

LOS ANGELES UNIFIED SCHOOL DISTRICT

SCHOOL CONSTRUCTION BOND CITIZENS' OVERSIGHT COMMITTEE

Rachel Greene, Chair

Tenth District PTSA

Chris Hannan, Vice-Chair

L.A. Co. Federation of Labor AFL-CIO

Margaret Fuentes, Secretary

LAUSD Student Parent

Araceli Sandoval-Gonzalez, Executive Committee

Early Education Coalition

Alvin Trotter, Jr., Executive Committee

L.A. Area Chamber of Commerce

Tracy Bartley

31st District PTSA

Laura Baz

LAUSD Student Parent

Neelura Bell

CA Charter School Association

Jeffrey Fischbach

CA Tax Reform Assn.

Greg Good

L.A. City Mayor's Office

D. Michael Hamner

American Institute of Architects

Hyepin Im

L.A. City Controller's Office

Susan Linschoten

L.A. Co. Auditor-Controller's Office

Dolores Sobalvarro

AARP

Roger Uy

Assoc. General Contractors of CA

Celia Ayala (Alternate)

Early Education Coalition

Dr. Clarence Monteclaro (Alternate)

Tenth District PTSA

Samantha Rowles (Alternate)

LAUSD Student Parent

Connie Yee (Alternate)

L.A. Co. Auditor-Controller's Office

Joseph P. Buchman – Legal Counsel

Burke, Williams & Sorensen, LLP

Lori Raineri and Keith Weaver – Oversight Consultants

Government Financial Strategies

Timothy Popejoy

Bond Oversight Administrator

Perla Zitle

Bond Oversight Coordinator

RESOLUTION 2022-02

APPROVING RECOMMENDATIONS OF THE
BOC 2021 TASK FORCE

REGARDING BOND PROGRAM PERFORMANCE AND FINANCIAL AUDITS

WHEREAS, in its Resolution 2021-22, the Bond Oversight Committee described the legal requirements of the California Constitution, Article XIII A, section 1(b)(3), the Strict Accountability in Local School Construction Bonds Act of 2000 (Education Codes 15264 – 15288), and the District's Memorandum of Understanding with the BOC that pertain to two important accountability/oversight methods in particular: 1) annual, independent audits and 2) citizens' bond oversight; and

WHEREAS, the School Construction Bond Citizens' Oversight Committee (BOC) established the 2021 Task Force Regarding Bond Program Performance and Financial Audits; and

WHEREAS, the Chair of the BOC then appointed four individuals to the Task Force and served as an ex officio member; and

WHEREAS, the Task Force has spent three months researching and deliberating, and has now presented its Report, a copy of which is attached to this Resolution and incorporated by reference.

NOW, THEREFORE, BE IT RESOLVED THAT:

1. The BOC accepts and approves the Report of the 2021 Task Force Regarding Bond Program Performance and Financial Audits and thanks the Task Force members and BOC staff for the work performed.

RESOLUTION 2022-02

APPROVING RECOMMENDATIONS OF THE BOC 2021 TASK FORCE REGARDING BOND PROGRAM PERFORMANCE AND FINANCIAL AUDITS

2. The BOC thanks District staff and auditors who assisted the Task Force with its research and understanding.
3. Based on the Report of the Task Force, the BOC recommends to the Board of Education and the Superintendent that the District take the following actions:
 - i. direct District staff to provide the information requested by the auditors with respect to the original FY 20 audit scope and under all circumstances in the future; and
 - ii. request that the auditors reinstate the objective within the audit scope to verify project compliance with the State Constitution, State statute, and the bond measure(s); and
 - iii. request that the audits include a discussion of when a change in audit scope occurs, or when information is unavailable that prevents the completion of any portion of the audit scope; and
 - iv. realign District resources and request audit procedures to scale down the effort toward payroll compliance and focus more on technology bond project eligibility compliance, in line with the level of risk in each area; and
 - v. adopt a more tailored approach to application of audit procedures to each division in line with the level of risk in each area; and
 - vi. contract for bond program audits that follow the State Audit Guide; and
 - vii. regularly review industry practice in adhering to the State Audit Guide; and
 - viii. complete the audits in a timely manner ahead of the State deadline, investigate the possibility of underlying problems in the audit process, and request that the external auditor consider the reasons for delay of the FY 20 Audits as indicative of risks to be evaluated for future audit scopes; and
 - ix. Take steps to further review and restore confidence in the FY 20 bond program audits such as:
 - a) contract for audits to cover a three-year period (FYs ending June 30, 2019, 2020 and 2021)
 - b) contract for a replacement of the FY 20 bond program audits by a different external audit firm.
 - c) seek a special review of the District's management of audits as described in the Task Force Report
4. This resolution shall be transmitted to the Los Angeles Unified School District Board of Education and posted on the Oversight Committee's website.
5. The District is directed to track the above recommendations and to report on the adoption, rejection, or pending status of the recommendations as provided in section 6.2 of the Charter and Memorandum of Understanding between the Oversight Committee and the District.

**RESOLUTION 2022-02
APPROVING RECOMMENDATIONS OF THE BOC 2021 TASK FORCE REGARDING
BOND PROGRAM PERFORMANCE AND FINANCIAL AUDITS**

ADOPTED on January 27, 2022 by the following vote:

AYES: 14

ABSTENTIONS: 0

NAYS: 0

ABSENCES: 1

/Rachel Greene/

Rachel Greene
Chair

/Chris Hannan/

Chris Hannan
Vice-Chair

LOS ANGELES UNIFIED SCHOOL DISTRICT

SCHOOL CONSTRUCTION BOND CITIZENS' OVERSIGHT COMMITTEE

Rachel Greene, Chair

Tenth District PTSA

Chris Hannan, Vice-Chair

L.A. Co. Federation of Labor AFL-CIO

Margaret Fuentes, Secretary

LAUSD Student Parent

Araceli Sandoval-Gonzalez, Executive Committee

Early Education Coalition

Alvin Trotter, Jr., Executive Committee

L.A. Area Chamber of Commerce

Tracy Bartley

31st District PTSA

Laura Baz

LAUSD Student Parent

Neelura Bell

CA Charter School Association

Jeffrey Fischbach

CA Tax Reform Assn.

