

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE RR
PERFORMANCE AUDIT
JUNE 30, 2025**



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE RR
PERFORMANCE AUDIT
June 30, 2025**

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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 RR School Bond Construction Program** for the year ended June 30, 2025.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was limited to the objectives listed on page 5 of this report which includes determining the District’s compliance with the performance requirements for the Proposition 39 Measure RR 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 RR 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
April 24, 2026



**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
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LEGISLATIVE HISTORY
June 30, 2025**

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.

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MEASURE RR GENERAL OBLIGATION BONDS
June 30, 2025**

The Measure RR School Bond Construction Program (Measure RR) or "the school upgrades and safety measure" 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 update classrooms/labs/technology for 21st century learning; implement COVID-19 facility safety standards; address school facility inequities; reduce asbestos, earthquake and water quality hazards; and replace/renovate aging school classrooms/buildings.

The Board of Education (the Board) has established a School Construction Bond Citizens' Oversight Committee (BOC) to ensure that the proceeds of Measure RR's bond issuances are used for the purposes stated in the Board Resolution (the Resolution), which placed Measure RR on the 2020 ballot.

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

- Upgrade, acquire, and/or install communication and safety/security systems, networks, fixtures, infrastructure, and equipment.
- address/telecommunications, and exterior lighting.
- Install and/or replace security gates, fencing, and master key/door lock and access control systems, fixtures, and equipment.
- Replace plumbing systems and/or fixtures to address lead or deterioration and/or improve water quality.
- Upgrade and/or rehabilitate grounds, fixtures, buildings, and structures or portions thereof, including, but not limited to, hand sanitizing stations touchless faucets, automatic flush urinals, and toilets, motion sensor hand dryers, touchless/hands-free/automatic doors, physical barriers such as clear plastic sneeze guards, and ventilation systems, to eliminate or mitigate health and safety risks and/or comply with local, state and federal building, health, safety, access, and other related guidelines, guidance, or requirements, including those related to COVID-19.
- Retrofit, rehabilitate, reconstruct, and/or replace school buildings to improve earthquake safety.
- Install and/or upgrade air quality improvement systems and equipment.
- Furnish and equip school facilities with technology.
- Upgrade, replace, acquire, and/or install technology infrastructure, systems, fixtures, hardware, and software.
- Modernize, renovate, replace, and/or upgrade school facilities.
- Replace, upgrade, and/or install major site, building, and utility systems and equipment.
- Construct and/or upgrade clean, renewable, sustainable, and efficient energy and/or water systems, equipment, and features
- Renovate, install, construct, upgrade, and/or replace school grounds, gardens, outdoor areas, outdoor structures, outdoor learning areas, landscape, hardscape, permeable surfaces, irrigation, drainage, storm drain connections, and stormwater retention systems, which may include the removal of portable or modular buildings.
- Construct, upgrade, and/or expand pathways, path of travel, paved areas, roads, sidewalks, pick-up/drop-off areas, and parking lots and related areas.
- Construct, reconstruct, rehabilitate, expand, and/or replace athletic, recreational, and/or sports facilities including, but not limited to, play areas, playgrounds, play fields, gymnasiums, stadiums, athletic fields, and tracks (synthetic or natural), tennis courts and other hardcourts, pools, baseball/softball dugouts and batting cages, stadiums, bleachers, press boxes, announcer's booths, scoreboards, and locker rooms.

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The proceeds from the Measure RR are to be used for projects such as the following (continued):

