



**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**Proposition BB, Measure K, Measure R, and Measure Y**  
**School Bond Construction Programs**

**Agreed-Upon Procedures Report for the Year Ended June 30, 2007 and**  
**Statements of Bond Expenditures from Inception through June 30, 2007**

**(With Independent Auditors' Reports Thereon)**



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**Independent Accountants' Report  
on Applying Agreed-Upon Procedures  
and Management's Responses to Exceptions**

The Honorable Board of Education  
Los Angeles Unified School District:

We have performed the procedures enumerated below, for the Proposition BB, Measure K, Measure R, and Measure Y School Bond Construction Programs (Bond Programs) which were agreed to by the Los Angeles Unified School District's (the District or LAUSD) officials and bond oversight committee, solely to assist the District and its management in fulfilling its oversight responsibility surrounding the administration of the Bond Programs for the year ended June 30, 2007. District management is responsible for the administration of the Bond Programs. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our areas of inquiry and the corresponding findings are as follows. The samples selected below were for proposition BB, Measure K, Measure R, and Measure Y expenditures, unless otherwise noted.

**1.1 Procedure**

From a population of all expenditures charged to Object Code #6000 in the general ledger (IFS) for the year ended June 30, 2007, we selected 5 expenditures for each of the GO Bond Funds (Proposition BB, Measure K, Measure R, and Measure Y). We obtained supporting invoices for the expenditures selected and tested the selected sample invoices to determine whether amounts expended were consistent with the work scope of each of the respective bond measures as presented to the voters.

**Results**

We read the ballot measures to understand the work scope and list of specific projects proposed to be financed with the proceeds of the GO Bonds. We then inspected the invoices supporting the samples tested to determine whether amounts expended were consistent with the work scope of each bond measure. As required by Section 3 of Proposition 39, a list of specific projects is to be presented to the voter in each ballot. As such, we identified the projects to which the above expenditures were incurred and traced these projects to the Bond Project List presented in the Full Text of Ballot Measures K, R, and Y (Proposition BB was issued under the traditional authority and not under Proposition 39; therefore, references to specific school facilities projects were not required).

No exceptions were noted as a result of performing this procedure.

## **1.2 Procedure**

For the items selected in procedure 1.1 above, we determined whether the following requirements of GO Bond construction project payments procedures had been met:

- a) The invoice, along with a District-approved Encumbrance/Payment Request form, including evidence of approval by an LAUSD employee, was submitted in order to process the payment.
- b) For the invoices that represent construction expenditures, ensure an Owner Authorized Representative (OAR) validates that the contractor has certified the Application for Payment, and that the OAR has signed it. The OAR assembles the payment package that includes the Encumbrance/Payment request form, the Application for Payment, the Owner Assessment Summary, and other supporting documents. The OAR then transmits the original Owner Assessment Summary to the Facilities Contract Invoice Unit (FCIU), with copies to Facilities Construction Contract Unit.
- c) For each invoice, verify that the related encumbrance/payment request was signed by the District FCIU Analyst for accuracy, completeness, and proper approvals prior to the processing of the payments.

### ***Results***

No exceptions were noted as a result of performing this procedure.

## **1.3 Procedure**

We tested the 5 invoices from each GO Bond Fund selected in procedure 1.1, to determine whether the corresponding projects were included in the related Strategic Execution Plan (SEP) including approved amendments. If the invoice had multiple projects, up to 5 projects from the invoice were traced to the SEP.

### ***Results***

No exceptions were noted as a result of performing this procedure.

## **2. Procedure**

From the population of all expenses charged to Object Code #1000 and #2000 in IFS to the Proposition BB, Measure K, Measure R and Measure Y bond funds, collectively referred to as the GO Bond Funds, for the fiscal year ended June 30, 2007, we selected 10 total expenditures for all GO Bond Funds combined (Prop BB, Measure K, Measure R, and Measure Y), to perform the following procedures:

- 2.1 We obtained the expenditures selected along with corresponding time sheets and personnel files (when applicable) and determined whether the items selected for bond funds Measure K, Measure R, and Measure Y were spent on "administrator salaries" as referenced in the ballot measures, or "teacher salaries" as referenced in the State Proposition 39 as codified in the State Constitution, Article 13A, Section 1(b) (3) (A).



### ***Results***

For each item selected, we identified the related employee name and obtained the employee time record supporting the expenditures. We then identified the class code as indicated in the employee time record to obtain an understanding of the duties of the position to which the employee was assigned for the payroll period reported. We reviewed the job description from the Human Resources Department to determine whether the bond proceeds were expended for “administrator” or “teacher” salaries.

