- iv. We verified that the award of the contract was properly executed.
 - The Contract Administrator (CA) prepared the Recommendation to Award (RTA) and signed-off that all bidding requirements were met and that the identified bidder was the lowest responsive and responsible bidder.
 - Facilities Construction Contracts (FCC) were forwarded the RTA (Exhibit L) to Facilities Procurement and Payment Services (FPPS) for funding verification and approval. The RTA under a Master Contract did not show the specific amount of the contract but rather the pre-encumbered minimum guarantee amount. This form showed the range (minimum to maximum) amount of the contract.
 - RTA was signed by the CA, the Director/Deputy Director (Delegated/Authorized signatories) and a copy was given to the OAR and/or Project Manager.
 - Notice of Intent to Award was transmitted to the Contractor with remaining requirements before the contract was awarded.
 - Within 10 days of receipt of Notice of Intent to Award, the awarded contractor picked-up the NOIA package, plans, and specification, including any addenda; enrolled in OCIP; and submitted the package to the FCC: (1) one executed original of the payment bond (2) one executed original of the performance bond (3) confirmation that bidder submitted the required paperwork to enroll in the Owner Controlled Insurance Program (OCIP). Certain contracts do not require OCIP and Advertisement because of the nature of the service rendered, such as "Emergency Asbestos Removal". In these cases, the contractor was required to provide a copy of their own insurance coverage.
- v. We verified that the contract award was properly authorized and approved by the Board.
- vi. We verified that the extract of Public Works Contract (PWC) Award was forwarded to the California Department of Industrial Relations - Division of Apprenticeship Standards.

Conclusion

The results of our tests indicated that the District procured the selected Construction Contract in accordance with the applicable requirements of the District's Operational Standards Policies & Procedures and Desk-Top Procedures for Facilities Contracts.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019**

MR-2019-001 – Payroll Expenditure Charges

Criteria

District departments seeking approval of the use of Bond Funds for personnel costs must submit justification to the CFO's Treasury and Bond Compliance Section. The justification includes the title and duties of the position, the percentage of the position's total personnel costs which will be Bond-Funded, and documentation supporting the stated percentage.

The CFO's Treasury and Bond Compliance Section is responsible for approving Bond-Funded positions by reviewing the submitted justification validating the need for the position and maintaining copies of the submitted supporting documentation.

A department whose employee submits a Certification which certifies a percent of regular time spent on Bond-Eligible Projects/Activities of under 100%, and whose time is not tracked on a project basis, must maintain supporting documentation verifying that the payroll expenditures charged to Measure R was based on actual time spent on Measure R related activities, and was not based on the original budgeted percentage included in the justification submitted to the CFO's Treasury and Bond Compliance Section.

Payroll expenditures charged to Measure R should be adjusted at the end of the year to reflect the actual time spent on Measure R related activities.

Condition

In conjunction with Objective 1, Procedure (c)(iv), out of the 55 employees sampled, we identified the following:

- Two employees submitted Certifications which certified a percentage of regular time spent on Bond-Eligible Projects/Activities of under 100% and whose time was not tracked on a project basis. The department did not maintain supporting documentation verifying that the payroll expenditures charged to Measure R was based on actual time spent on Measure R related activities. The percentage of regular time spent on Bond-Eligible Projects/Activities certified by the employees were consistent with the percentage of the employees total Measure R payroll charges during the fiscal year.

Cause and Effect

Department's whose employees submit a Certification which certifies a percent of regular time spent on Bond-Eligible Projects/Activities of under 100%, and whose time was not tracked on a project basis, do not appear to have a system in place to properly establish relevant metrics necessary to distinguish "overhead" or "indirect" duties amongst bond and non-bond activities. The inability to distinguish work performed on bond versus non-bond activities can lead to potential overcharges to Measure R.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019**

MR-2019-001 – Payroll Expenditure Charges *(continued)*

Recommendation

We recommend the following to the District:

- Establish policies and procedures to provide guidance to departments regarding the analysis of payroll expenditures charged to Measure R against actual time spent on Measure R related activities.
- Establish controls in place to properly track an employee's time who has been assigned to work both bond and non-bond activities.

Views of Responsible Officials and Planned Corrective Actions

The CFO's Treasury and Bond Compliance Section concurs with the recommendation.

The CFO's Treasury and Bond Compliance Section will review and update BUL-6521.1, Documentation for Bond-Funded Employees.

The CFO's Treasury and Bond Compliance Section will continue working with the different departments to ensure compliance with the requirements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
June 30, 2019**

Procedure 2.2 – Interfund Transfers - Semi-Annual Certifications

Results

We selected 10 employees who were required to submit a Certification to the CFO’s Office of Capital Fund Compliance, per BUL-6521.1, for the time period of July 1, 2017 through December 31, 2017, and January 1, 2018 through June 30, 2018. Of the 20 forms over the 10 employees, we noted the following:

- 1 form covering 1 employee was not signed by the employee’s supervisor as stipulated per BUL-6521.1.
- 4 forms covering 4 employees were signed and dated by the employee and supervisor after the stipulated due date per BUL-6521.1.

Management Response

The CFO’s Office of Capital Fund Compliance has revised its procedure of extracting data for employees requiring Certifications to include expenses budgeted in General Fund program codes and subsequently charged to Measure R through Interfund transfers.

Current Status

Implemented. The District has revised its procedure of extracting data for employees by including General Fund accounts in the extract for the Certification reminders, beginning with the reminders sent in January 2019.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE R
PERFORMANCE AUDIT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
June 30, 2019**

Procedure 4.2 – Payroll Expenditures - Semi-Annual Certifications

Results

Of the 48 employees sampled, we noted a total of 19 employees who reported time on Colin, Maximo, or SAP Controlling Module. We obtained their time charged throughout the fiscal year and confirmed they consistently reported their time.

We noted 29 employees who were required to submit a Certification to the CFO's Office of Capital Fund Compliance, per BUL-6521.1, for the time period of July 1, 2017 through December 31, 2017, and January 1, 2018 through June 30, 2018. Of the 58 forms over the 29 employees, we noted the following:

- 2 forms covering 2 employees were not submitted as stipulated per BUL-6521.1.

Management Response

The CFO's Office of Capital Fund Compliance will continue to find ways of improving the process of notifying and reminding employees and supervisors of the requirement to submit Certifications in a timely manner.

Current Status

Implemented. The CFO's Office of Capital Fund Compliance notified the departments well in advance of the upcoming due dates for Certifications. The correspondence provided a listing of all the department's positions funded with Measure R.

