

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
JUNE 30, 2020**



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
June 30, 2020**

Table of Contents

	Page
Independent Auditor’s Report.....	1
Legislative History.....	2
Measure K General Obligation Bonds.....	3
Objective, Scope, Methodology and Conclusions.....	4
Schedule of Findings and Responses.....	12
Schedule of Prior Year Findings and Responses.....	13



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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 K School Bond Construction Program for the year ended June 30, 2020.

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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and 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
June 3, 2021

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
LEGISLATIVE HISTORY
June 30, 2020**

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, 2020**

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 (BOC) 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 school operating expenses.

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 (AAFR).

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
OBJECTIVE, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2020**

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, 2020 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 Contracts/Agreements

Determine that the District procured Goods and Supplies Contracts in accordance with the District's Procurement Manual and procured Professional Service Agreements in accordance with the District's Desk-Top Procedures for Facilities Contracts.

3. New Projects

Determine that new project(s) established during the fiscal year were properly reviewed and approved internally in accordance with the department's project approval procedures, were presented to the Bond Oversight Committee and approved by the Board of Education.

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
OBJECTIVE, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2020**

1. BOND EXPENDITURES AND RECORDKEEPING

Objective

Determine that the District expended Measure K funds for the year ended June 30, 2020 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, 2019 to June 30, 2020. The population of expenditures tested includes object codes and specific projects associated with Measure K.

A total of \$48.4 million in expenditures were identified for fiscal year ended June 30, 2020, which consists of the following (thousands):

Non-Payroll Expenditures:	
Books and supplies	\$ 867
Services and other operating expenditures	3,131
Capital outlay	<u>37,884</u>
<i>Total non-payroll expenditures</i>	<u>41,882</u>
Payroll Expenditures:	
Classified salaries	148
Employee benefits	<u>78</u>
<i>Total payroll expenditures</i>	<u>226</u>
Other Financing Uses:	
Transfers out	<u>6,336</u>
<i>Total other financing uses</i>	<u>6,336</u>
Total Measure K Expenditures per AAFR - District Bonds Fund	<u>\$ 48,444</u>

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
OBJECTIVE, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2020**

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, 2020 in the AAFR. We extracted from the general ledger report all activities pertaining to Measure K, Fund 213, as of June 30, 2020.

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 100 individual invoices (sampled project expenditures) representing non-payroll expenditures amounting to \$25.6 million or 61% 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, 2020**

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 9 employees' payroll expenditures (sampled employees) for the entire fiscal year amounting to \$207,188 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) Bond Compliance Unit in accordance with the District's Bulletin BUL-6521.1 dated July 1, 2016, for the entire fiscal year.
- iv. For employees who submitted a 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, 2020**

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.

For employees who submitted a 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 14 Transfers Out (sampled transfers) and performed the following procedures:

- i. Determined that the sampled non-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, and not expended on school operating expenditures.
- ii. For non-payroll project expenditures, 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.
- iii. 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.
- iv. For employee payroll expenditure, 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.

Conclusion

We identified that all 14 of the sampled transfers represents transfers occurring in-between funds within the District Bonds Fund, and therefore is not subject to the above procedures.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
OBJECTIVE, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2020**

2. PROCUREMENT OF CONTRACTS/AGREEMENTS

Objective

Determine that the District procured Goods and Supplies Contracts in accordance with the District's Procurement Manual and procured Professional Service Agreements in accordance with the District's Desk-Top Procedures for Facilities Contracts.

Scope

The scope covers Contracts/Agreements procured during the period of July 1, 2019 to June 30, 2020 in which the original funding strategy source assigned was Measure K.

Procedures Performed

We selected 1 Goods and Supplies Contract to determine the District procured the contract in accordance with the applicable requirements of the Procurement Manual by testing the following for the selected contract:

- i. We verified that a contract was established with required approvals.
- ii. We verified that a Fully Funded Shopping Cart was established, with the exception of Invitation for Bid (IFB) Contracts.
- iii. We verified that a Request for Procurement Action (RFPA) was established with required approvals.
- iv. We verified that a Formal Invitation for Bid was established, and a formal competition was conducted.
- v. We verified that the supporting documentation was included in the Informative for Board Review, such as the background on the suggested award along with details of usage and funding.
- vi. We verified that the contract award was properly authorized and approved by the Board.
- vii. For contracts established via Single/Sole Source, we verified the existence of a justification form with proof of approval by the designated officials.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
OBJECTIVE, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2020**

2. PROCUREMENT OF CONTRACTS/AGREEMENTS *(continued)*

Procedures Performed *(continued)*

We selected 2 Professional Services Agreements to determine the District procured the contracts in accordance with the applicable requirements of the District's Desk-Top Procedures for Facilities Contracts by testing the following for the selected agreements:

- i. We verified that the selected firm was approved by the board before performance was conducted, or that project-specific contract actions delegated by the Board were properly reported.
- ii. We verified a Request for Proposal (RFP) or Request for Qualifications (RFQ) was established.
- iii. If the Pre-Bid Meeting was mandatory the sign in sheet/attendance sheet showed that the firm attended the Pre-Bid Meeting.
- iv. We verified the Evaluation Panel Members signed the Non-Disclosure Form.
- v. We verified that the Scoring and Ranking Forms were completed.
- vi. We verified, for agreements valued at \$500,000 or higher, that a Dunn and Bradstreet report was completed.
- vii. We verified, for agreements valued at \$5,000,000 or higher, that a Due Diligence Background Check was completed.
- viii. We verified that the Recommendation to Award (RTA) was signed by Panel Members and the Director of Facilities Contracts. For design service contracts, we verified a Ratification Memo was issued.
- ix. We verified the firm completed conflict of interest and ethics rules of conduct forms.

Conclusion

The results of our tests indicated that the District procured the selected Goods and Supplies Contract in accordance with the District's Procurement Manual and selected Professional Service Agreements in accordance with the District's Desk-Top Procedures for Facilities Contracts.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
OBJECTIVE, SCOPE, METHODOLOGY AND CONCLUSIONS
June 30, 2020**

3. NEW PROJECTS

Objective

Determine that new project(s) established during the fiscal year were properly reviewed and approved internally in accordance with the department's project approval procedures, were presented to the Bond Oversight Committee and approved by the Board of Education.

Scope

The scope covers new projects established during the period of July 1, 2019 to June 30, 2020 in which the original funding strategy source assigned was Measure K.

Procedures Performed

We selected one Facilities Services Division (FSD) project and verified the following for the project:

- i. The project scope and budget presented was presented and adopted by the Acquisition Strategy Board (ASB) by unanimous approval. The Office of the General Council (OGC) participate in the ASB meetings as non-voting participants and provides approvals regarding bond eligibility of projects before they are approved by the ASB.
- ii. The project definition and budget was presented to the Bond Oversight Committee (BOC). The BOC issued a Resolution to the Board of Education (Board) either adopting or not adopting the proposed project.
- iii. The District prepared and presented to the BOE a BOE Report addressing the action proposed which includes information such as the background of the project, expected outcomes, board options and consequences, policy implications, budget and student impact, issues and analysis along with applicable attachments which includes the BOC Resolution. The BOE Report is approved by the Chief Facilities Executive of FSD and reviewed by General Counsel, by evidence of signatures.
- iv. The BOE adopted the proposed project.

Conclusion

The new FSD project established during the fiscal year was properly reviewed and approved internally in accordance with the department's project approval procedures, was presented to the BOC and approved by the Board.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE K
PERFORMANCE AUDIT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2020**

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, 2020**

No matters were reported.