- Renovate, replace, and/or install lighting for athletic fields, play fields, tracks, courts, and stadiums.
- Rehabilitate closed schools, centers, and/or sites to be operational, and renovate/upgrade such schools, centers, and/or sites to meet health, safety, and access requirements, and efficiency and program needs.
- Acquire or replace school buses.
- Americans with Disabilities Act (ADA) and other accessibility upgrades, renovations, and installations to physical elements/areas.
- Indoor and outdoor furniture including, but not limited to, desks, chairs, benches, tables, modular furniture, bookcases and lockers.
- Technology including, but not limited to, laptops, laptop carts, computers, tablets, mobile devices, digital projectors, 3D printers, smart/interactive whiteboards, UAV/UAS educational drones, cameras, document cameras, sound amplification devices, monitors, ceiling mounted projectors, televisions, copiers, scanners, printers, microphones, audio systems, video systems, announcement displays, and digital marquees.
- Equipment, including, but not limited to, computer science equipment, robotics equipment, science lab equipment, career technical education industry-specific equipment, food service equipment, and gymnasium or athletic equipment such as basketball backboard and rim systems, baseball/softball dugouts and batting cages, and soccer goal posts and nets.
- Acquire, construct, furnish, and equip new schools, classrooms, classroom buildings, adult and career technical education facilities, preschool facilities, labs, gymnasiums, other school athletic, recreational, and sports facilities.
- Development of District-owned facilities for charter schools pursuant to, without limitation, a District augmentation program.
- Consistent with the District's responsibilities under Education Code Section 47614, renovate school facilities.
- Construction of new and expansion of existing school-based wellness clinics.
- Construction, reconstruction, rehabilitation, and replacement of athletic, recreational, and/or sports facilities.

All projects to be funded under Measure RR 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 RR. Such guidelines specifically state that no funds will be spent for teacher, administrator salaries or for school operating expenses.

The Measure RR initiative authorized the issuance of \$7.0 billion in bonds. \$1.6 billion has since been issued between November 2021 and May 2025. The bonds are included in the audited financial statements of the District.

The District tracks the financial activities related to Measure RR in the District Bonds Fund. The District Bonds Fund is comprised of multiple funds in the District's Audited Comprehensive Financial Report (ACFR).

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHOOL BOND CONSTRUCTION PROGRAM
MEASURE RR
PERFORMANCE AUDIT
OBJECTIVES, SCOPE, METHODOLOGY, AND CONCLUSIONS
June 30, 2025**

OBJECTIVES OF THE AUDIT

The following represents the objectives of our performance audit:

1. Bond Expenditures and Recordkeeping

Determine that the District expended Measure RR funds for the year ended June 30, 2025, 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 Professional Service Agreements in accordance with the District's Desk-Top Procedures for Facilities Contracts, Construction Contracts in accordance with the District's Operational Standards Policies & Procedures and Desk-Top Procedures for Facilities Contracts, and Goods and Supplies Contracts in accordance with the District's Procurement Manual.

The scope, methodology, and conclusions of the above objectives are enumerated on pages 6 through 13 of this report.

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SCHOOL BOND CONSTRUCTION PROGRAM
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OBJECTIVES, SCOPE, METHODOLOGY, AND CONCLUSIONS
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1. BOND EXPENDITURES AND RECORDKEEPING

Objective

Determine that the District expended Measure RR funds for the year ended June 30, 2025, 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 from July 1, 2024, to June 30, 2025. The population of expenditures tested includes object codes and specific projects associated with Measure RR.

A total of \$461.4 million in expenditures were identified for fiscal year ended June 30, 2025, which consists of the following (thousands):

Non-Payroll Expenditures:	
Books and supplies	\$ 674
Services and other operating expenditures	10,891
Capital outlay	445,607
Debt service: principal	64
Debt service: capital leases interest	8
<i>Total non-payroll expenditures</i>	457,244
Payroll Expenditures:	
Classified salaries	2,238
Employee benefits	1,218
<i>Total payroll expenditures</i>	3,456
Other Financing Uses:	
Transfers out	692
<i>Total other financing uses</i>	692
Total Measure RR Expenditures per ACFR - District Bonds Fund	\$ 461,392

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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, 2025, in the ACFR. We extracted from the general ledger report all activities pertaining to Measure RR, Fund 216, as of June 30, 2025.

Conclusion

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

b. Procedures Performed

We selected a total of 312 individual invoices (sampled project expenditures) representing non-payroll expenditures amounting to \$141.8 million or 31% 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 RR'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 RR'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

We identified 21 instances of non-compliance with Procedure (b)(i). Refer to finding **MRR-2025-001** in the Schedule of Findings and Responses for further details.

Facilities Services Division (FSD) issued its most recent Board approved SEP in 2024, which was used for testing. Expenditures pertaining to projects not listed in the 2024, or prior years, SEP's were tested in accordance with the board approved SEP amendments.