To capture all the Measure R funded positions, the CFO's Office of Capital Fund Compliance generated a listing of all employees using payroll report BU44. This payroll report provided a comprehensive list of actual payroll charges whether it's regular, overtime or Z-time.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
JUNE 30, 2019**



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
June 30, 2019**

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FOUNDING PARTNERS
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Independent Auditor’s Report

The Honorable Board of Education and
 School Construction Bond Citizens’ Oversight Committee
 Los Angeles Unified School District

We have conducted a performance audit of the Los Angeles Unified School District’s (the District), **Measure Y School Bond Construction Program** for the year ended June 30, 2019.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed on page 4 of this report which includes determining the District’s compliance with the performance requirements for the Proposition 39 Measure Y General Obligation Bonds and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District’s compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District’s internal control to determine if the internal controls were adequate to help ensure the District’s compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

The results of our tests indicated that the District expended Measure Y School Bond Construction Program funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Los Angeles, California
 February 20, 2020



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
LEGISLATIVE HISTORY
June 30, 2019**

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, “for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities”, upon approval by 55% of the electorate. Additional accountability measures, as stipulated in Education Code Section 15278 – 15282, and 15286, are as follows:

1. A requirement that the school district establish and appoint members to an independent citizens’ oversight committee.
2. A requirement that the proceeds from the sale of the bonds be used only for the purposes described in Article XIII A, Section 1(b)(3)(A) of the California Constitution, and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenses.
3. A requirement that the school district list the specific school facilities projects to be funded and certification that the school district board has evaluated safety, class size reduction, and information technology needs in developing that list.
4. A requirement that the school district conduct an annual independent performance audit, in accordance with Government Auditing Standards issued by the Comptroller General of the United States, required by Article XIII A, Section 1(b)(3)(C) of the California Constitution, ensuring that the funds have been expended only on the specific projects listed.
5. A requirement that the school district conduct an annual independent financial audit, in accordance with Government Auditing Standards issued by the Comptroller General of the United States, required by Article XIII A, Section 1(b)(3)(D) of the California Constitution, of the proceeds from the sale of the bonds until all of those proceeds have been expended for the school facilities projects.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
MEASURE Y GENERAL OBLIGATION BONDS
June 30, 2019**

The Measure Y School Bond Construction Program (Measure Y) or "the Safe and Healthy Neighborhood Schools Repair and Construction Measure of 2005" approved by the voters under California Proposition 39, known as the *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39), is intended to provide the Los Angeles Unified School District (the District) funding to continue the repair and modernization of existing schools, replace bungalows with permanent classrooms, abate asbestos hazards, upgrade fire and safety systems, expand early education facilities, and provide sufficient core facilities at hundreds of schools.

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

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

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

All projects to be funded under Measure Y must be included in the Strategic Execution Plans (SEPs) approved by the Board. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for Measure Y. Such guidelines specifically state that no funds will be spent for teacher, administrator salaries or for operating expenditures.

The Measure Y initiative authorized the issuance of \$3.985 billion in bonds. \$3.73 billion has since been issued between November 2005 and June 2018. The bonds are included in the audited financial statements of the District.

The District tracks the financial activities related to Measure Y in the District Bonds Fund. The District Bonds Fund are comprised of multiple funds in the District's Audited Annual Financial Report (AAFR).

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

OBJECTIVES OF THE AUDIT

The following represents the objectives of our performance audit:

1. Bond Expenditures and Recordkeeping

Determine that the District expended Measure Y funds for the year ended June 30, 2019 only for the purpose approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution.

2. Procurement of Construction Contracts

Determine that the District procured the Construction Contract in accordance with the District's Operational Standards Policies & Procedures and Desk-Top Procedures for Facilities Contracts.

3. Survey of Compensation of Managers

Determine that the District was compliant with the Measure Y Resolution requirements regarding the Survey of Compensation of Managers (Survey), as follows:

To ensure that the District employs managers of the Division who are so qualified, the Board shall, no less than biennially, cause a survey of compensation of managers of major construction programs and managers of major public and private facilities in comparable locations across the United States in both the public and private sector, and the Board shall make a finding that the managers of the District's Facilities Services Division are being compensated accordingly.

The scope, methodology and conclusions of the above objectives are enumerated in pages 5 through 11 of this report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING

Objective

Determine that the District expended Measure Y funds for the year ended June 30, 2019 only for the purpose approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Scope

The scope covers the period of July 1, 2018 to June 30, 2019. The population of expenditures tested includes object codes and specific projects associated with Measure Y.

A total of \$31.6 million in expenditures were identified for fiscal year ended June 30, 2019, which consists of the following (thousands):

Non-Payroll Expenditures:	
Books and supplies	\$ 257
Services and other operating expenditures	469
Capital outlay	<u>28,467</u>
<i>Total non-payroll expenditures</i>	<u>29,193</u>
Payroll Expenditures:	
Classified salaries	327
Employee benefits	<u>126</u>
<i>Total payroll expenditures</i>	<u>453</u>
Other Financing Uses:	
Transfers out	<u>1,982</u>
<i>Total other financing uses</i>	<u>1,982</u>
Total Measure Y Expenditures per AAFR - District Bonds Fund	<u>\$ 31,628</u>

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

a. Procedure Performed

We obtained a general ledger report prepared by the District detailing balances for all funds which made up the District Bonds Fund to reconcile the totals to the balances reported as of June 30, 2019 in the AAFR. We extracted from the general ledger report all activities pertaining to Measure Y, Fund 214, as of June 30, 2019.

Conclusion

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

b. Procedures Performed

We selected a total of 127 individual invoices (sampled project expenditures) representing non-payroll expenditures amounting to \$19.1 million or 66% of the total population of non-payroll expenditures.

We obtained the original invoices and other relevant supporting documentation for expenditures sampled to determine compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure Y's approved specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments. We performed the following procedures:

- i. Determined that the sampled project expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were consistent with the work scope of Measure Y's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments.
- ii. Determined that the sampled project expenditures were not expended on school operating expenditures.
- iii. Verified that the appropriate District personnel had approved and reviewed all sampled project expenditures before payment was made.
- iv. Verified that corresponding projects or non-project allocations in each of the sampled project expenditures were included in the cumulative and various SEPs and amendments. For invoices which covered multiple projects, up to 5 projects were selected and tested.
- v. For sampled project expenditures representing Facilities Services Division (FSD) related construction payments, we verified construction project payment procedures had been met by testing the following:
 - The Contractor certified the Application for Payment by evidence of a signature.
 - The Owner Authorized Representative (OAR) certified that the services had been rendered by evidence of a signature.
 - The payment package included the Encumbrance/Payment request form, the Application for Payment, the Owner Assessment Summary, and other necessary supporting documents.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

Conclusions

The results of our tests indicated that sampled non-payroll expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were not expended on school operating expenditures.

