

**Los Angeles Unified School District  
Office of the Inspector General**

**Incurred Cost Audit  
Southwest Inspection & Testing, Inc.**

**Contract No. 4400008557**

**CA 25-1473  
December 10, 2025**

**Sue Stengel  
Inspector General**





# Los Angeles Unified School District Office of the Inspector General

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*Inspector General*

December 10, 2025

Mr. Matthew Friedman  
Chief Procurement Officer  
Procurement Services Division  
Los Angeles Unified School District  
333 S. Beaudry Avenue, 28th Floor  
Los Angeles, CA 90017

RE: Audit of Southwest Inspection & Testing, Inc. Contract Number 4400008557

Dear Mr. Friedman:

Enclosed is the final report on our audit on the examination of Contract No. 4400008557 awarded to Southwest Inspection and Testing, Inc.

Please contact our office if you have any questions.

Sincerely,

*Mark H. Pearson*  
Digitally signed by Mark H. Pearson  
DN: cn=Mark H. Pearson, o=ou,  
email=mark.pearson1@lausd.net, c=US  
Date: 2025.12.10 12:33:00 -0800

Mark H. Pearson, CPA, CFE, CIGA  
Assistant Inspector General

*Sue Stengel*  
Digitally signed by Sue Stengel  
DN: cn=Sue Stengel, o=OIG, ou=OIG,  
email=sue.stengel@lausd.net, c=US  
Date: 2025.12.10 13:18:43 -0800

Sue Stengel, Esq., CIG  
Inspector General

c: Jorge Ballardo, Cheri Thomas, Ivory King, Dana Greer, Lissette Pacheco, Julie  
Woessner, Krisztina Tokes, Andrea Reyes

Attachment

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## Audit of Southwest Inspection & Testing, Inc. Contract No. 4400008557

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### EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) examined Contract number 4400008557 (Contract) awarded by the Los Angeles Unified School District (District) to Southwest Inspection & Testing, Inc. (Southwest) to provide materials testing and special inspection services.<sup>1</sup>

The initial contract amount was for \$2,000,000, with a contract term from November 1, 2020 through October 31, 2023. The Contract included two (2) one-year option periods. During the contract period, Southwest submitted seven amendments to the Contract, which increased the contract value to \$6,500,000, extended the contract term through October 31, 2025, and revised the hourly billing rates on the Fee and Payment Schedule. This examination was conducted to promote accountability and transparency by determining whether services billed were accurately charged and appropriately performed in accordance with the corresponding Contract task orders.

### Key Conclusions

- Overall, Southwest's billings were adequately supported in all material respects and generally allowable under the terms of the Contract.
- Three of 38 invoices reviewed had incorrect hourly rates applied, which resulted in the overbilling of \$6,273.
- Southwest provided the required services for seven completed task orders and submitted the necessary reports to the Division of State Architect (DSA).
- Observation: The OIG observed inconsistencies in how drilled-in-anchor installation tasks were billed, due to unclear task descriptions and different interpretations of rate classifications.<sup>2</sup>

### Audit Recommendations

*Recommendation No. 1* - Southwest should provide the District with a credit of \$6,273 for overbilling of the three invoices. Southwest provided the District with a check for \$6,273 on November 4, 2025.

*Recommendation No. 2* - We recommend that Procurement Facilities Contracts lead and coordinate with the Maintenance and Operations Architectural and Engineering (M&O AE), Project Execution (PEX), and Facilities Payment Processing Services (FPPS) units to ensure that Fee and Payment Schedule changes are clear and timely communicated to all relevant parties, including the Owner Authorized Representatives (OARs) and testing and inspection firms. This should include ensuring that all updated Fee and Payment Schedules prominently display the effective date of new rates, along with clarification indicating that the effective date applies to the task order rather than the invoice date. This will help ensure that all units apply the correct schedule before invoice approval.

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<sup>1</sup> [Contract # 4400008557](#) and <https://www.southwestinspection-field.com/>

<sup>2</sup> Drilled-in-anchor installation refers to creating drilled holes in concrete or masonry and placing mechanical or adhesive anchors, with verification of hole preparation, installation procedure, torque, and curing. Tasks performed by Southwest include inspection/testing associated with verifying proper installation of the anchors.



## Audit of Southwest Inspection & Testing, Inc. Contract No. 4400008557

*Recommendation No. 3* - Procurement Facilities Contracts should coordinate with M&O AE, PEX, FPPS, and other relevant departments to ensure that FPPS reviewers and OARs receive timely and clear guidance on verifying that rates applied in invoices correspond to the authorized effective dates. This coordination should include developing or updating reference materials or instructions used during invoice review.