Melanie Freeland

American Institute of Architects

Greg Good

L.A. City Mayor's Office

Karen Krygier

L.A. City Controller's Office

Susan Linschoten

L.A. Co. Auditor-Controller's Office

Dolores Sobalvarro

AARP

Roger Uy

Assoc. General Contractors of CA

Celia Ayala (Alternate)

Early Education Coalition

Dr. Clarence Monteclaro (Alternate)

Tenth District PTSA

Samantha Rowles (Alternate)

LAUSD Student Parent

Connie Yee (Alternate)

L.A. Co. Auditor-Controller's Office

Joseph P. Buchman – Legal Counsel

Burke, Williams & Sorensen, LLP

Lori Raineri and Keith Weaver – Oversight Consultants

Government Financial Strategies

Timothy Popejoy

Bond Oversight Administrator

Perla Zitle

Bond Oversight Coordinator

**REPORT OF THE BOC 2021 TASK FORCE
REGARDING BOND PROGRAM PERFORMANCE AND FINANCIAL AUDITS**

*Pursuant to BOC Resolution 2021-22 –
Appointment of a BOC Ad Hoc Subcommittee (Task Force)
Regarding Bond Program Performance and Financial Audits
and District Audit Process*

January 6, 2022

Submitted by Task Force Members

Susan Linschoten, Task Force Chair and BOC Member

Margaret Fuentes, BOC Executive Committee Member

Tracy Bartley, BOC Member

Samantha Rowles, BOC Alternate Member

Rachel Greene, *ex officio*, BOC Chair

I. INTRODUCTION

On September 2, 2021 the BOC established the 2021 Task Force Regarding Bond Program Performance and Financial Audits (Task Force) pursuant to BOC Resolution 2021-22 (attached). The resolution directed that the Task Force review the FY 20 bond program audits, the audit process, the requisites and objectives for the audits, and the District's practices with respect to the audits, and provide a report to the BOC.

The Task Force held four videoconference meetings over the course of three weeks, from late October to mid-November, 2021. Two of these meetings were focused on working collaboratively with District staff and the District's external auditors to understand the FY 20 bond program audits and audit processes. The Task Force appreciates the participation and cooperation of District staff

Bond Oversight Committee

and the District's external auditor in providing presentations and addressing questions both during their meetings with the Task Force as well as following up with additional information via e-mail.

With a vision of collaboration for improving the value of the bond program audits to support the Bond Oversight Committee's mission of bond oversight, the Task Force has identified some concerns for the BOC's review.

II. DISCUSSION OF CONCERNS

Below is a discussion of concerns regarding the FY 20 bond program audits for the Information Technology Division (ITD), Facilities Services Division (FSD), and overall audit process.

Audits of Information Technology Division (ITD) Bond Funds

1) Withholding of Information by District Staff

Certain technology projects have come to the BOC with questionable permissibility on the project being eligible for bond funds. One such project was One Enrollment, which came to the BOC at the February 27, 2020 meeting. The BOC did not recommend the project, with permissibility identified as a specific area of concern.¹ Staff from the District's external auditor were in attendance at the February 27, 2020 meeting to present to the BOC and heard ITD's presentation of One Enrollment. The external auditor concurred the permissibility of One Enrollment was questionable and identified technology projects as a risk area.² This led the external auditor to incorporate a new audit procedure into the scope of work for the FY 20 audit:

*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 BOC and approved by the Board. Additionally, determine that the project(s) purpose and scope are consistent with the guidelines enumerated in the Resolution, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution.*³

In the course of attempting to complete the audit procedure, the Office of General Counsel (OGC) withheld information from the external auditors. More specifically, the external auditor stated:

*Although we verified that the OGC concluded that these projects met bond eligibility criteria, the OGC did not provide us with the criteria used in making that determination or documentation stating the justification for the use of bond funds.*⁴

¹ Per Letter from BOC Chair Rachel Greene to Board President Dr. Vladovic and Superintendent Beutner RE: BOC Consideration of ITD SEP Amendment for the One Enrollment Project dated March 2, 2020.

² As discussed in a BOC staff meeting with the external auditor on July 29, 2020.

³ As discussed at the Fiscal Year 2020 Financial and Performance Bond Audits Entrance Meeting held June 25, 2020 and later incorporated into the draft performance audit for Measure Q provided May 21, 2021.

⁴ As stated in the draft performance audit for Measure Q provided May 21, 2021.

Office of General Counsel (OGC) staff stated to the Audit Task Force that the reason they withheld information from the District’s external auditors was because the information was considered privileged.⁵ This is despite the fact that:

- Auditors routinely receive privileged information from school districts,⁶
- The District’s external auditor has the capability to protect privileged information and has received privileged information in the past,⁷
- The performance audit contains a specific section under State Audit guidelines to describe “the nature of any confidential or sensitive information omitted”, showing the State’s intent and expectation that auditors may receive privileged information during the course of the audit that is not publicly disclosed.⁸

The withholding of information associated with a risk area specifically identified by both the BOC and the District’s external auditor is of concern, particularly when the stated reason for withholding the information violates both standard industry practice and past Los Angeles Unified School District practice.