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

c. Procedures Performed

We selected a total of 24 employees' payroll expenditures (sampled employees) for the entire fiscal year amounting to \$257,971 or 57% of the total population of payroll expenditures. We performed the following procedures:

- i. Determined that the sampled employees' payroll expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were consistent with the work scope of Measure Y's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments.
- ii. Verified, based on interviews with the sampled employees, the work conducted in connection with the time charged to Measure Y was in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and was not related to teacher or school administrative activities.
- iii. Verified that the District maintained adequate time and effort reporting controls and procedures for regular review of appropriate charges to Measure Y by testing the following:
 - Sampled employees working under FSD or Information Technology Division (ITD), who were Measure Y funded classified employees, and tracked time in Colin, Maximo, Project Accounting Timetables Management (PATs), or custom forms on an internal order or project basis, or
 - Sampled employees Semi-Annual Certification Forms of Bond-Funded Work (Certification) were submitted to the Office of Chief Financial Officer's (CFO) Office of Capital Fund Compliance in accordance to District's Bulletin BUL-6521.1 dated July 1, 2016, for the entire fiscal year.
- iv. For employees whose submitted Certification with a "% of Regular Time Spent on Bond-Eligible Projects/Activities" under 100% or whose time was not tracked on a project basis, we determined that payroll expenditures were based on time associated with actual activities performed on Measure Y, and not based on a predetermined budgeted rate/allocation, by reviewing supporting documentation to verify that payroll expenditures charged to Measure Y were based on actual time spent on Measure Y related activities.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

Conclusions

The results of our tests indicated that the sampled payroll expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were not expended on teacher or school administrative activities.

Additionally, the sampled employees maintained adequate time and effort reporting documents by either tracking time in Colin, Maximo, PATS, or custom forms on an internal order or project basis or submitting Semi-Annual Certifications of Bond-Funded Work.

We identified one instance of non-compliance with Procedure (c)(iv). Refer to finding **MY-2019-001** in the Schedule of Findings and Responses for further details.

d. Procedures Performed

We selected a total of 10 Transfers Out (sampled transfers) representing non-payroll expenditures.

We performed the following procedures:

- i. Determined that the sampled non-payroll project expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were consistent with the work scope of Measure Y's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments, and not expended on school operating expenditures.
- ii. We reviewed the supporting documents for the transfers out and determined that the amounts expended were consistent with the Board approved SEPs and amendments or Board Report authorizing use of Measure Y funds.

Conclusion

The results of our tests indicated that sampled expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were not expended on school operating expenditures. Additionally, the amounts expended were consistent with the Board approved SEPs and amendments or Board Report authorizing use of Measure Y funds.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

2. PROCUREMENT OF CONSTRUCTION CONTRACTS

Objective

Determine that the District procured Construction Contracts in accordance with the District's Operational Standards Policies & Procedures and Desk-Top Procedures for Facilities Contracts.

Scope

The scope covers Construction Contracts procured during the period of July 1, 2018 to June 30, 2019. The District procured a total of 7 Construction Contracts in which the original funding strategy source assigned was Measure Y.

Procedures Performed

We selected 1 Construction Contract to determine the District procured the contract in accordance with the applicable requirements of the Operational Standards Policies & Procedures and Desk-Top Procedures for Facilities Contracts by testing the following:

- i. We verified that the bid was properly advertised by testing the following:
 - Request for Advertising of a Construction Project was submitted by the OAR and approved by authorized District officials.
 - Bid Advertisements were placed in the Los Angeles Daily Journal and bidding information was provided to various trade publications.
 - Bids were advertised for two consecutive weeks.
- ii. We verified that the contract was awarded to a prequalified bidder by testing the following:
 - The prequalified bidder was included in the List of Currently Prequalified Prime/General Contractors for Formal Competitively Bid Projects. Projects that did not require formally pre-qualified bidders were approved by the Acquisition Strategy Board (ASB).
 - The bid date (from the Request for Advertisement) was valid as of the effective date of the List of Currently Prequalified Prime/General Contractors for Formal Competitively Bid Projects.
- iii. We verified that the contract was awarded to the lowest responsive bidder pursuant to Public Contract Code Section 20103.8(b) by reviewing the following:
 - If the Pre-Bid Meeting was mandatory the sign in sheet/attendance sheet showed that the Bidder attended the Pre-Bid Meeting.
 - The required bid forms were submitted by the bidder along with their sealed bid (Bid and Acceptance Form, Bid Security Form, Certification Requirement, and Non-Collusion Affidavit).
 - At least 3 bidders responded to the advertisement (non-mandatory) or were among the attendees of the mandatory pre-bid meeting.
 - The contract was awarded to the lowest bidder as stated on the Tabulation of Bids Received by Facilities Construction Contracts. Lowest bid price is the lowest base bid without consideration of the prices on the additive or deductive bid items.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

2. PROCUREMENT OF CONSTRUCTION CONTRACTS *(continued)*

Procedures Performed *(continued)*

- iv. We verified that the award of the contract was properly executed.
 - The Contract Administrator (CA) prepared the Recommendation to Award (RTA) and signed-off that all bidding requirements were met and that the identified bidder was the lowest responsive and responsible bidder.
 - Facilities Construction Contracts (FCC) were forwarded the RTA (Exhibit L) to Facilities Procurement and Payment Services (FPPS) for funding verification and approval. The RTA under a Master Contract did not show the specific amount of the contract but rather the pre-encumbered minimum guarantee amount. This form showed the range (minimum to maximum) amount of the contract.
 - RTA was signed by the CA, the Director/Deputy Director (Delegated/Authorized signatories) and a copy was given to the OAR and/or Project Manager.
 - Notice of Intent to Award was transmitted to the Contractor with remaining requirements before the contract was awarded.
 - Within 10 days of receipt of Notice of Intent to Award, the awarded contractor picked-up the NOIA package, plans, and specification, including any addenda; enrolled in OCIP; and submitted the package to the FCC: (1) one executed original of the payment bond (2) one executed original of the performance bond (3) confirmation that bidder submitted the required paperwork to enroll in the Owner Controlled Insurance Program (OCIP). Certain contracts do not require OCIP and Advertisement because of the nature of the service rendered, such as "Emergency Asbestos Removal". In these cases, the contractor was required to provide a copy of their own insurance coverage.
- v. We verified that the contract award was properly authorized and approved by the Board.
- vi. We verified that the extract of Public Works Contract (PWC) Award was forwarded to the California Department of Industrial Relations - Division of Apprenticeship Standards.