### INTRODUCTION

The District and Southwest entered Contract No. 4400008557 on October 26, 2020, to provide special inspections at various school site construction projects as well as associated laboratory tests. Southwest services included window water intrusion testing, structural strength evaluations, examinations of welded structures (like steel beams or frames to ensure strength and safety), and other inspections and laboratory tests.

The Contract's original not-to-exceed amount was \$2,000,000, and the contract period was from November 1, 2020, to October 31, 2023. During the contract period, Southwest submitted, and the District approved, seven amendments to the contract, which increased the contract value to \$6,500,000, extended the contract term through October 31, 2025, and revised the hourly billing rates on the Fee and Payment Schedule.

Amendment Number	Effective Date	Description of Change
1	4/19/2021	Addition of Exhibit H – Provisions Required of Federally Funded Contracts
2	2/21/2023	The agreement amount was increased from \$2 million to \$2.5 million.
3	4/10/2023	The agreement amount was increased from \$2.5 million to \$3.5 million.
4	5/10/2023	The agreement amount was increased from \$3.5 million to \$4.5 million.
5	9/14/2023	The contract expiration date was extended to October 31, 2024, and Exhibit B - Fee and Payment Schedule was revised to update the hourly billing rates for special inspectors.
6	1/4/2024	The agreement amount was increased from \$4.5 million to \$6.5 million.
7	5/20/2024	The contract expiration date was extended to October 31, 2025.

### SCOPE AND OBJECTIVES

Between November 1, 2020, and December 31, 2024, the District paid Southwest \$3,273,928 for 344 invoices against the Contract. Our examination covered payments made by Southwest under the Contract during this period.

The objectives of this examination were to determine whether:

1. The amounts billed by Southwest were adequately supported and in accordance with the contract terms and conditions.
2. Southwest provided services as required by the task orders.



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### METHODOLOGY

To accomplish our objectives, we performed the following procedures:

- Interviewed District staff in the Procurement Services Division – Facilities Contracts to obtain an understanding of the District’s internal controls and processes.
- Inquired with Southwest’s management about their internal controls and business operations.
- Recalculated the mathematical accuracy of the billed invoices.
- Validated the number of direct labor hours billed against timesheets and daily reports.
- Verified that authorized hourly rates were used to bill for services provided.
- Examined the rates billed for testing and inspections against the Contract’s Fee and Payment Schedules.
- Verified that overtime hours were properly approved by the District Representative, and that the number of billed hours did not exceed the authorized hours.
- Validated the amounts of direct costs billed against supporting documents such as vendor invoices, laboratory reports/results, and proposals submitted to the District.

### RESULTS

**The amounts billed by Southwest were adequately supported and in accordance with the Contract terms and conditions, except for three invoices that included a higher incorrect rate.**

For the period from November 1, 2020, to October 31, 2023, Southwest Inspection & Testing, Inc. billed the District 344 invoices totaling \$3,273,928. To verify that amounts billed were adequately supported, we statistically selected 38 invoices totaling \$879,783 (27% of the total billed) for testing. We judgmentally selected 10 line items per invoice for review when more than 10 line items were included in each invoice, and reviewed them for proper approvals, ensured the rates were from the correct group and aligned with the task order period, and ensured the labor hours agreed to the time sheets and the daily inspection reports.

Our overall examination found that the labor hours billed for inspection services, the hours and rates billed for administrative personnel costs, the units and rates billed for materials testing, and the overtime hours billed were adequately supported and allowable in accordance with the contract terms and conditions, except for the finding described below.



## Audit of Southwest Inspection & Testing, Inc. Contract No. 4400008557

Finding No. 1 – Three of 38 invoices reviewed had incorrect hourly rates applied, which resulted in the overbilling of \$6,273.

### Criteria

According to the Internal Control–Integrated Framework, an organization must establish a process to effectively communicate necessary information to personnel and external parties, enabling them to understand and fulfill their internal control responsibilities.<sup>3</sup>

Billing must be based on the fee schedule in effect, which is based on the task order date. The revised fee schedule was effective September 13, 2023, according to the fifth amendment of the Contract. Billings on September 13, 2023 and after would be required to use the revised Fee and Payment Schedule.

### Condition

To determine if the correct Fee and Payment Schedule rate was applied to each invoice, we reviewed all 38 invoices, along with the corresponding task orders. We identified three invoices, in which the new rate (higher) was applied, but the old rate should have been applied. For these three invoices, we expanded our testing to include 100% of the line items, rather than only 10 for each invoice. The table below lists the three instances in which the incorrect rate was applied.