2) Removal of Audit Finding and Reduction in Audit Scope

District staff’s refusal to respond to the external auditor’s inquiry initially led to (a draft) audit finding MQ-2020-03, which discussed the result of the information being withheld:

*As a result, we were unable to conclude as to whether purpose and scope of these projects were consistent with the guidelines enumerated in the Resolution, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution.*⁹

However, in response to a request from CFO staff, the external auditor agreed to remove the audit finding and reduce the audit objective. The final audit, therefore, does not contain this finding and the audit objective was changed as follows:

*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. Additionally, determine that the project(s) purpose and scope are consistent with the guidelines enumerated in the Resolution, in accordance with the requirements of Proposition 39, as specified by Article XIII A, Section 1(b)(3)(C) of the California Constitution (red text indicates portion of scope removed after completion of audit work and draft audit report delivered).*¹⁰

⁵ As discussed in the second Task Force meeting held on November 3, 2021.

⁶ An example of routine disclosure of privileged information is when auditors assess the risk and liability associated with ongoing or potential litigation. *See, e.g., Laguna Beach County Water Dist. v. Superior Court* (2004) 124 Cal.App.4th 1453, 1459-1462 (No waiver of attorney work product privilege occurs when protected information is shared with an organization’s auditor with intent that protected information will remain confidential).

⁷ As discussed in the third Task Force meeting held on November 9, 2021.

⁸ Per the 2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, Appendix A, Local School Construction Bond Audits, by the California Education Audit Appeals Panel, dated March 1, 2020.

⁹ As stated in the draft performance audit for Measure Q provided May 21, 2021.

¹⁰ As incorporated into the final performance audit for Measure Q.

It can be seen that verification of a project's compliance with the California Constitution was removed.¹¹

This objective was established by the external auditor in June 2020. In May or June, 2021 after the audit work had been performed, the external auditor changed the objective, changed the sample relied upon three times (once to eliminate consideration of a project, once to characterize a project as ineligible for sampling, and once to characterize a project as immaterial due to minimal expenditure) resulting in no projects and therefore the reduction of the objective and the elimination of the finding.

In discussion with the Task Force, the external auditor explained the justification for agreeing to remove the audit finding from the final audit report and reduce the audit procedure was a lack of materiality.¹² Specifically, of the three ITD projects subject to the audit objective¹³, all of them were determined to be relatively insignificant to the bond program for the following reasons:

- The Device Refresh for Required Student Testing project was later cancelled by ITD, with no bond funds expended toward this project.¹⁴ Discussion of this project was then removed from the final audit report.
- The Distance Learning project was later funded by COVID-19 relief funds, so that ultimately little to no bond funds were expended toward this project.¹⁵
- The Enterprise Help Desk project incurred expenditures of bond funds of approximately \$60,000 during the fiscal year.

The removal of an audit finding between draft and final audit reports due to District staff providing *more* information to the auditors occurs with some regularity, according to CFO staff, based on their efforts to avoid audit findings.¹⁶ However, in this case, the removal of an audit finding was due to a reduction in the audit scope because the audit procedure could not be completed since *District staff would not provide the requested information*.

The scope was originally developed to respond to a specific risk area identified by the auditor and of stated interest to the BOC both specifically with regard to the FY 20 Audit and more generally over many years with respect to the justification of the use of bond funds for various IT expenditures. At stake is the fundamental function of citizens' bond oversight: verifying that a

¹¹ Despite the removal of this language as applied to new projects, this language was retained for another objective on bond expenditures and recordkeeping.

¹² As presented by the external auditor in the third Task Force meeting held on November 9, 2021.

¹³ 11 FSD projects were subject to the objective, and all 11 FSD projects tested in the Measures K and Q Performance Audits were found by the external auditor to have been properly reviewed and approved in compliance.

¹⁴ The BOC did not receive official notice of the cancellation until the August 12, 2021 BOC meeting, during which the cancellation was presented in the ITD BOC Quarterly Program Status report, followed by consideration of a resolution to cancel the project at the September 30, 2021 BOC meeting. Both meetings occurred after the June 30, 2020 conclusion of the fiscal year. The Task Force learned from a January 28, 2021 e-mail exchange between the external auditor and ITD staff as follows: the external auditor, in December of 2020 noted that the ITD FY20 SEP indicated the project was completed in the first quarter of FY 20 though not shown on the FY 20 Completed Project List. In response to the external auditor's inquiries, ITD indicated, on January 28, 2021 that the project would be cancelled.

¹⁵ The BOC did not receive official notice of the expenditure transfer until the August 12, 2021 BOC meeting, during which the transfer was presented in the ITD BOC Quarterly Program Status report. The meeting occurred after the June 30, 2020 conclusion of the fiscal year.

¹⁶ As described by CFO staff in the second Task Force meeting held on November 3, 2021.

project is in compliance with the State Constitution, State statute, and the bond measure(s) approved by voters.

During the course of the audit, external auditor staff had initially believed concerns with technology projects would be brought to light despite removing the Device Refresh for Required Student Testing project from the audit:

Although I do understand that we did uncover issues with the project, I do believe that the overarching concerns we have identified with the ITD review process will be documented and brought to light with the other two projects.¹⁷

Subsequently, all three technology projects were removed from the audit report, resulting in removal of the audit finding. Consequently, no concerns with technology projects were brought to light in the final audit report.

The stated reason for removal of the audit finding in this case may be acceptable when viewed through the narrow lens of the bond dollar amounts that might prove questionable, but does not address the underlying and more significant question the original audit scope was designed to answer which was to document that the District reasonably confirmed that all bond expenditures proposed were permissible under the three standards (California Constitution, State statute, and the bond measure). In addition, the audit did not serve the purpose of determining whether ITD followed its own internal review process.