We noted the following exceptions:

- A payment to an employee for \$2,868.64 was made from Measure K funds. The employee’s title is Office Management Assistant and job description states the following:  
Performs a variety of staff duties to relieve an administrator of details relative to clerical procedures and methods, office management or other areas of the business operations such as budget preparation and control.
- A payment to an employee for \$2,101.20 was made from Measure K funds. The employee’s title is Sr. Office Technician and job description states the following:  
Under general supervision, performs a variety of moderately to highly complex clerical duties requiring a working knowledge of specialized subject matter and specialized clerical functions and exercises more independent judgment and initiative as compared to an Office Technician.
- A payment to an employee for \$5,030.76 was made from Measure Y funds. The employee’s title is Human Resource Specialist III and job description states the following:  
Performs technical human resources duties related to position classification, compensation, recruitment, selection, staff development, employee relations, and/or formulation, development, and analysis of human resources policies, rules, and legislation.

We consider the above costs to be associated with the “regular, on-going, day-to-day costs associated with maintaining and operating a school” and not within the costs defined by the administrative oversight. As such, we note these items as exceptions.

- 2.2 We obtained the expenditures selected with corresponding time sheet and personnel file in order to determine that no bond funds in BB Bond were spent on “administrator salaries” as noted in the ballot measures.

### ***Results***

For each item selected, we identified the related employee name and obtained the employee time record supporting the expenditures. We then identified the class code as indicated in the employee time record to obtain an understanding of the duties of the position to which the employee was assigned for the payroll period reported. We reviewed the job description from the Human Resources Department to determine whether the bond proceeds were not expended for “administrator” salaries.

We noted the following exceptions:

- A payment to an employee for \$477.79 was made from BB fund. The employee’s title is Administrative Aide and job description states the following:

We obtained a copy of the District Bond Charging Procedures and noted that no written policies and procedures were issued specifically for Measures R and Y. According to a representative of the Facilities Services Division, the Division is currently following the guidelines set forth in Measure K for Measures R and Y. As a result, we utilized the Measure K Bond Charging Procedure to test samples from Measures R and Y. No exceptions were noted as a result of performing this procedure.

## **6. Procedure**

From a listing of change orders approved during the fiscal year ended June 30, 2007 generated from the Project Information Control (PIC) system, we selected 20 change orders from all GO Bond Funds. We obtained the District Change Order Procedures and read the selected change orders to determine compliance with the District's Change Order procedures and to determine if appropriate approvals were secured.

### **Results**

We obtained a copy of the Change Order Procedure from the Director of Policies, Facilities Services Division, and read the significant provisions stated therein. We then obtained a list of Change Orders approved for fiscal year 2006-2007 from the District. From the list of change orders provided, we selected 20 sample items and performed the following:

- a. Using the Change Order Procedure obtained above, we inspected the Change Order Proposal (COP) for the samples selected to determine whether they included all documentation to support additions, deletions, or revisions in the work including the following:
  - Pricing, breakdowns, and costs required to validate a proposed adjustment in the contract amount.
  - Detailed schedule analysis demonstrating the impact on the project critical path to substantiate requests for contract time extension (if applicable).
  - Revised or marked-up drawings, specifications, and sketches (if applicable).

No exceptions were noted as a result of performing this procedure.

- b. We requested each Change Order Package, which are required to have the following: (a) Change Order Checklist, (b) Justification of Change, (c) Change Order Proposal, (d) Record of Negotiation, (e) Independent Estimate or Analysis, if required. Nine (9) change orders were missing the Change Order Checklist, and one (1) Change Order Proposal was not approved.

### **Management's Response to b**

We do not concur. A checklist is not required to be submitted to Accounts Payable (AP) as part of the payment package. The Construction Management Procedures do call for an "in house" checklist. This is to provide an "at a glance" review of the completeness of the Change Order Package, which can be several inches thick, to those processing it. The checklist is not required for payment and the Change Order Processing Unit (COPU) does not necessarily provide AP (where KPMG obtained their sample) with a copy. Change order checklists are also not included in the Board approved change order packet forwarded to Division of State Architect.

The Regional Project Management Director and the Sr. Project Manager will be formally notified that change order proposal must be properly completed and signed by those individuals as titled at the bottom section of the documents.