Task Order Date	Task Order	Amount Billed	Amount Audited	Total Overbilled Amount
8/4/2023	019.03-R	\$ 47,443	\$ 44,098	\$ 2,925
8/4/2023	019.03-R	\$ 45,820	\$ 42,292	\$ 3,096
9/8/2023	020.02-R	\$ 4,361	\$ 4,109	\$ 252
<b>Total</b>		<b>\$ 97,624</b>	<b>\$ 90,499</b>	<b>\$ 6,273</b>

Effective September 13, 2023, the Contract’s Exhibit B, Fee and Payment Schedule, was amended for the revision of the hourly billing rates for Special Inspectors. The revised Fee and Payment Schedule applied to task orders initiated or negotiated on or after the execution date of the master contract amendment. All task orders initiated and negotiated before September 13, 2023, were to use the initial Fee and Payment Schedule.

### Cause

Internal controls did not ensure timely application of updated billing rates to invoices. For example, the OAR review process is partially intended to ensure that contractors have applied the correct billing rates to their invoices, but, in this instance, there was a lack of clarity regarding the effective date of new billing rates. M&O AE, PEX, and FPPS did not identify or communicate to the OARs and their team that the incorrect fee schedule had been applied. More timely and clear guidance on when revised billing rates are to be applied would help reduce the potential for overbilling.

<sup>3</sup> Internal Control–Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013, p 113,118.



## Audit of Southwest Inspection & Testing, Inc. Contract No. 4400008557

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PEX and FPPS informed the OARs via email on February 7, 2024, that the old rates should have been applied and that invoices would not be retroactively corrected. The Procurement Facilities Contracts unit sent a formal notification to the testing and inspection firms regarding the effective date of the revised Fee and Payment Schedule on April 22, 2024. They also confirmed that any amendments with updated Fee and Payment Schedules would take effect upon the issuance of the amendment, and that any work related to a task order issued prior to that date should be billed under the previous Fee and Payment schedule.

### Effect

As a result, three invoices were overstated by a total of \$6,273, leading the contractor to overbill the District. This amount was identified based on a sample of 38 (11%) invoices reviewed during the examination. Since the total population included approximately 344 invoices, the actual overstatement could be potentially higher. While the known impact is not material to the overall contract value, use of incorrect rates demonstrates non-compliance with the contractual billing terms and raises concerns over the effectiveness of billing controls as part of the District's invoicing process.

### Recommendation No. 1

Southwest should issue a credit of \$6,273 to the District to correct the overbilling identified on the three invoices where the incorrect fee schedule was applied.

The District has received a check from Southwest for \$6,273 on November 7, 2025.

### **Procurement Services Division Response:**

Southwest Inspection & Testing has reimbursed the District in the full amount, \$6,273.

### Recommendation No. 2

We recommend that Procurement Facilities Contracts lead and coordinate with M&O AE, PEX, and FPPS to ensure that Fee and Payment schedule changes are clear and timely communicated to all relevant parties, including OARs as well as testing and inspection firms. This should include ensuring that all updated Fee and Payment Schedules prominently display the effective date of new rates, along with clarification/indication that the effective date for billing rates applies to the task order date rather than the invoice date. This will help ensure all units apply the correct schedule before approving invoices.

### **Procurement Services Division Response:**

PSD agreed to collaborate with the Facilities Services Division (FSD) to review and enhance the existing process to ensure that changes to the Fee and Payment Schedules are clearly communicated to all stakeholders. PSD clarified that they have a process in place where the Fee and Payment Schedules are accessible to all relevant contract users. This is intended to ensure that updates are readily available for reference and application. PSD acknowledged that they need to strengthen communication among all contract users by providing clearer information regarding any updates made.



## Audit of Southwest Inspection & Testing, Inc. Contract No. 4400008557

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### Recommendation No. 3

Procurement Facilities Contracts should coordinate with M&O AE, PEX, FPPS, and other relevant departments to ensure that FPPS reviewers and OARs receive timely and clear guidance on verifying that rates applied in invoices correspond to authorized effective dates. This coordination should include developing and/or updating reference materials or instructions used during invoice review.

### **Procurement Services Division Response:**

PSD partially agreed with the recommendation. It agreed to collaborate with FSD to ensure that executed amendments and updated Fee and Payment Schedules are communicated to all reviewers, including providing support in refining controls for validating effective dates and authorized rates. It did not agree that PSD should coordinate this effort, and indicated that FSD owns the invoice review process.