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 37 employees' payroll expenditures (sampled employees) for the entire fiscal year amounting to \$2.3M 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 RR'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 RR 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 RR by testing the following:
 - Sampled employees maintained a multi-funded timesheet, 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-6521.2 dated December 17, 2021, 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 the time associated with actual activities performed on Measure RR, and not based on a predetermined budgeted rate/allocation, by reviewing supporting documentation to verify that payroll expenditures charged to Measure RR were based on actual time spent on Measure RR 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.

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

We identified two instances of non-compliance with Procedure (c)(iv). Refer to finding **MRR-2025-002** in the Schedule of Findings and Responses for further details.

d. Procedures Performed

We selected 1 Transfer Out (sampled transfer) 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 RR'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 RR funds.

Conclusions

The results of our tests indicated that sampled non-payroll expenditure was 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 was not expended on school operating expenditures. Additionally, the amounts expended was consistent with the Board approved SEPs and amendments or Board Report authorizing the use of Measure RR funds.

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2. PROCUREMENT OF CONTRACTS/AGREEMENTS

Objective

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

Scope

The scope covers contracts/agreements procured during the period of July 1, 2024, to June 30, 2025, in which the original funding strategy source assigned was Measure RR.

Procedures Performed

We selected 3 Professional Services Agreements to determine whether 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), Request for Qualifications (RFQ), or Invitation for Bid (IFB) 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.
- x. We verified Written Qualifications and Cost Proposals were collected for PS agreements between \$10,000 - \$114,500. For any sole source contracts, we verified a non-competitive/sole source justification form was filled out.
- xi. We verified a fully signed contract was entered between the District and the contractor.
- xii. For contracts up to \$250,000, we verified the District completed an Informal Request for Proposal (IFRP), shopping cart (if applicable), Request for Procurement Action (RFPA) and a Statement of Work form was completed.

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

Procedures Performed *(continued)*

We selected 4 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 the selected contracts:

- 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 CONTRACTS/AGREEMENTS *(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) 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 guaranteed 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 (NOIA) was transmitted to the Contractor with the remaining requirements before the contract was awarded.
 - Within 10 days of receipt of NOIA, 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.
 - Final contract was issued with evidence of all required approvals.
- v. We verified that the contract award was properly authorized and approved by the Board.
- vi. We verified that the extract of the Public Works Contract (PWC) Award was forwarded to the California Department of Industrial Relations - Division of Apprenticeship Standards.

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

Procedures Performed *(continued)*

We selected 2 Goods and Supplies Contracts to determine the District procured the contracts in accordance with the applicable requirements of the Procurement Manual by testing the following for the selected contracts:

- 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.

Conclusions

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

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SCHOOL BOND CONSTRUCTION PROGRAM
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SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2025**

MRR-2025-001 – Indirect Cost Charges

Criteria

Indirect costs are associated with the bond program but should not or cannot be reasonably attributed to individual projects. These costs include the following:

- *Program Management*: Includes program level support costs for staff members of the Facilities Executive Office and FSD branches. Also includes activities that may be needed to prepare for Board review of project definitions such as surveying, master planning, standards development, and initial project scoping.
- *Non-FSD Support*: Includes costs of support staff outside of FSD, but funded by the bond program, such as the offices of the General Counsel, Inspector General, Procurement Services, Accounts Payable, Risk Management, and the Personnel Commission.
- *Other Indirect Costs*: Includes costs associated with bond issuance, professional services related to program needs, and bond program operating costs such as supplies, equipment, technology, and previously leased space for bond program staff.

Purchases associated with indirect costs that benefit both bond projects and non-bond projects should be allocated based on a proportional cost analysis that reflects the relative benefit to each program, ensuring an equitable distribution of expenditures.

Condition, Cause & Effect

In conjunction with Objective 1, Procedure (b)(i), of the non-payroll expenditures sampled, we identified the following:

1. Program Management / Job Order Contracting – Gordian

Based on our review of 3 non-payroll expenditures charged to the bond funds for Gordian Job Order Contracting program management services, it was determined that the bond-funded allocation included costs associated with both bond and non-bond projects. Although the District later provided support indicating that some of the underlying projects were not bond funded and that the bond funds would need to be adjusted, the true-up had not been processed during the fiscal year. Accordingly, the expenditures charged to the bond funds were not fully supported by the final bond/non-bond proportional analysis, resulting in a reported exception of \$17,370.82.