3) Lack of Transparency in the Audit Report

The final audit report included no discussion of the above information: more specifically, that a portion of the audit scope had been attempted but failed, and that the auditor's failure to complete the scope was a result of the withholding of information by District staff. The fact that no audit finding appeared to bring transparency to the failure to complete the original audit scope, or to the change in audit scope, is of concern. As a result, any review by audit report users including the BOC, the Board of Education, and others would have no way of knowing the level of risk associated with technology projects based on the final audit report. This is particularly important for future audits, when auditors who may be different individuals prepare their audit plan on the basis of a risk assessment. By omitting information, the final audit report presents technology projects and the District's process to review these projects in a more favorable light than is the case in reality. Finally, it removes some of the impetus for the District to improve its process because it was not identified as deficient by the auditor in the final audit report.

Audits of Facilities Services Division (FSD) Bond Funds

1) District Resources and Audit Procedures Misaligned with Risk

Significant resources are spent tracking the time of employees in bond-funded positions and then completing certification forms to certify the amount of time attributable to the bonds. Additional resources are then spent to staff the Bond Compliance Unit to track and review these employees

¹⁷ Per email from Simpson & Simpson staff RE: Follow Up re call with Joe Moussa, dated May 20, 2021.

and their certification forms. Even more resources are later spent in the course of these employees and their certifications forms being audited.

Four audit procedures were devoted to this effort, resulting in two audit findings:

- Audit finding MQ-2020-001, where three certification forms by three employees were identified as having been submitted untimely,
- Audit finding MQ-2020-002, where nine employees were identified as lacking supporting documentation that time charged to bond funds was attributable to work on bond projects.¹⁸

Resources spent on payroll compliance appears misaligned with the low level of risk associated with this area.¹⁹ The two audit findings are relatively insignificant to the bond program. This is in stark contrast to a high-risk area, technology bond project eligibility compliance, where there is a lack of District resources spent and a lack of audit procedures designed to test compliance.²⁰

2) Blanket Approach Not Tailored to Each Division

Risk areas identified in one division of the District, such as payroll compliance or technology bond project eligibility compliance, receive audit procedures that are then applied to divisions across the District.²¹ This approach does not account for the differences within each division of the District: the nature of the projects, the operations and processes of employees, the internal control procedures in place, and more. The result is that audit procedures designed to test high risk areas in certain divisions end up testing low risk areas in other divisions, consuming resources unnecessarily.

Overall Audit Process

1) Lack of Conformity to State Audit Guide Standards²²

The State Audit Guide has established standards for the report components of bond program financial audits and performance audits.²³ The financial audit in particular was inconsistent with the standards, with the following report components out of compliance with the standards:

- The Balance Sheet was omitted,
- The Statement of Revenues, Expenditures, and Changes in Fund Balance only included expenditures, with other financial information omitted,

¹⁸ As stated in the final performance audit for Measure Q.

¹⁹ The low level of risk associated with payroll compliance is evidenced by the two relatively insignificant findings in the FY 20 final performance audit for Measure Q and two similar relatively insignificant findings in the prior FY 19 final performance audit for Measure Q (MQ-2019-001 where four certification forms submitted by two employees were untimely, and MQ-2019-002 where eleven employees lacked supporting documentation).

²⁰ The high level of risk associated with technology projects is evidenced by the fact that technology projects have been the subject of four BOC task forces, convened in 2013, 2015, 2016, and 2019.

²¹ Per review of the final performance audit for Measure Q and as discussed with FSD staff in the third Task Force meeting held on November 9, 2021.

²² While the Task Force reviewed the State Audit Guide requirements, time did not allow for a review of the U.S. Comptroller's Government Auditing Standards. Questions remain with respect to whether the FY 20 audit performance audit met the Government Auditing Standards' requirements, including for ethics, independence and professional judgement.

²³ Per the 2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, Appendix A, Local School Construction Bond Audits, by the California Education Audit Appeals Panel, dated March 1, 2020.

- The Notes to the Financial Statements only contained notes about expenditures, with notes pertinent to other financial information omitted,
- The Independent Auditor’s Report on Internal Control over Financial Reporting was omitted,
- The Schedule of Findings and Recommendation was omitted,
- The Schedule of Prior Audit Findings was omitted.

The external auditor’s reason for omitting the information was that such information was contained in a different audit report not provided to the BOC.²⁴ Irrespective of whether the information was located elsewhere, the bond program audits are the only audit reports provided to the BOC and should be consistent with the standards found in the State Audit Guide.

2) Lack of Consistency with Industry Standard

BOC staff reviewed the bond program audits for the top 10 largest school districts in the State. Of the top 10, eight school districts in addition to Los Angeles Unified School District had at least one bond measure subject to the performance and financial audits under the California Constitution²⁵ and the *Strict Accountability in Local School Construction Bonds Act of 2000*.²⁶ Of the eight school districts, all of them had bond program audits that were more consistent with the State Audit Guide than Los Angeles Unified School District. Some of the audits excluded schedules of findings in which there were no findings, but otherwise, the relevant report components discussed in the State Audit Guide were included in the audits. Los Angeles Unified School District is the only school district out of the top 10 largest in the State to be so far out of compliance. A summary of the bond program audit review is included in Appendix B.

3) Failure to Complete Audits Timely

The bond program audits were not completed by March 31, 2021 as required by the *Strict Accountability in Local School Construction Bonds Act of 2000*.²⁷ BOC staff was told this was because the District prioritized completing the audit of District-wide financial statements²⁸ ahead of the bond program audits. The bond program financial audit included only one audited schedule, the *Statement of Bond Expenditures*, and the bond performance audit did not rely on the District’s audited financial statements. Thus, our understanding is that the prioritization was not based on the information developed by the District-wide audit but on the availability of District or external audit staff to complete the audits by the statutorily required date. This prioritization is questionable given that the performance and financial audits of the bond program are required by the California Constitution and the District-wide audits are required only by statute and were subject to an extension enacted by the State Legislature in response to the COVID-19 pandemic.

²⁴ As discussed in a BOC staff meeting with the external auditor on July 20, 2021.