Conclusion

The results of our tests indicated that the District procured the selected Construction Contract in accordance with the applicable requirements of the District's Operational Standards Policies & Procedures and Desk-Top Procedures for Facilities Contracts.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

3. SURVEY OF COMPENSATION OF MANAGERS

Objective

Determine that the District was compliant with the Measure Y Resolution requirements regarding the Survey of Compensation of Managers (Survey), as follows:

To ensure that the District employs managers of the Division who are so qualified, the Board shall, no less than biennially, cause a survey of compensation of managers of major construction programs and managers of major public and private facilities in comparable locations across the United States in both the public and private sector, and the Board shall make a finding that the managers of the District's Facilities Services Division are being compensated accordingly.

Scope

The Survey is to be conducted biennially beginning fiscal year 2019 and occur once every two years.

Procedures Performed

We obtained a copy of the completed Survey and performed the following:

- i. Determined whether the Survey was presented to the Board.
- ii. Determined whether the Board declared a finding that the managers of the District's FSD are being compensated accordingly.

Conclusion

The results of our tests indicated that the District complied with Measure Y's Survey of Compensation of Managers requirement by presenting the Survey to the Board and obtaining a finding that compensation levels for managers of the FSD are competitive in the marketplace for recruitment and retention purposes on November 5, 2019.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019**

MY-2019-001 – Payroll Expenditure Charges

Criteria

District departments seeking approval of the use of Bond Funds for personnel costs must submit justification to the CFO's Treasury and Bond Compliance Section. The justification includes the title and duties of the position, the percentage of the position's total personnel costs which will be Bond-Funded, and documentation supporting the stated percentage.

The CFO's Treasury and Bond Compliance Section is responsible for approving Bond-Funded positions by reviewing the submitted justification validating the need for the position and maintaining copies of the submitted supporting documentation.

FSD or ITD employees who were Measure Y funded classified employees, reporting time in Colin, Maximo, PATS, or custom forms on an internal order or project basis, and whose time is charged to an "overhead" or "indirect" code, must maintain supporting documentation verifying that the payroll expenditures charged to Measure Y was based on actual time spent on Measure Y related activities, and was not based on the original budgeted percentage included in the justification submitted to the CFO's Treasury and Bond Compliance Section. Payroll expenditures charged to Measure Y should be adjusted at the end of the year to reflect the actual time spent on Measure Y related activities.

Condition

In conjunction with Objective 1, Procedure (c)(iv), out of the 55 employees sampled, we identified the following:

- One employee was identified as reporting time on an internal order by charging directly to project codes and to an "overhead" or "indirect" code. The department did not maintain supporting documentation verifying that the payroll expenditures charged to Measure Y was based on actual time spent on Measure Y related activities for the time reported to an "overhead" or "indirect" code. The employees' total Measure Y payroll charges during the fiscal year was consistent with the percentage budgeted.

Cause and Effect

Employees who are tracking their time using a time tracking system such as Colin, Maximo, PATS, or custom forms on an internal order or project basis but are charging their time to a "overhead" or "indirect" code are in essence not tracking their time on a project basis. Such employees are currently exempt from the requirement to prepare and submit a Certification, and departments are not conducting an analysis over these employees to verify that the payroll expenditures charged to Measure Y was based on actual time spent on Measure Y related activities.

Additionally, departments do not appear to have a system in place to properly establish relevant metrics necessary to distinguish "overhead" or "indirect" duties amongst bond and non-bond activities. The inability to distinguish work performed on bond versus non-bond activities can lead to potential overcharges to Measure Y.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019**

MY-2019-001 – Payroll Expenditure Charges *(continued)*

Recommendation

We recommend the following to the District:

- Extend the Certification requirement to all employees not tracking their time to specific projects, regardless of their use of time tracking systems.
- Establish policies and procedures to provide guidance to departments regarding the analysis of payroll expenditures charged to Measure Y against actual time spent on Measure Y related activities.
- Establish controls in place to properly track an employee's time who has been assigned to work on both bond and non-bond activities.

Views of Responsible Officials and Planned Corrective Actions

The CFO's Treasury and Bond Compliance Section concurs with the recommendation.

The CFO's Treasury and Bond Compliance Section will review and update BUL-6521.1, Documentation for Bond-Funded Employees.

The CFO's Treasury and Bond Compliance Section will continue working with the different departments to ensure compliance with the requirements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
June 30, 2019**

Procedure 4.2 – Payroll Expenditures - Semi-Annual Certifications

Results

Of the 48 employees sampled, we noted a total of 19 employees who reported time on Colin, Maximo, or SAP Controlling Module. We obtained their time charged throughout the fiscal year and confirmed they consistently reported their time.

We noted 29 employees who were required to submit a Certification to the CFO's Office of Capital Fund Compliance, per BUL-6521.1, for the time period of July 1, 2017 through December 31, 2017, and January 1, 2018 through June 30, 2018. Of the 58 forms over the 29 employees, we noted the following:

- 1 form covering 1 employee was signed and dated by the employee and supervisor after the stipulated due date per BUL-6521.1.

Management Response

The CFO's Office of Capital Fund Compliance will continue to find ways of improving the process of notifying and reminding employees and supervisors of the requirement to submit Certifications in a timely manner.

Current Status

Implemented. The CFO's Office of Capital Fund Compliance notified the departments well in advance of the upcoming due dates for Certifications. The correspondence provided a listing of all the department's positions funded with Measure Y.

To capture all the Measure Y funded positions, the CFO's Office of Capital Fund Compliance generated a listing of all employees using payroll report BU44. This payroll report provided a comprehensive list of actual payroll charges whether it's regular, overtime or Z-time.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Y
PERFORMANCE AUDIT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
June 30, 2019**

Procedure 10 – Survey of Compensation of Managers

Results

We noted the FSD management compensation survey was not performed for the year ended June 30, 2018.

As such, there was no Board declaration of a finding that managers of the District's FSD are being compensated accordingly.

Management Response

Management will submit a plan, for the Superintendent's approval in 2019 to be in compliance with the bond language requirement of a salary survey.