- c. We compared the sampled items to the "Not to Exceed Limits" to determine compliance with the following procedures. According to the Change Order Procedures, individual change orders for New Construction may not exceed ten percent (10%) of the original contract price before securing additional bids. For Existing Facilities works, individual change orders that exceeded ten percent (10%), but do not exceed twenty-five percent (25%) of the original price may be performed by the Contractor without any need to secure additional bids, so long as the change is necessary and integral part of the work under the contract and the taking of bids would delay the completion of the project. No exceptions were noted as a result of performing this procedure.
- d. We inspected the samples Change Order Forms to determine whether the prescribed signatures were obtained prior to processing the Change Order. According to the Change Order Procedure, signatures of Contractors, Architects, or Engineers (for DSA-approved projects), OAR, and Senior Management are required for authorization of the Change Order.
  - i. We attempted to obtain a list of authorized contractor signatories to verify Contractor sign-off on the Change Order Form. According to the Facilities Services Division (FSD), such a list is not maintained. As the list of authorized contractor signatories was not provided, we were unable to complete this procedure.

*Management's Response to i.*

There is no contractual obligation for the contractor to provide a list of "authorized" signatories. The verification of scope change and value of necessary change work is a joint effort of the OAR, District management personnel, and the Contractor representative. The Change Orders are reviewed by the OAR and District management personnel who are aware of the Contractor's organization and who, by signing the change orders, confirm that the signatory of the contracts is authorized.

- ii. According to the Change Order Procedures, an architect's signature is required for Division of State Architect (DSA) approved projects, therefore, not all samples would have architect approval. A listing of authorized architect signatories for change orders was not provided to us. The samples we tested that were DSA-approved projects (15 out of the 20) all bore signatures. For the Change Orders bearing architect signatures, we were unable to verify the validity of the signatories as no list of authorized architects was provided.

*Management's Response to ii.*

There is no contractual obligation for the architect to provide a list of "authorized" signatures. The Change Orders are reviewed by OAR who is aware of the architect of record.

- c. We attempted to obtain the list of OARs to compare approvals on the sampled Change Order Forms but the District was not able to provide us with the OAR list. The Change Orders tested all bore signatures. We were unable to verify the validity of the signatories as no list of authorized OARs was provided.

### **Management's Response to e**

For the New Construction Branch, with several hundred projects, the list of OARs assigned to the projects were provided to KPMG. These are the same OARs who are required to review the change orders for their projects.

For the Existing Facilities Branch, with approximately 17,000 projects, as a practical matter, no list of OAR assignments is maintained. Regional project management personnel are required to approve all payments and change orders. They are aware of the OARs for the projects in their regions. By approving the change orders, the regional project management personnel are certifying, among other things, that the appropriate OAR signatures have been affixed to the change order.

- f. We obtained the list of District staff authorized to approve the change orders selected above from the District. We compared the dollar amount of each individual change order sampled and the cumulative change order total as a percentage of the original contract amount. We then inspected the documented approval to determine if it complied with the Matrix of Change Order Signatory Requirement found in the Change Order Procedures. No exceptions were noted as a result of performing this procedure.
- g. According to the Change Order Procedures, changes or alterations to the plans and specifications previously approved by the Division of the State Architect (DSA) require approval from the DSA prior to the commencement of the change work. Thus, this attribute is applicable only to DSA-approved projects. Using the DSA Application No. indicated in the Change Order Form, we identified which of the samples selected required DSA approval. For the 15 projects identified as requiring DSA approval, 3 projects were not approved by DSA prior to commencement of the work. As such, this is noted as an exception.

### **Management's Response to g**

For change order T-667 (\$2,304), the construction teams can be authorized to proceed with change order work prior to DSA Change Order approval by obtaining a Field Change Document (FCD) approval by DSA prior to commencement of work (California Building Standards Administrative Code, Part I, Title 24, Group 1, Safety of Construction of Public Schools, Section 4-338 (d) Preliminary Change Orders).

For change order T-561 (\$232,700), per the Architect of Record (AOR) (1) the plan check for the Request for Proposal (RFP) was submitted to DSA on 3/6/06. (2) DSA responded with comments on 6/11/06. (3) AOR completed/answered all of DSA comments and resubmitted the RFP to DSA on 9/13/06. (4) AOR and OAR expectation of early approval from DSA did not happen.

Letters were sent to DSA requesting prompt review and approval of the RFP in question. All DSA comments were answered and responded to. The change order work met all the DSA requirements based on the 6/11/06 review, and the work completed passed the required inspection. Change order T561 finally was approved by the DSA on 12/27/07, as stamped on the change order.

In this instance, waiting for DSA approval would have resulted in an unacceptable project delay of 18 months. Eventual DSA approval is conclusive evidence that all necessary due diligence steps were taken by the District and assured safe and conforming design and construction on this project.