²⁵ Specifically, the annual, independent performance audit specified in California Constitution, Article XIII A, Section 1(b)(3)(C) and the annual, independent financial audit specified in California Constitution, Article XIII A, Section 1(b)(3)(D).

²⁶ Education Code sections 15264 through 15288.

²⁷ Education 15286, which has remained unchanged for many years and the deadline was not extended for the 2019-20 fiscal year.

²⁸ Education Code 41020.9 extended the deadline for the audit of the District-wide financial statements from December 15 to March 31 for the 2019-20 fiscal year.

BOC executive committee members and staff were told at the agenda setting meeting on May 13, 2021 that the final audits would be ready for presentation at the May 27, 2021 BOC meeting, and this was affirmed later via email on May 21, 2021.²⁹ However, two days before the meeting, BOC staff was informed that the final audits would be delayed further and not ready for presentation at the meeting.³⁰

BOC staff did not receive the final audit reports until June 11, 2021, approximately two and a half months after the State deadline and two weeks after the scheduled BOC meeting at which the audit reports were to be presented.³¹ The final audit reports were presented to the BOC at the August 12, 2021 meeting.

The long delay in receiving the audit reports, well beyond the State deadline and the additional last-minute delay beyond the scheduled BOC meeting, is of concern since it may be indicative of underlying problems in the audit process.

Lack of Confidence in the FY 20 Bond Program Audits

All of the above concerns with the audit process, taken together in their totality, result in a lack of confidence in the FY 20 Bond Program Audits.

III. RECOMMENDATIONS OF THE TASK FORCE

The Task Force makes the following recommendations in response to each concern identified with the audit process, restated below:

- 1) Concern: the withholding of information by District staff that is associated with a risk area specifically identified by both the BOC and the external auditor is of concern, particularly when the stated reason for withholding the information violates both past District practice and standard industry practice.

Recommendation: District staff should be directed to provide the information requested by the auditors with respect to the original FY 20 audit scope and under all circumstances in the future.

- 2) Concern: The removal of an audit finding and reduction in the audit scope is of concern, particularly when the scope is as fundamental as verifying the project is in compliance with the State Constitution, State statute, and the bond measure(s).

Recommendation: the auditors should reinstate the objective within the audit scope to verify project compliance with the State Constitution, State statute, and the bond measure(s).

- 3) Concern: No audit finding or other discussion appeared in the final audit reports to bring transparency to the failure to complete the original audit scope, or to the subsequent change in audit scope.

²⁹ Per email from Simpson & Simpson staff RE: FY-20 - Draft District Bond Performance Audit Reports, dated May 21, 2021.

³⁰ Per email from District CFO staff RE: Bond Performance Audit Report, dated May 25, 2021.

³¹ Per email from District CFO staff RE: Bond Performance Audit Report, dated June 11, 2021.

Recommendation: the auditors should include a discussion of when a change in audit scope occurs, or when information is unavailable that prevents the completion of any portion of the audit scope.

- 4) Concern: The amount of resources spent on payroll compliance appears misaligned with the low level of risk associated with this area. This is in contrast to a high-risk area, technology bond project eligibility compliance, where there is a lack of District resources spent and a lack of audit procedures designed to test compliance.

Recommendation: a realignment of District resources and audit procedures is warranted to scale down the effort toward payroll compliance and focus more on technology bond project eligibility compliance, in line with the level of risk in each area.

- 5) Concern: audit procedures designed to test high risk areas in certain divisions end up testing low risk areas in other divisions due to a blanket application of audit procedures across divisions, consuming resources unnecessarily.

Recommendation: A more tailored approach to application of audit procedures to each division is warranted, again in line with the level of risk in each area.

- 6) Concern: The bond program financial audit was inconsistent with the State Audit Guide standards.

Recommendation: the auditors should ensure the bond program audits follow the State Audit Guide.

- 7) Concern: Los Angeles Unified School District is the only school district out of the top 10 largest school districts in the State to be so far out of compliance with the State Audit Guide.

Recommendation: the auditors should follow industry practice to, again, adhere to the State Audit Guide.

- 8) Concern: The long delay in receiving the audit reports, well beyond the State deadline and the additional last-minute delay beyond the scheduled BOC meeting, is of concern since it may be indicative of underlying problems in the audit process.

Recommendation: District staff and the auditors should make every effort to complete the audits in a timely manner ahead of the State deadline and District management should investigate the possibility of underlying problems in the audit process. The external auditor should consider the reasons for delay of the FY 20 Audits as indicative of risks to be evaluated for future audit scopes.

- 9) Concern: All of the above concerns with the audit process, taken together in their totality, result in a lack of confidence in the FY 20 bond program audits.

Recommendation: District staff should take steps to further review and restore confidence

in the FY 20 bond program audits. Such steps could include:

- a) Rather than FY 21 audits, District staff could contract for the next set of audits to cover a three-year period (FYs ending June 30, 2019, 2020 and 2021). A three-year performance audit would cover all of the years since the District began contracting for performance audits.³²
- b) District staff could contract for a replacement of the FY 20 bond program audits by a different external audit firm.
- c) District staff could seek a special review of the District's management of audits in light of what's presented in this report and additional information which came to the attention of the Task Force and BOC staff which did not rise to the level of inclusion in this report, though may be of interest in making improvements. Such a review could be performed by the District's Inspector General, the Los Angeles County Civil Grand Jury or an appropriately experienced audit firm without recent past connection to the Los Angeles Unified School District.

IV. ACTIVITIES OF THE TASK FORCE

The Task Force held its first meeting on October 27, 2021. At this meeting, Task Force members received presentations from BOC staff on background and standards for bond program performance and financial audits, followed by a presentation of the FY 20 bond program audits.