### **OIG Response**

We appreciate PSD's thoughtful response and its willingness to collaborate with FSD to strengthen the rate-validation process, and we respectfully maintain that PSD should coordinate the effort to ensure FSD and its respective departments and units receive clear guidance and support so as to enhance their own review efforts. We acknowledge PSD's position that invoice verification ultimately resides with FSD. Our recommendation does not seek to shift that responsibility; it reinforces PSD's existing role as the process owner for procurement actions and amendments as well as in ensuring that all contract users receive clear, timely, and actionable guidance that enables FSD to perform its verification responsibilities effectively. While invoice verification is indeed an FSD function, the accuracy of that function depends on front-end clarity from PSD regarding effective dates and rate applicability.

A workflow exists for distributing and communicating rate amendments. However, recent confusion, as evidenced by the February 7, 2024 communication to OARs and the April 22, 2024 notification to contractors, suggests that the communication process did not sufficiently meet user needs. Additionally, because the Fee and Payment Schedule did not include an effective date or clear instructions on applying billing rates to the task order rather than invoice date, reviewers lacked the information required to consistently apply the correct rates when approving invoices.

The coordination we are recommending does not replace FSD's ownership of invoice verification, rather it enhances FSD's ability to review invoices by ensuring reviewers receive accurate and complete information at the outset.

### **Observation**

During the review of contractor invoices, the OIG noted inconsistencies in the billing rates applied to services related to drilled-in-anchor installation. While the Contract's Fee and Payment schedule lists the position "Drilled in Anchor Install" under Group 1, invoices containing descriptions of services related to anchor installation and anchor torque tests were billed at the Group 2 rate, which was \$3 higher than the Group 1 rate. Discussions with project staff and management revealed differing opinions on the appropriate rate classification, compounded by inconsistent task descriptions on



## Audit of Southwest Inspection & Testing, Inc. Contract No. 4400008557

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invoices. Several project staff and management actually believed a Group 2 rate was more appropriate for various reasons, the most significantly being the level of complexity of the work and that many of the drilled-in-anchors are installed in concrete; therefore, generally, a concrete inspector holding an American Concrete Institute (ACI) Certification was needed to perform the services. Concrete inspectors holding an ACI certification are paid at a Group 2 rate. Due to these discrepancies, the audit team was unable to confidently determine whether the Group 2 rate was incorrectly applied.

This observation highlights the need for clearer task definitions and billing guidelines to prevent potential future inconsistencies and reduce the risk of overbilling.

### **The contractor provided the services as required by the task orders.**

The task orders issued under this Contract required Southwest to perform special inspections and any associated laboratory testing, and to submit a DSA Laboratory of Record Verified Report Form 291 (Final Verified Report), which is a report certifying that the related material/work was compliant with DSA-approved construction documents and any non-compliance issues have been resolved.

The 38 invoices selected for review were associated with 29 task orders, 22 of which were still ongoing at the time of fieldwork, and seven of which had been completed. The OIG reviewed whether Southwest issued and submitted Final Verified Reports for the seven completed projects, and that the reports were accepted by the Division of the State Architect, as this would provide a high level of confidence that the material/work was compliant with DSA-approved construction documents. The OIG found that all seven completed projects were submitted to and accepted by the Division of State Architects, with no exception.

### **AUDIT TEAM**

This audit was conducted by the following auditors:

Maria Thomas, Audit Manager  
Kien Hong, Principal Auditor  
Jacqueline Jerez, Senior Auditor



# Los Angeles Unified School District Office of the Inspector General

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**Scott M. Schmerelson, President**  
**Sherlett Hendy Newbill**  
**Dr. Rocio Rivas**  
**Nick Melvoin**  
**Karla Griego**  
**Kelly Gonez**  
**Tanya Ortiz Franklin**  
*Members of the Board*

**Alberto M. Carvalho**  
*Superintendent*

**Sue Stengel**  
*Inspector General*

## Independent Auditor's Report

We have examined the amounts billed by Southwest Inspection & Testing, Inc. (Southwest) under Contract number 4400008557 (Contract) for the period from November 1, 2020, through October 31, 2024, and Southwest's compliance with the terms and conditions of the Contract. Southwest's management is responsible for the amounts billed and for complying with the terms and conditions of the Contract. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting Southwest's compliance with the contract requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of Southwest's compliance with the specified requirements.

