

**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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SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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

U.S. BANK TOWER
633 WEST 5TH STREET, SUITE 3320
LOS ANGELES, CA 90071
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

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
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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 | <u>488,526</u> |
| <i>Total non-payroll expenditures</i> | <u>523,747</u> |
| Payroll Expenditures: | |
| Classified salaries | 49,454 |
| Employee benefits | <u>23,303</u> |
| <i>Total payroll expenditures</i> | <u>72,757</u> |
| Other Financing Uses: | |
| Transfers out | <u>6,228</u> |
| <i>Total other financing uses</i> | <u>6,228</u> |
| Total Measure Q Expenditures per AAFR - District Bonds Fund | <u>\$ 602,732</u> |

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

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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.

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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.

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OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
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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.

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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.

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OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS
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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
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SCHEDULE OF FINDINGS AND RESPONSES
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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.

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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.

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

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.

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

- 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.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
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PERFORMANCE AUDIT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
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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.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
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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.