The Task Force held its second meeting on November 3, 2021. During this meeting, Task Force members received presentations from ITD staff and CFO staff, which included participation by OGC staff, on the FY 20 bond program audits.

The Task Force held its third meeting on November 9, 2021. At this meeting, Task Force members received presentations from the District's external auditor Simpson & Simpson and FSD staff on the FY 20 bond program audits.

The Task Force held its fourth meeting on November 17, 2021. During this meeting, Task Force members developed its report to the BOC.

VII. CONCLUSION

The Task Force recommends to the full BOC that it adopt a Resolution with the recommendations contained herein and submit such resolution and this report to the Board of Education and Interim Superintendent.

Appendix A

BOC Resolution 2021-22 Appointment of a BOC Ad Hoc Subcommittee (Task Force) Regarding Bond Program Performance and Financial Audits and District Audit Process Adopted September 2, 2021

Appendix B

Top 10 Largest School Districts in California - Bond Program Audit Review

³² The requirement for performance audits to be subject to Government Auditing Standards issued by the Comptroller of the United States dates to 2010. The District has been in compliance with Education Code Section 15286 only since FY 19.

Appendix A

LOS ANGELES UNIFIED SCHOOL DISTRICT

SCHOOL CONSTRUCTION BOND CITIZENS' OVERSIGHT COMMITTEE

Rachel Greene, Chair

Tenth District PTSA

Chris Hannan, Vice-Chair

L.A. Co. Federation of Labor AFL-CIO

Margaret Fuentes, Secretary

LAUSD Student Parent

Araceli Sandoval-Gonzalez, Executive Committee

Early Education Coalition

Alvin Trotter, Jr., Executive Committee

L.A. Area Chamber of Commerce

Tracy Bartley

31st District PTSA

Laura Baz

LAUSD Student Parent

Neelura Bell

CA Charter School Association

Jeffrey Fischbach

CA Tax Reform Assn.

Greg Good

L.A. City Mayor's Office

D. Michael Hamner

American Institute of Architects

Hyepin Im

L.A. City Controller's Office

Susan Linschoten

L.A. Co. Auditor-Controller's Office

Dolores Sobalvarro

AARP

Roger Uy

Assoc. General Contractors of CA

Celia Ayala (Alternate)

Early Education Coalition

Dr. Clarence Monteclaro (Alternate)

Tenth District PTSA

Samantha Rowles (Alternate)

LAUSD Student Parent

Connie Yee (Alternate)

L.A. Co. Auditor-Controller's Office

Joseph P. Buchman – Legal Counsel

Burke, Williams & Sorensen, LLP

Lori Raineri and Keith Weaver – Oversight Consultants

Government Financial Strategies

Timothy Popejoy

Bond Oversight Administrator

Perla Zitle

Bond Oversight Coordinator

RESOLUTION 2021-22

APPOINTMENT OF A BOC AD HOC SUBCOMMITTEE (TASK FORCE) REGARDING BOND PROGRAM PERFORMANCE AND FINANCIAL AUDITS AND DISTRICT AUDIT PROCESS

WHEREAS, the California Constitution, Article XIII A, section 1(b)(3) provides:

(A) A requirement that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3), and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

(B) A list of the specific school facilities projects to be funded and certification that the school district board, community college board, or county office of education has evaluated safety, class size reduction, and information technology needs in developing that list.

(C) A requirement that the school district board, community college board, or county office of education conduct an annual, independent performance audit to ensure that the funds have been expended only on the specific projects listed.

(D) A requirement that the school district board, community college board, or county office of education conduct an annual, independent financial audit of the proceeds from the sale of the bonds until all of those proceeds have been expended for the school facilities projects;

WHEREAS, the Strict Accountability in Local School Construction Bonds Act of 2000 (Education Codes 15264 - 15288) provides:

In addition to the ballot requirements of Section 15122 and the ballot provisions of this code applicable to governing board member elections, for bond measures pursuant to this chapter,

Bond Oversight Committee

RESOLUTION 2021-22

APPOINTMENT OF A BOC AD HOC SUBCOMITTEE (TASK FORCE) REGARDING BOND PROGRAM PERFORMANCE AND FINANCIAL AUDITS AND DISTRICT AUDIT PROCESS

the ballot shall also be printed with a statement that the board will appoint a citizens' oversight committee and conduct annual independent audits to assure that funds are spent only on school and classroom improvements and for no other purposes.

and

In furtherance of its purpose, the citizens' oversight committee may engage in any of the following activities:

(1) Receiving and reviewing copies of the annual, independent performance audit required by subparagraph (C) of paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution.

(2) Receiving and reviewing copies of the annual, independent financial audit required by subparagraph (C) of paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution.

and

The governing board of the district shall provide the citizens' oversight committee with responses to any and all findings, recommendations, and concerns addressed in the annual, independent financial and performance audits required by subparagraphs (C) and (D) of paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution within three months of receiving the audits.

and

Consistent with the provisions contained in subparagraphs (C) and (D) of paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution, the required annual, independent financial and performance audits for the preceding fiscal year shall be submitted to the citizens' oversight committee established pursuant to Section 15278 at the same time they are submitted to the school district or community college district, no later than March 31 of each year. These audits shall be conducted in accordance with the Government Auditing Standards issued by the Comptroller General of the United States for financial and performance audits;

WHEREAS, Sections 7 and 8 of the District's Memorandum of Understanding with the BOC include (respectively):

The Committee shall review annual, independent performance and financial audits of the bond fund expenditures and report to the public no less than once each year in which bond funds are being spent regarding the use of the funds. Furthermore, per Education Code §15280(a)(2), the Board shall provide the Committee with responses to any and all findings, recommendations, and concerns addressed in the audits within three months of receiving the audits. The Committee shall serve as the single statutory Oversight Committee for Proposition BB and Measures K, R, Y, Q, and any future bond measures which require an oversight committee.