Current Status

Implemented. The District completed the Survey of Compensation of Managers, presented it to the Board and obtained a finding that compensation levels for managers of the FSD are competitive in the marketplace for recruitment and retention purposes on November 5, 2019.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
JUNE 30, 2019**



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
June 30, 2019**

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Independent Auditor’s Report

The Honorable Board of Education and
 School Construction Bond Citizens’ Oversight Committee
 Los Angeles Unified School District

We have conducted a performance audit of the Los Angeles Unified School District’s (the District), **Measure Q School Bond Construction Program** for the year ended June 30, 2019.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed on page 4 of this report which includes determining the District’s compliance with the performance requirements for the Proposition 39 Measure Q General Obligation Bonds and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District’s compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District’s internal control to determine if the internal controls were adequate to help ensure the District’s compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

The results of our tests indicated that the District expended Measure Q School Bond Construction Program funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Los Angeles, California
 February 20, 2020



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
LEGISLATIVE HISTORY
June 30, 2019**

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, “for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities”, upon approval by 55% of the electorate. Additional accountability measures, as stipulated in Education Code Section 15278 – 15282, and 15286, are as follows:

1. A requirement that the school district establish and appoint members to an independent citizens’ oversight committee.
2. A requirement that the proceeds from the sale of the bonds be used only for the purposes described in Article XIII A, Section 1(b)(3)(A) of the California Constitution, and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenses.
3. A requirement that the school district list the specific school facilities projects to be funded and certification that the school district board has evaluated safety, class size reduction, and information technology needs in developing that list.
4. A requirement that the school district conduct an annual independent performance audit, in accordance with Government Auditing Standards issued by the Comptroller General of the United States, required by Article XIII A, Section 1(b)(3)(C) of the California Constitution, ensuring that the funds have been expended only on the specific projects listed.
5. A requirement that the school district conduct an annual independent financial audit, in accordance with Government Auditing Standards issued by the Comptroller General of the United States, required by Article XIII A, Section 1(b)(3)(D) of the California Constitution, of the proceeds from the sale of the bonds until all of those proceeds have been expended for the school facilities projects.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
MEASURE Q GENERAL OBLIGATION BONDS
June 30, 2019**

The Measure Q School Bond Construction Program (Measure Q) or "the Safe and Healthy Neighborhood Schools Repair and Construction Measure of 2008" approved by the voters under California Proposition 39, known as the *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39), is intended to provide the Los Angeles Unified School District (the District) funding to continue the repair and modernization of existing schools, replace bungalows with permanent classrooms, abate asbestos hazards, upgrade fire and safety systems, expand early education facilities, and provide sufficient core facilities at hundreds of schools.

The Board of Education (the Board) has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of the Measure Q's bond issuances are used for the purposes stated in the Board Resolution (the Resolution), which placed Measure Q on the 2008 ballot.

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

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

All projects to be funded under Measure Q must be included in the Strategic Execution Plans (SEPs) approved by the Board. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for Measure Q. Such guidelines specifically state that no funds will be spent for teacher, administrator salaries or for operating expenditures.

The Measure Q initiative authorized the issuance of \$7.0 billion in bonds. The District has sold a total of \$1.87 billion of Measure Q bonds, representing \$649 million inaugural issuance in February 2016 and \$1.22 billion in March 2018. The bonds are included in the audited financial statements of the District.

The District tracks the financial activities related to Measure Q in the District Bonds Fund. The District Bonds Fund are comprised of multiple funds in the District's Audited Annual Financial Report (AAFR).

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

OBJECTIVES OF THE AUDIT

The following represents the objectives of our performance audit:

1. Bond Expenditures and Recordkeeping

Determine that the District expended Measure Q funds for the year ended June 30, 2019 only for the purpose approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution.

2. Procurement of Construction Contracts

Determine that the District procured Construction Contracts in accordance with the District's Operational Standards Policies & Procedures and Desk-Top Procedures for Facilities Contracts.

3. Survey of Compensation of Managers

Determine that the District was compliant with the Measure Q Resolution requirements regarding the Survey of Compensation of Managers (Survey), as follows:

To ensure that the District employs managers of the Division who are so qualified, and because the required qualifications and responsibilities of the Managers of the Division are unique relative to those of other District classified positions, the Board shall, subject to the merit system provisions of the Education Code, no less than biennially, cause a survey of compensation of managers of major construction programs and managers of major public and private facilities in comparable locations across the United States in both the public and private sector, and the Board shall make a finding that the managers of the District's Facilities Services Division are being compensated at a level that will be competitive in the marketplace and thereby better ensure that the District will be able to continue to hire and retain highly qualified and experienced individuals to manage the bond-funded school construction and modernization program.

The scope, methodology and conclusions of the above objectives are enumerated in pages 5 through 11 of this report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING

Objective

Determine that the District expended Measure Q funds for the year ended June 30, 2019 only for the purpose approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Scope

The scope covers the period of July 1, 2018 to June 30, 2019. The population of expenditures tested includes object codes and specific projects associated with Measure Q.

A total of \$602.7 million in expenditures were identified for fiscal year ended June 30, 2019, which consists of the following (thousands):

Non-Payroll Expenditures:	
Books and supplies	\$ 1,414
Services and other operating expenditures	33,807
Capital outlay	488,526
<i>Total non-payroll expenditures</i>	523,747
Payroll Expenditures:	
Classified salaries	49,454
Employee benefits	23,303
<i>Total payroll expenditures</i>	72,757
Other Financing Uses:	
Transfers out	6,228
<i>Total other financing uses</i>	6,228
Total Measure Q Expenditures per AAFR - District Bonds Fund	\$ 602,732

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

a. Procedure Performed

We obtained a general ledger report prepared by the District detailing balances for all funds which made up the District Bonds Fund to reconcile the totals to the balances reported as of June 30, 2019 in the AAFR. We extracted from the general ledger report all activities pertaining to Measure Q, Fund 215, as of June 30, 2019.

Conclusion

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

b. Procedures Performed

We selected a total of 254 individual invoices (sampled project expenditures) representing non-payroll expenditures amounting to \$248.4 million or 47% of the total population of non-payroll expenditures.

We obtained the original invoices and other relevant supporting documentation for expenditures sampled to determine compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure Q's approved specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments. We performed the following procedures:

- i. Determined that the sampled project expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were consistent with the work scope of Measure Q's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments.
- ii. Determined that the sampled project expenditures were not expended on school operating expenditures.
- iii. Verified that the appropriate District personnel had approved and reviewed all sampled project expenditures before payment was made.
- iv. Verified that corresponding projects or non-project allocations in each of the sampled project expenditures were included in the cumulative and various SEPs and amendments. For invoices which covered multiple projects, up to 5 projects were selected and tested.
- v. For sampled project expenditures representing Facilities Services Division (FSD) related construction payments, we verified construction project payment procedures had been met by testing the following:
 - The Contractor certified the Application for Payment by evidence of a signature.
 - The Owner Authorized Representative (OAR) certified that the services had been rendered by evidence of a signature.
 - The payment package included the Encumbrance/Payment request form, the Application for Payment, the Owner Assessment Summary, and other necessary supporting documents.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

Conclusions

The results of our tests indicated that sampled non-payroll expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were not expended on school operating expenditures.