2. Architecture & Engineering Services at Facilities Maintenance & Operations – Invoice Authorization

Based on our review of 1 non-payroll expenditure charged to the bond funds within Architecture & Engineering Services at Facilities Maintenance & Operations, it was determined that the invoice was processed without sufficient evidence of review and approval by authorized District personnel. Specifically, the individual involved in authorizing the invoice could not be located on the District's authorized approver listing provided for audit. In addition, the expenditure lacked adequate evidence of authorized approval in accordance with established procedures.

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MRR-2025-001 – Indirect Cost Charges *(continued)*

Condition, Cause & Effect *(continued)*

3. Information Technology Services Costs Allocation

Based on our review of 17 non-payroll expenditure samples charged to the bond funds for the Safety, Communications, and Security Modernization program, we identified instances in which Information Technology Services contractor and project administration expenditures were initially charged fully to bond funds, although it was identified that the contractors worked on both bond-funded and non-bond-funded activities and that time was being tracked based on IO numbers. The support provided indicated that bond and non-bond expenditures were to be distributed by Information Technology Services based on actual time worked. Based on our review, the invoices were recorded entirely to bond funds at the time of processing, and the related non-bond portion was not adjusted out of bond funds prior to June 30, 2025. The total costs associated with those invoices totaled \$120,737,50.

Recommendation

We recommend the following to the District:

- a. Facilities Services Division - For item 1 identified in our finding, conduct a proportional cost analysis to evaluate the relative benefit that the indirect cost provides to both bond and non-bond projects. Additionally, adjust Measure RR's expenditure based on the proportional cost analysis conducted ensuring an equitable distribution of expenditures.
- b. Architecture & Engineering Services at Facilities Maintenance & Operations – In related to item 2 identified in our finding, ensure invoices charged to the bond funds are reviewed and approved only by District personnel included on the authorized approver listing, and strengthen controls to prevent expenditures from being processed without evidence of such approval in accordance with established procedures.
- c. Information Technology Services - For item 3 identified in our finding, conduct an allocation analysis based on the work performed by the contractors as reflected in their submitted invoices to determine the portion properly chargeable to bond-funded activities and non-bond-funded activities. Additionally, adjust each Measure Q's expenditure based on the allocation analysis conducted to ensure the expenditures charged to the bond funds are supported.
- d. Bond Compliance Unit - Provide training, guidance, and support to the impacted departments to ensure compliance with established policies and procedures in items (a).
- e. The District should establish policies and procedures regarding the use of bond funds for indirect costs, including (1) clear basis for establishing the budgeted indirect cost, (2) clear procedures and basis for establishing actual indirect costs charged, (3) clear reporting of indirect costs incurred, and (4) establishing indirect cost budgets within the Strategic Execution Plan(s), subject to approval by the Board of Education.

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MRR-2025-001 – Indirect Cost Charges *(continued)*

Views of Responsible Officials and Planned Corrective Actions

a. Facilities Services Division

The FSD purchases were not acquired for non-bond purposes, and as the completed calculations show, most of the benefits were received by the bond program. Where purchases were intended to benefit both bond and non-bond programs, FSD apportioned the costs by the estimated benefit to each program. Although the auditor has questioned those apportionments, FSD feels that the estimates used were reasonable.

FSD is concerned that effort required to reallocate costs a year or more after the purchase is not a cost-effective method of apportionment and adversely affects planning when the costs to each program are unknown even after the purchase is made. Although it will have adverse consequences to the District's programs as a whole, the most efficient way of complying with this requirement is to simply reserve items purchased with bond funds to be used exclusively for bond funded purposes.

FSD will perform the following corrective actions in Fiscal Year 2026:

Program Management / Job Order Contracting – Gordian - The District concurs with the finding that Measure RR was overcharged by \$17,370.82. The District finalized the proportional cost analysis for this item and will adjust the MRR expenditure in FY-26.