A rational and timely audit system including annual financial and performance audits (as required by law), audits of bond-funded projects, programs, and activities (as outlined in the Inspector General's approved work plan), process audits and other audits as mutually agreed upon by the District and the Committee. To the extent such audits may not, in the

RESOLUTION 2021-22

APPOINTMENT OF A BOC AD HOC SUBCOMITTEE (TASK FORCE) REGARDING BOND PROGRAM PERFORMANCE AND FINANCIAL AUDITS AND DISTRICT AUDIT PROCESS

opinion of District bond counsel, be funded by bond proceeds, the District commits to making District funds available for such audits.

WHEREAS, the District presented the performance and financial audits for the year ended June 30, 2020 to the BOC at its August 12, 2021 meeting, more than four months after the statutory deadline, and prior to that was scheduled to present at the BOC's May 27 meeting but requested a postponement on May 25 due to additional auditor inquiries;

NOW, THEREFORE, BE IT RESOLVED THAT:

1. The School Construction Bond Citizens' Oversight Committee hereby establishes an Ad Hoc Subcommittee pursuant to BOC Bylaws Art. V, Sec. 3, denominated the "2021 Task Force Regarding Bond Program Performance and Financial Audits" (the "Task Force"), to be composed of not more than seven active BOC members (inclusive of the BOC Chair as an ex-officio member).
2. The BOC Chair shall appoint a Task Force Chair from one of its members.
3. The Task Force will work collaboratively with BOC staff, District staff and District external audit staff to review:
 - the District's FY 20 bond program Performance and Financial Audits, and
 - the audit process for the District's FY 20 bond program Performance and Financial Audits, and
 - Requisites and objectives for bond program performance and financial audits, including the requirements of the BOC-District MOU, District policy, State law, and auditing standards, and
 - the District's practices with respect to bond program performance and financial audits,

and report to the Bond Oversight Committee:

- a summary of the research and analysis, and
 - any recommendations regarding the District's FY 20 bond program Performance and Financial Audits, and
 - any recommendations regarding process and procedures for bond program performance and financial audits.
4. The Task Force will be asked to provide an initial report to the full Committee at its October 28, 2021 regular meeting.
 5. The Task Force's work shall be completed, and its authority shall sunset, not later than June 30, 2022, unless extended by further action of the Committee.

**RESOLUTION 2021-22
APPOINTMENT OF A BOC AD HOC SUBCOMITTEE (TASK FORCE) REGARDING
BOND PROGRAM PERFORMANCE AND FINANCIAL AUDITS AND DISTRICT
AUDIT PROCESS**

6. This resolution shall be transmitted to the Los Angeles Unified School District Board of Education and posted on the Oversight Committee’s website.

ADOPTED on September 2, 2021 by the following vote:

AYES: 12

ABSTENTIONS: 0

NAYS: 0

ABSENCES: 3

/Rachel Greene/

Rachel Greene
Chair

/Margaret Fuentes/

Margaret Fuentes
Secretary

Appendix B

Top 10 Largest School Districts in California - Bond Program Audit Review

Bond Measure Review

<u>Rank</u>	<u>School District</u>	<u>2019-20 Enrollment</u>	<u>Date of Most Recent Bond Measure</u>	<u>Bond Measure Amount</u>	<u>Fiscal Year End of Audit Reviewed</u>	<u>Auditor</u>
1	Los Angeles Unified	596,937	Nov. 2020	\$7,000,000,000	June 30, 2020	Simpson & Simpson
2	San Diego Unified	122,916	Nov. 2018	\$3,500,000,000	June 30, 2019	Crowe
3	Fresno Unified	73,381	Mar. 2020	\$325,000,000	June 30, 2018	Crowe
4	Long Beach Unified	72,002	Nov. 2016	\$1,500,000,000	June 30, 2020	CliftonLarsonAllen
5	Elk Grove Unified	64,480	Nov. 2016	\$476,000,000	June 30, 2020	Crowe
6	San Francisco Unified	61,031	Nov. 2016	\$744,250,000	June 30, 2019	Eide Bailly
7	San Bernardino City Unified	53,037	Nov. 2012	\$250,000,000	June 30, 2019	Eide Bailly
8	Capistrano Unified	52,794	Nov. 1999	\$65,000,000	N/A	N/A
9	Corona-Norco Unified	52,557	Nov. 2014	\$396,000,000	June 30, 2020	Eide Bailly
10	San Juan Unified	50,820	Nov. 2016	\$750,000,000	June 30, 2020	Gilbert CPAs

Notes:

Ranking of school districts and enrollment per California Department of Education.

Bond measures based on election information per School Services of California.

Capistrano Unified listed as N/A because bond measure not subject to the requirements for annual, independent financial and performance audits of the bond program.

Top 10 Largest School Districts in California - Bond Program Audit Review

Financial and Performance Audit Review

<u>Rank</u>	<u>School District</u>	<u>Financial Audit Findings</u>	<u>Topic Area of Financial Audit Findings</u>	<u>Performance Audit Findings</u>	<u>Topic Area of Performance Audit Findings</u>
1	Los Angeles Unified	0	None	2	Certification of bond-funded work, payroll expenditures
2	San Diego Unified	0	None	0	None
3	Fresno Unified	0	None	0	None
4	Long Beach Unified	0	None	0	None
5	Elk Grove Unified	0	None	0	None
6	San Francisco Unified	0	None	3	Change orders, initiating contracts, CBOC membership
7	San Bernardino City Unified	0	None	0	None
8	Capistrano Unified	N/A	N/A	N/A	N/A
9	Corona-Norco Unified	0	None	0	None
10	San Juan Unified	0	None	0	None