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

c. Procedures Performed

We selected a total of 55 employees' payroll expenditures (sampled employees) for the entire fiscal year amounting to \$4.9 million or 7% of the total population of payroll expenditures. We performed the following procedures:

- i. Determined that the sampled employees' payroll expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were consistent with the work scope of Measure Q's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments.
- ii. Verified, based on interviews with the sampled employees, the work conducted in connection with the time charged to Measure Q was in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and was not related to teacher or school administrative activities.
- iii. Verified that the District maintained adequate time and effort reporting controls and procedures for regular review of appropriate charges to Measure Q by testing the following:
 - Sampled employees working under FSD or Information Technology Division (ITD), who were Measure Q funded classified employees, and tracked time in Colin, Maximo, Project Accounting Timetables Management (PATS), or custom forms on an internal order or project basis, or
 - Sampled employees Semi-Annual Certification Forms of Bond-Funded Work (Certification) were submitted to the Office of Chief Financial Officer's (CFO) Treasury and Bond Compliance Section in accordance to District's Bulletin BUL-6521.1 dated July 1, 2016, for the entire fiscal year.
- iv. For employees whose submitted Certification with a "% of Regular Time Spent on Bond-Eligible Projects/Activities" under 100% or whose time was not tracked on a project basis, we determined that payroll expenditures were based on time associated with actual activities performed on Measure Q, and not based on a predetermined budgeted rate/allocation, by reviewing supporting documentation to verify that payroll expenditures charged to Measure Q were based on actual time spent on Measure Q related activities.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

1. BOND EXPENDITURES AND RECORDKEEPING *(continued)*

Conclusions

The results of our tests indicated that the sampled payroll expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were not expended on teacher or school administrative activities.

We identified two employees, for a total of four forms, whose Certifications were signed and submitted untimely. Refer to finding **MQ-2019-001** in the Schedule of Findings and Responses for further details.

We identified eleven instances of non-compliance with Procedure (c)(iv). Refer to finding **MQ-2019-002** in the Schedule of Findings and Responses for further details.

d. Procedures Performed

We selected a total of 2 Transfers Out (sampled transfers) representing non-payroll expenditures.

We performed the following procedures:

- i. Determined that the sampled non-payroll project expenditures were in compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were consistent with the work scope of Measure Q's Resolution as presented to the voters and further defined by various Board approved SEPs and amendments, and not expended on school operating expenditures.
- ii. We reviewed the supporting documents for the transfers out and determined that the amounts expended were consistent with the Board approved SEPs and amendments or Board Report authorizing use of Measure Q funds.

Conclusion

The results of our tests indicated that sampled expenditures were properly expended only for the purposes approved by the voters and only on the specific projects enumerated in the Resolution and included in the Board approved SEPs and amendments, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution, and were not expended on school operating expenditures. Additionally, the amounts expended were consistent with the Board approved SEPs and amendments or Board Report authorizing use of Measure Q funds.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

2. PROCUREMENT OF CONSTRUCTION CONTRACTS

Objective

Determine that the District procured Construction Contracts in accordance with the District's Operational Standards Policies & Procedures and Desk-Top Procedures for Facilities Contracts.

Scope

The scope covers Construction Contracts procured during the period of July 1, 2018 to June 30, 2019. The District procured a total of 57 Construction Contracts in which the original funding strategy source assigned was Measure Q.

Procedures Performed

We selected a total of 6 Construction Contracts to determine the District procured those contracts in accordance with the applicable requirements of the Operational Standards Policies & Procedures and Desk-Top Procedures for Facilities Contracts by testing the following for each selected contract:

- i. We verified that the bid was properly advertised by testing the following:
 - Request for Advertising of a Construction Project was submitted by the OAR and approved by authorized District officials.
 - Bid Advertisements were placed in the Los Angeles Daily Journal and bidding information was provided to various trade publications.
 - Bids were advertised for two consecutive weeks.
- ii. We verified that the contract was awarded to a prequalified bidder by testing the following:
 - The prequalified bidder was included in the List of Currently Prequalified Prime/General Contractors for Formal Competitively Bid Projects. Projects that did not require formally pre-qualified bidders were approved by the Acquisition Strategy Board (ASB).
 - The bid date (from the Request for Advertisement) was valid as of the effective date of the List of Currently Prequalified Prime/General Contractors for Formal Competitively Bid Projects.
- iii. We verified that the contract was awarded to the lowest responsive bidder pursuant to Public Contract Code Section 20103.8(b) by reviewing the following:
 - If the Pre-Bid Meeting was mandatory the sign in sheet/attendance sheet showed that the Bidder attended the Pre-Bid Meeting.
 - The required bid forms were submitted by the bidder along with their sealed bid (Bid and Acceptance Form, Bid Security Form, Certification Requirement, and Non-Collusion Affidavit).
 - At least 3 bidders responded to the advertisement (non-mandatory) or were among the attendees of the mandatory pre-bid meeting.
 - The contract was awarded to the lowest bidder as stated on the Tabulation of Bids Received by Facilities Construction Contracts. Lowest bid price is the lowest base bid without consideration of the prices on the additive or deductive bid items.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

2. PROCUREMENT OF CONSTRUCTION CONTRACTS *(continued)*

Procedures Performed *(continued)*

- iv. We verified that the award of the contract was properly executed.
 - The Contract Administrator (CA) prepared the Recommendation to Award (RTA) and signed-off that all bidding requirements were met and that the identified bidder was the lowest responsive and responsible bidder.
 - Facilities Construction Contracts (FCC) were forwarded the RTA (Exhibit L) to Facilities Procurement and Payment Services (FPPS) for funding verification and approval. The RTA under a Master Contract did not show the specific amount of the contract but rather the pre-encumbered minimum guarantee amount. This form showed the range (minimum to maximum) amount of the contract.
 - RTA was signed by the CA, the Director/Deputy Director (Delegated/Authorized signatories) and a copy was given to the OAR and/or Project Manager.
 - Notice of Intent to Award was transmitted to the Contractor with remaining requirements before the contract was awarded.
 - Within 10 days of receipt of Notice of Intent to Award, the awarded contractor picked-up the NOIA package, plans, and specification, including any addenda; enrolled in OCIP; and submitted the package to the FCC: (1) one executed original of the payment bond (2) one executed original of the performance bond (3) confirmation that bidder submitted the required paperwork to enroll in the Owner Controlled Insurance Program (OCIP). Certain contracts do not require OCIP and Advertisement because of the nature of the service rendered, such as "Emergency Asbestos Removal". In these cases, the contractor was required to provide a copy of their own insurance coverage.
- v. We verified that the contract award was properly authorized and approved by the Board.
- vi. We verified that the extract of Public Works Contract (PWC) Award was forwarded to the California Department of Industrial Relations - Division of Apprenticeship Standards.