- b. Architecture & Engineering Services at Facilities Maintenance & Operations – The District concurs that there was a lack of adherence to the Facilities bond approval process. FSD ratifies that these are proper expenditures and will conduct additional training on A/E Services approvals related to bond expenditures.
- c. Information Technology Services - The cost allocations between bond and non-bond funding based on IOs have been processed in Fiscal Year 2026, along with the necessary journal vouchers (JVs) and PO repostings.
- d. Bond Compliance Unit - The Bond Compliance Unit will engage with impacted departments by June 30, 2026, to provide guidance and support to address compliance with established policies.
- e. The District will review and revise existing procedures in light of the recommendation to improve the budgeting, charging, and reporting of indirect costs and accountability thereof.

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MRR-2025-002 – Payroll Expenditure Charges

Criteria

District departments seeking approval of the use of Bond Funds for personnel costs must submit justification to the CFO's Bond Compliance Unit. 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 Bond Compliance Unit is responsible for approving Bond-Funded positions by reviewing the submitted justification validating the need for the position and maintaining copies of the submitted supporting documentation.

FSD, ITS, and other department employees who were Measure RR funded classified employees, reporting time in Colin, Maximo, PATS, custom forms on an internal order or project basis, or other department-managed timekeeping systems, and whose time is charged to an "overhead" or "indirect" code, must maintain supporting documentation verifying that the payroll expenditures charged to Measure RR was based on actual time spent or a system in place to properly establish relevant metrics necessary to distinguish bond-funded versus non-bond-funded activities, on Measure RR related activities, and was not based on the originally budgeted percentage included in the justification submitted to the CFO's Bond Compliance Unit.

Payroll expenditures charged to Measure RR should be adjusted at the end of the year to reflect the actual time spent or a system in place to establish relevant metrics properly, not based on budgeted assumptions, necessary to distinguish bond-funded versus non-bond funded activities, on Measure RR related activities.

Condition, Cause & Effect

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

- a. Based on our review of payroll documentation for two employees from the District's Office of Environmental Health and Safety (OEHS) department, it was determined that the employees' payroll charges to Measure RR were based on a fixed budgeted percentage. Departments who utilize a fixed budgeted percentage to charge an employee's payroll charges throughout the fiscal year to the bond funds should support these charges by conducting an analysis, prior to the closing of the books, of actual time spent during the year to adjust the bond funds accordingly.

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MRR-2025-002 – Payroll Expenditure Charges *(continued)*

Recommendation

We recommend the following to the District:

- a. The CFO’s Bond Compliance Unit to provide training, guidance, and support to the District’s OEHS department regarding the analysis of payroll expenditures charged to Measure RR against actual time spent or a system in place to properly establish relevant metrics, not based on budgeted assumptions, necessary to distinguish bond-funded versus non-bond funded activities, on Measure RR related activities. Further, the District should ensure that personnel responsible for making such decisions on behalf of the department are present for the training.
- b. The District’s OEHS department establishes relevant metrics necessary to distinguish bond-funded versus non-bond funded activities, which are not based on budgeted assumptions, to make relative adjustments at the end of the year, as a result of the training provided by the CFO’s Bond Compliance Unit.

Views of Responsible Officials and Planned Corrective Actions

- a. Bond Compliance - The Bond Compliance Unit will engage with impacted departments by June 30, 2026, to provide guidance and support to address compliance with established policies.
- b. OEHS

OEHS acknowledges the recommendations set forth by the auditors and has taken corrective action to strengthen time reporting practices, ensuring staff report actual time worked rather than relying on budgeted allocations.

OEHS conducted an analysis of FY 2024–2025 labor actuals and, in coordination with BCU, completed a bond realignment for 27 positions to better reflect actual workload distribution. To support accurate reporting, OEHS implemented enhancements within Maximo, including Bond-Only Work Orders and a project-specific tracking mechanism.

Additionally, OEHS provided targeted staff training on time reporting requirements and initiated retroactive COLIN corrections to align employee time reporting with updated bond designations. These corrections are in progress and expected to be completed by June 30, 2026. OEHS has also implemented quarterly monitoring of bond actuals for FY 2025–2026 to ensure ongoing accuracy and compliance. OEHS remains committed to continuous improvement and will continue to partner with BCU to refine practical approaches for tracking and reporting metrics.

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No matters were reported.