Top 10 Largest School Districts in California - Bond Program Audit Review

Technology Projects Review

<u>Rank</u>	<u>School District</u>	<u>Technology Expenditures</u>	<u>Excerpt of Language on Technology in Performance Audit</u>
1	Los Angeles Unified	Included	computer networks, school information systems, and technology capability
2	San Diego Unified	Included	classroom technology, instructional technology, i21 classroom technology
3	Fresno Unified	Included	technology
4	Long Beach Unified	Included	CAMS Technology and Site Improvements, Technology Infrastructure
5	Elk Grove Unified	Included	instructional technology
6	San Francisco Unified	Included	information technology systems
7	San Bernardino City Unified	Included	classroom technology, Indian HS Springs Technology
8	Capistrano Unified	N/A	N/A
9	Corona-Norco Unified	Included	computer, media recording and presentation equipment
10	San Juan Unified	Included	Tech Service Infrastructure, District Wide MDF Tech Services

Top 10 Largest School Districts in California - Bond Program Audit Review

State Audit Guide Review

REPORT COMPONENTS FOR FINANCIAL AUDITS	<u>Los Angeles Unified</u>	<u>San Diego Unified</u>	<u>Fresno Unified</u>
(a) Table of Contents	Included	Included	Included
(b) Financial Section	Included	Included	Included
(c) Independent Auditor's Report	Included	Included	Included
(d) Balance Sheet	Excluded	Included	Included
(e) Statement of Revenues, Expenditures, and Changes in Fund Balance	Partially Included	Included	Included
(f) Notes to the Financial Statements	Partially Included	Included	Included
(g) Independent Auditor's Report on Internal Control over Financial Reporting	Excluded	Included	Included
(h) Schedule of Findings and Recommendations	Excluded	Included	Included
(i) Schedule of Prior Audit Findings	Excluded	Included	Included

REPORT COMPONENTS FOR PERFORMANCE AUDITS	<u>Los Angeles Unified</u>	<u>San Diego Unified</u>	<u>Fresno Unified</u>
(a) The objectives, scope, and methodology of the audit	Included	Included	Included
(b) The audit results, including findings, conclusions, and recommendations, as appropriate	Included	Included	Included
(c) A statement about the auditor's compliance with <i>Government Auditing Standards</i>	Included	Included	Included
(d) A summary of the views of responsible officials	Included	Excluded	Excluded
(e) If applicable, the nature of any confidential or sensitive information omitted.	Excluded	Excluded	Excluded

Notes: State Audit Guide refers more specifically to:
 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting
 Appendix A
 LOCAL SCHOOL CONSTRUCTION BOND AUDITS

Top 10 Largest School Districts in California - Bond Program Audit Review

State Audit Guide Review

REPORT COMPONENTS FOR FINANCIAL AUDITS	<u>Long Beach Unified</u>	<u>Elk Grove Unified</u>	<u>San Francisco Unified</u>
(a) Table of Contents	Included	Included	Included
(b) Financial Section	Included	Included	Included
(c) Independent Auditor's Report	Included	Included	Included
(d) Balance Sheet	Included	Included	Included
(e) Statement of Revenues, Expenditures, and Changes in Fund Balance	Included	Included	Included
(f) Notes to the Financial Statements	Included	Included	Included
(g) Independent Auditor's Report on Internal Control over Financial Reporting	Included	Included	Included
(h) Schedule of Findings and Recommendations	Included	Included	Included
(i) Schedule of Prior Audit Findings	Included	Excluded	Excluded

REPORT COMPONENTS FOR PERFORMANCE AUDITS	<u>Long Beach Unified</u>	<u>Elk Grove Unified</u>	<u>San Francisco Unified</u>
(a) The objectives, scope, and methodology of the audit	Included	Included	Included
(b) The audit results, including findings, conclusions, and recommendations, as appropriate	Included	Included	Included
(c) A statement about the auditor's compliance with <i>Government Auditing Standards</i>	Included	Included	Included
(d) A summary of the views of responsible officials	Excluded	Excluded	Excluded
(e) If applicable, the nature of any confidential or sensitive information omitted.	Excluded	Excluded	Excluded

Notes: State Audit Guide refers more specifically to:
 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting
 Appendix A
 LOCAL SCHOOL CONSTRUCTION BOND AUDITS

Top 10 Largest School Districts in California - Bond Program Audit Review

State Audit Guide Review

REPORT COMPONENTS FOR FINANCIAL AUDITS	<u>San Bernardino City Unified</u>	<u>Corona-Norco Unified</u>	<u>San Juan Unified</u>
(a) Table of Contents	Included	Included	Included
(b) Financial Section	Included	Included	Included
(c) Independent Auditor's Report	Included	Included	Included
(d) Balance Sheet	Included	Included	Included
(e) Statement of Revenues, Expenditures, and Changes in Fund Balance	Included	Included	Included
(f) Notes to the Financial Statements	Included	Included	Included
(g) Independent Auditor's Report on Internal Control over Financial Reporting	Included	Included	Included
(h) Schedule of Findings and Recommendations	Included	Included	Excluded
(i) Schedule of Prior Audit Findings	Included	Included	Excluded

REPORT COMPONENTS FOR PERFORMANCE AUDITS	<u>San Bernardino City Unified</u>	<u>Corona-Norco Unified</u>	<u>San Juan Unified</u>
(a) The objectives, scope, and methodology of the audit	Included	Included	Included
(b) The audit results, including findings, conclusions, and recommendations, as appropriate	Included	Included	Included
(c) A statement about the auditor's compliance with <i>Government Auditing Standards</i>	Included	Included	Included
(d) A summary of the views of responsible officials	Excluded	Excluded	Included
(e) If applicable, the nature of any confidential or sensitive information omitted.	Excluded	Excluded	Excluded

Notes: State Audit Guide refers more specifically to:
 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting
 Appendix A
 LOCAL SCHOOL CONSTRUCTION BOND AUDITS