Conclusion

The results of our tests indicated that the District procured the selected Construction Contracts in accordance with the applicable requirements of the District's Operational Standards Policies & Procedures and Desk-Top Procedures for Facilities Contracts.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2019**

3. SURVEY OF COMPENSATION OF MANAGERS

Objective

Determine that the District was compliant with the Measure Q Resolution requirements regarding the Survey of Compensation of Managers (Survey), as follows:

To ensure that the District employs managers of the Division who are so qualified, and because the required qualifications and responsibilities of the Managers of the Division are unique relative to those of other District classified positions, the Board shall, subject to the merit system provisions of the Education Code, no less than biennially, cause a survey of compensation of managers of major construction programs and managers of major public and private facilities in comparable locations across the United States in both the public and private sector, and the Board shall make a finding that the managers of the District's Facilities Services Division are being compensated at a level that will be competitive in the marketplace and thereby better ensure that the District will be able to continue to hire and retain highly qualified and experienced individuals to manage the bond-funded school construction and modernization program.

Scope

The Survey is to be conducted biennially beginning fiscal year 2019 and occur once every two years.

Procedures Performed

We obtained a copy of the completed Survey and performed the following:

- i. Determined whether the Survey was presented to the Board.
- ii. Determined whether the Board declared a finding that the managers of the District's FSD are being compensated accordingly.

Conclusion

The results of our tests indicated that the District complied with Measure Q's Survey of Compensation of Managers requirement by presenting the Survey to the Board and obtaining a finding that compensation levels for managers of the FSD are competitive in the marketplace for recruitment and retention purposes on November 5, 2019.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019**

MQ-2019-001 – Semi-Annual Certification Form of Bond-Funded Work

Criteria

In accordance with the District’s Policy Bulletin 6521.1, Documentation for Bond-Funded Employees, all employees whose positions are partially or fully funded from bond programs are required to submit documentation that certified that activities performed were in support of bond-funded projects.

The required documentation is the Semi-Annual Certification Form of Bond-Funded Work (Certification). The Certification must be signed and dated by the employee and by a supervisor having first-hand knowledge of the activities performed by the employee.

Employees working under FSD or ITD, who were Measure Q funded classified employees, reporting time in Colin, Maximo, PATS, or custom forms on an internal order or project basis are exempt from this requirement.

The first Certification is for the period of July 1 through December 31 and must be completed and submitted to the CFO’s Treasury and Bond Compliance Section no later than January 31 with the second Certification period of January 1 through June 30 due no later than July 31.

Condition

In conjunction with Objective 1, Procedure (c)(iii), out of the 55 employees sampled we identified a total of 12 employees who were required to submit Certifications and determined whether the Certifications were completed and submitted in accordance with the District’s Policy Bulletin 6521.1.

We identified two employees, for a total of four forms, whose Certifications were signed and submitted untimely:

- One employee’s Certification covering the period of July 1, 2018 through December 31, 2018, and their Certification covering the period of January 1, 2019 through June 30, 2019, was signed by the employee on September 19, 2019 and signed by the employee’s supervisor on October 31, 2019. Both forms were prepared and signed subsequent to our request.
- One employee’s Certification covering the period of July 1, 2018 through December 31, 2018 was signed by the employee on March 20, 2019 and signed by the employee’s supervisor on March 22, 2019. The same employee’s Certification covering the period of January 1, 2019 through June 30, 2019 was signed by the employee on September 20, 2019 and signed by the employee’s supervisor on October 2, 2019. Both forms were prepared and signed subsequent to our request.

Cause and Effect

The untimely Certifications appear to be incidents in which the responsible department did not follow the District’s policies and procedures. Departments who do not submit Certifications timely on behalf of employees who have performed Bond-Funded work restricts the CFO’s Treasury and Bond Compliance Section from properly monitoring payroll expenditures charged to the Bond Funds.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE Q
PERFORMANCE AUDIT
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MQ-2019-001 – Semi-Annual Certification Form of Bond-Funded Work *(continued)*

Recommendation

We recommend that the District continue to provide ongoing training to appropriate personnel on the required procedures and further improve on the process of monitoring compliance with those procedures.

Views of Responsible Officials and Planned Corrective Actions

The CFO's Treasury and Bond Compliance Section will continue working with the different departments on the reporting requirements of Bond-funded employees and will review the current process in monitoring reporting compliance to identify gaps in the process and implement changes.

In addition, the recent staff addition to the CFO's Treasury and Bond Compliance Section will notably assist in this effort of ensuring compliance to the reporting requirements.

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MQ-2019-002 – Payroll Expenditure Charges

Criteria

District departments seeking approval of the use of Bond Funds for personnel costs must submit justification to the CFO's Treasury and Bond Compliance Section. The justification includes the title and duties of the position, the percentage of the position's total personnel costs which will be Bond-Funded, and documentation supporting the stated percentage.

The CFO's Treasury and Bond Compliance Section is responsible for approving Bond-Funded positions by reviewing the submitted justification validating the need for the position and maintaining copies of the submitted supporting documentation.

A department whose employee submits a Certification which certifies a percent of regular time spent on Bond-Eligible Projects/Activities of under 100%, and whose time is not tracked on a project basis, must maintain supporting documentation verifying that the payroll expenditures charged to Measure Q was based on actual time spent on Measure Q related activities, and was not based on the original budgeted percentage included in the justification submitted to the CFO's Treasury and Bond Compliance Section.

FSD or ITD employees who were Measure Q funded classified employees, reporting time in Colin, Maximo, PATS, or custom forms on an internal order or project basis, and whose time is charged to an "overhead" or "indirect" code, must maintain supporting documentation verifying that the payroll expenditures charged to Measure Q was based on actual time spent on Measure Q related activities, and was not based on the original budgeted percentage included in the justification submitted to the CFO's Treasury and Bond Compliance Section.

Payroll expenditures charged to Measure Q should be adjusted at the end of the year to reflect the actual time spent on Measure Q related activities.

Condition

In conjunction with Objective 1, Procedure (c)(iv), out of the 55 employees sampled, we identified the following:

- One employee submitted a Certification which certified a percentage of regular time spent on Bond-Eligible Projects/Activities of under 100% and whose time was not tracked on a project basis. The department did not maintain supporting documentation verifying that the payroll expenditures charged to Measure Q was based on actual time spent on Measure Q related activities. The percentage of regular time spent on Bond-Eligible Projects/Activities certified by the employee was consistent with the percentage of the employees total Measure Q payroll charges during the fiscal year.
- Five employees, who were budgeted as 100% Bond-Funded, were identified as reporting time in Colin by charging to an "overhead" or "indirect" code. The department did not maintain supporting documentation verifying that the payroll expenditures charged to Measure Q was based on actual time spent on Measure Q related activities. The employees' total Measure Q payroll charges during the fiscal year was consistent with the percentage budgeted.