For the change order T-672 (\$5,619), per the OAR of this project, due to the work load that DSA was experiencing at that time, the change order review process was indeed taking longer in getting the DSA approval. Completion of work had to be met per schedule. The DSA Field Inspector reviewed the construction documents for Code compliance prior to the start of the work. Also, the Architect of Record (AOR) on a regular basis provided direction to assure the proper means and methods of Construction as described on the Change Order scope of work.

- h. According to the Change Order Procedures, an approved Changed Order Memo is to be submitted to the Board of Education for ratification. Single change orders exceeding 15% of the original contract amount, or cumulative percent of change orders on the original contract exceeding 10% for New Construction and 25% for Existing Facilities, must be approved by the District's Board. For the samples we selected, we recalculated the percentage changes, both on an individual and cumulative basis, and noted one change order exceeded the thresholds noted above. We noted that Board approval was obtained for the change.

#### **7. Procedure**

We determined whether the total expenditures reported in the year-end "summary statements of project cost" for each GO Bond Fund measure agree with the corresponding Comprehensive Annual Financial Report (CAFR) bond fund expenditures for the year ended June 30, 2007.

We obtained a "Summary of Project Costs" for each of the GO Bond funds and agreed the CAFR bond fund expenditures. The statement of project costs present expenditures on a program level while the CAFR expenditures were presented using the natural expenditure classification. As a result, the expenditures between the two reports could be agreed only on an aggregate rather than on a line by line basis. No exceptions were noted as a result of performing this procedure.

#### **8. Procedure**

We selected a sample of 10 GO Bond projects from the January 2006 New Construction Strategic Execution Plan (SEP) and performed the following procedures:

- 8.1 We compared the SEP project budget for each project in the sample to the January 2007 SEP budget.
- 8.2 If the January 2007 SEP project budget is greater than 105% of the January 2006 SEP project budget, we reviewed documentation of the budget increase being reported to the Bond Citizens Oversight Committee (BCOC).

#### **Results**

No exceptions were noted as a result of performing this procedure.

#### **9. Procedure**

We selected 10 samples of GO Bond project types from the June 2006 Existing Facilities SEP data and performed the following procedures:

- 9.1. We compared the June 2006 SEP Current Cost of Completion (FCAC) for all project types selected (such as classroom lighting, exterior paving, and roofing) to the May 2007 SEP Current Budget Cost (CBC);



- 9.2. If the May 2007 SEP CBC was greater than 105% of the June 2006 SEP FCAC, we determined whether the increase was reported in the September 2007 Monthly Program Status Report.
- 9.3. For each of the 10 project types selected, we selected one specific project from the May 2007 SEP budget that has a completion date that is 12 months or later than the June 2006 SEP budget and determined whether the delay was reported in the September 2007 Monthly Program Status Report.

### ***Results***

No exceptions were noted as a result of performing this procedure.

## **10 Procedure**

We inquired of District management as to whether a survey of the compensation of managers of major construction programs and managers of major public and private facilities in comparable locations across United States had been performed in accordance with the provision of Measure Y.

### ***Results***

According to the provisions of Measure Y, managers of the Facilities Services Division (Division) shall have the educational and employment experience comparable to that of persons with similar responsibility in the private sector. Measure Y also requires the Board to no less than biennially, cause a survey of the 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 be conducted, and the Board shall make a finding that the managers of the District's Division are being compensated accordingly.

KPMG inquired of District management as to whether a survey of the compensation of managers of major construction programs and managers of major public and private facilities in comparable location across United States has been performed in accordance with the provision for Measure Y and noted that a survey was not performed in fiscal year ended June 30, 2007. The performance of the required compensation survey was completed subsequent to the period under audit. We noted that there was no certification made as to whether managers of the Division are compensated accordingly.

### **Management's Response**

There were no milestones or completion dates specified in the ballot language for this procedure that were within the July 1, 2006 through June 30, 2007 period of the KPMG audit due to the biennial nature of the Measure Y compensation survey requirement.

Progress has been made to date on the management compensation survey. The survey was initially commissioned to an outside firm and the report was received one month after the due date for completion. Upon review, the Bond Oversight Committee, Superintendent, and Personnel Commission all agreed that the report was inadequate for the intended purpose of the survey. A new survey was authorized to be performed internally by the Personnel Commission and was completed in April of 2008.

Additionally, different language was imposed regarding this compensation survey requirement in the subsequent Measure Q Facilities bond fund ballot measure approved by the voters under Proposition 39 in November 2008.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the District's administration of the Proposition BB, Measure K, Measure R, and Measure Y School Bond Construction Program. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The District's written response to the exceptions identified in the report has not been subjected to auditing procedures and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, and members of the Citizen's Oversight Committee of the Los Angeles Unified School District and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

May 15, 2009