Our examination found that Southwest overbilled the District by \$6,273 due to the use of the incorrect Fee and Payment Schedule. The applied rates were from the revised Fee and Payment Schedule, which included higher hourly rates, and was intended for task orders initiated and negotiated on or after September 13, 2023.

In our opinion, except for the finding identified in the examination, the amounts billed by Southwest under the Contract for the period from November 5, 2022, through December 1, 2023, were, in all material respects, adequately supported and allowable in accordance with the contract's terms and conditions, and the scope of work was completed in compliance with the contract requirements.

*Mark H. Pearson*  
Digitally signed by Mark H. Pearson  
DN: cn=Mark H. Pearson, o=ou,  
email=mark.pearson1@lausd.net, c=US  
Date: 2025.12.10 12:36:11 -0800

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Mark Pearson, CPA, CFE, CIGA  
Assistant Inspector General  
October 3, 2025

# Attachment A

## Verbatim Response from PSD

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Los Angeles Unified School District  
**PROCUREMENT SERVICES DEPARTMENT**  
333 South Beaudry Avenue, 28<sup>th</sup> Floor, Los Angeles, CA 90017  
Telephone (213) 241-3087 • Fax (213) 241-2853

**ALBERTO M. CARVALHO**  
Superintendent

**KARLA ESTRADA**  
Deputy Superintendent of Instruction

**PEDRO SALCIDO**  
Deputy Superintendent of Business Services & Operations



**SAMAN BRAVO-KARIMI**  
Chief Financial Officer

**SUNG YON LEE**  
Deputy Chief Business Officer

**MATTHEW A. FRIEDMAN**  
Chief Procurement Officer

**DATE:** November 25, 2025

**TO:** Mark Pearson, CPA, CFE, CIGA  
Office of the Inspector General

**FROM:** Matthew Friedman, Chief Procurement Officer  
Procurement Service Division

**SUBJECT:** Response to Draft Incurred Cost Audit of Southwest Inspection & Testing, Inc.  
Contract No.: 4400008557

Signed by:  
*Matthew Friedman*  
E9543C29E5F14AC

Procurement Services Division (PSD) is in receipt of the above-referenced draft audit report dated November 18, 2025. Below is an outline of our responses to the audit findings and recommendations.

**Recommendation #1:**

Southwest should provide the District with a credit of \$6,273 for the overbilling of the three invoices. The District has received a check from Southwest for \$6,273.

**Response:** Southwest Inspection & Testing has reimbursed the District in the full amount, \$6,273.

**Recommendation #2:**

We recommend that Procurement Facilities Contracts lead and coordinate with the Maintenance and Operations Architectural and Engineering (M&O AE), Project Execution (PEX), and Facilities Payment Processing Services (FPPS) units to ensure that Fee and Payment Schedule changes are clear and timely communicated to all relevant parties, including the Owner Authorized Representatives (OARs) and testing and inspection firms. This should include ensuring that all updated Fee and Payment Schedules prominently display the effective date of new rates, along with clarification indicating that the effective date applies to the task order rather than the invoice date. This will help ensure that all units apply the correct schedule before invoice approval.

**Response:** An established process currently exists whereby all task orders, contracts, and amendments (including any associated changes to Fee and Payment Schedules) are provided and made accessible to relevant contract users. This process is intended to ensure that such updates are readily available for reference and application. However, we acknowledge the need to strengthen communication and clarity regarding these updates. Accordingly, Procurement Facilities Contracts will collaborate with the Facilities Services Division (FSD) to review and enhance the existing process to ensure that Fee and Payment Schedule changes are clearly and consistently communicated to all stakeholders.

## Attachment A

### Verbatim Response from PSD

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**Recommendation #3:**

**Procurement Facilities Contracts should coordinate with M&O AE, PEX, FPPS, and other relevant departments to ensure that FPPS reviewers and OARs receive timely and clear guidance on verifying that rates applied in invoices correspond to the authorized effective dates. This coordination should include developing or updating reference materials or instructions used during invoice review.**

**Response:** A formal workflow is in place for processing, executing, and distributing rate amendments along with all associated information. Procurement will continue to collaborate with FSD to ensure that executed amendments and updated Fee and Payment Schedules are communicated promptly and that reference materials are readily available to all reviewers. While OARs and FPPS currently verify invoices against approved proposals, this verification process is owned by the Facilities Services Division (FSD). Procurement will share these audit findings and provide support to FSD with further refining controls for validating effective dates and authorized rates. Ultimately, responsibility for the invoice verification process and compliance remains with FSD.

## OIG HOTLINE

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[inspector.general@lausd.net](mailto:inspector.general@lausd.net)



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