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MQ-2019-002 – Payroll Expenditure Charges *(continued)*

Condition *(continued)*

- Three employees, who were budgeted as 100% Bond-Funded, were identified as reporting time in Colin by charging to directly to project codes and to an “overhead” or “indirect” code. The department did not maintain supporting documentation verifying that the payroll expenditures charged to Measure Q was based on actual time spent on Measure Q related activities for the time reported to an “overhead” or “indirect” code. The employees’ total Measure Q payroll charges during the fiscal year was consistent with the percentage budgeted.
- One employee, whose time was tracked on a project basis, performed work on Measure Q related activities amounting to 36% of the employee’s total hours worked during the fiscal year. The employee’s payroll expenditures charged to Measure Q amounted to 49% of the employee’s total payroll charges during the fiscal year. The District was unable to provide documentation supporting an adjustment to the payroll expenditures charged to Measure Q. As such, this resulted in an overcharge of payroll expenditures charged to Measure Q.
- One employee, whose time was tracked on a project basis, performed work on Measure Q related activities amounting to 58% of the employee’s total hours worked during the fiscal year. The employee’s payroll expenditures charged to Measure Q amounted to 100% of the employees total payroll charges during the fiscal year. The District was unable to provide documentation supporting an adjustment to the payroll expenditures charged to Measure Q. As such, this resulted in an overcharge of payroll expenditures charged to Measure Q.

Cause and Effect

Department’s whose employees submit a Certification which certifies a percent of regular time spent on Bond-Eligible Projects/Activities of under 100%, and whose time was not tracked on a project basis, do not appear to have a system in place to properly establish relevant metrics necessary to distinguish “overhead” or “indirect” duties amongst bond and non-bond activities. The inability to distinguish work performed on bond versus non-bond activities can lead to potential overcharges to Measure Q.

Additionally, employees who are tracking their time using a time tracking system such as Colin, Maximo, PATS, or custom forms on an internal order or project basis but are charging their time to a “overhead” or “indirect” code are in essence not tracking their time on a project basis. Such employees are currently exempt from the requirement to prepare and submit a Certification, and departments are not conducting an analysis over these employees to verify that the payroll expenditures charged to Measure Q was based on actual time spent on Measure Q related activities.

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MQ-2019-002 – Payroll Expenditure Charges *(continued)*

Recommendation

We recommend the following to the District:

- Extend the Certification requirement to all employees not tracking their time to specific projects, regardless of their use of time tracking systems.
- Establish policies and procedures to provide guidance to departments regarding the analysis of payroll expenditures charged to Measure Q against actual time spent on Measure Q related activities.
- Establish controls in place to properly track an employee's time who has been assigned to work on both bond and non-bond activities.

Views of Responsible Officials and Planned Corrective Actions

The CFO's Treasury and Bond Compliance Section concurs with the recommendation.

The CFO's Treasury and Bond Compliance Section will review and update BUL-6521.1, Documentation for Bond-Funded Employees.

The CFO's Treasury and Bond Compliance Section will continue working with the different departments to ensure compliance with the requirements.

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Procedure 2.2 – Interfund Transfers - Semi-Annual Certifications

Results

We selected 10 employees who were required to submit a Certification to the CFO's Office of Capital Fund Compliance, per BUL-6521.1, for the time period of July 1, 2017 through December 31, 2017, and January 1, 2018 through June 30, 2018. Of the 20 forms over the 10 employees, we noted the following:

- 4 forms covering 4 employees were signed and dated by the employee and supervisor after the stipulated due date per BUL-6521.1.
- 6 forms covering 5 employees were not submitted as stipulated per BUL-6521.1.

Management Response

The CFO's Treasury and Bond Compliance Section has revised its procedure of extracting data for employees requiring Certifications to include expenses budgeted in General Fund program codes and subsequently charged to Measure Q through Interfund transfers.

Current Status

Implemented. The District has revised its procedure of extracting data for employees by including General Fund accounts in the extract for the Certification reminders, beginning with the reminders sent in January 2019.

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Procedure 4.2 – Payroll Expenditures - Semi-Annual Certifications

Results

Of the 48 employees sampled, we noted a total of 19 employees who reported time on Colin, Maximo, or SAP Controlling Module. We obtained their time charged throughout the fiscal year and confirmed they consistently reported their time.

We noted 29 employees who were required to submit a Certification to the CFO's Office of Capital Fund Compliance, per BUL-6521.1, for the time period of July 1, 2017 through December 31, 2017, and January 1, 2018 through June 30, 2018. Of the 58 forms over the 29 employees, we noted the following:

- 8 forms covering 8 employees were signed and dated by the employee and supervisor after the stipulated due date per BUL-6521.1.
- 1 form covering 1 employee was signed and dated by the employee and supervisor subsequent to our request.
- 1 form covering 1 employee was not signed by the supervisor as stipulated per BUL-6521.1.
- 3 forms covering 2 employees were not submitted as stipulated per BUL-6521.1.
- 1 form covering 1 employee was not completed properly as stipulated per BUL-6521.1. The form was missing the following required information:
 - % of Regular Time Spent on Bond-Eligible Projects/Activities
 - Program/Project Name(s)

Management Response

The CFO's Treasury and Bond Compliance Section will continue to find ways of improving the process of notifying and reminding employees and supervisors of the requirement to submit Certifications in a timely manner.

Current Status

Implemented. The CFO's Treasury and Bond Compliance Section notified the departments well in advance of the upcoming due dates for Certifications. The correspondence provided a listing of all the department's positions funded with Measure Q.

To capture all the Measure Q funded positions, the CFO's Treasury and Bond Compliance Section generated a listing of all employees using payroll report BU44. This payroll report provided a comprehensive list of actual payroll charges whether it's regular, overtime or Z-time.

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Procedure 10 – Survey of Compensation of Managers

Results

We noted the FSD management compensation survey was not performed for the year ended June 30, 2018.

As such, there was no Board declaration of a finding that managers of the District's FSD are being compensated accordingly.

Management Response

Management will submit a plan, for the Superintendent's approval in 2019 to be in compliance with the bond language requirement of a salary survey.

Current Status

Implemented. The District completed the Survey of Compensation of Managers, presented it to the Board and obtained a finding that compensation levels for managers of the FSD are competitive in the marketplace for recruitment and retention purposes on November 5, 2019.