



Los Angeles Unified School District

Proposition BB Bond and Measure K School Construction Programs
Agreed-Upon Procedures Reports for the Year ended June 30, 2004

and

Statements of Project Costs from Inception through June 30, 2004

(With Independent Auditors' Report Thereon)

AUDIT ■ TAX ■ ADVISORY

Measure K
Statement of Project Costs



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Education
Los Angeles Unified School District:

We have audited the accompanying statement of project costs of the Measure K School Bond Construction Program of the Los Angeles Unified School District (the District) for the period from November 1, 2002 (inception) to June 30, 2004, as required by Proposition 39. Such statement of project costs is the responsibility of the District's management. Our responsibility is to express an opinion on the accompanying statement of project costs based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of project costs is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of project costs. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of project costs referred to above presents fairly, in all material respects, the project costs of the Measure K School Bond Construction Program for the period from November 1, 2002 (inception) to June 30, 2004 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

January 7, 2005

**LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM**

Statement of Project Costs

Period from November 1, 2002 (inception) to June 30, 2004

Cost category	Adjusted budget (Unaudited)	Actual costs incurred			Unspent balance
		November 1, 2002 (inception) through June 30, 2003	Project costs, year ended June 30, 2004	Total project costs, through year ended June 30, 2004	
New construction:					
Phase one:					
New construction	\$ 1,080,075,200	40,521,207	237,259,944	277,781,151	802,294,049
Additions	77,745,019	1,109,427	20,552,528	21,661,955	56,083,064
Playground expansion	17,909,197	468,309	8,022,226	8,490,535	9,418,662
Support costs	84,595,246	108,076	975,275	1,083,351	83,511,895
Labor costs	7,617,573	—	4,494,871	4,494,871	3,122,702
Total phase one	1,267,942,235	42,207,019	271,304,844	313,511,863	954,430,372
Phase two:					
New construction	376,457,640	491,191	5,321,039	5,812,230	370,645,410
Additions	10,889,975	—	19,036	19,036	10,870,939
Support costs	58,013,482	3,142,799	3,030,690	6,173,489	51,839,993
Labor costs	10,197,742	23,592	4,593,975	4,617,567	5,580,175
Office of Inspector General Audit	7,466,395	33,605	720,548	754,153	6,712,242
Total phase two	463,025,234	3,691,187	13,685,288	17,376,475	445,648,759
Total new construction	1,730,967,469	45,898,206	284,990,132	330,888,338	1,400,079,131
Modernization:					
Lead and asbestos removal	11,979,751	20,249	1,267,062	1,287,311	10,692,440
Repairs	181,979,686	—	2,320,899	2,320,899	179,658,787
Repair support costs	499,640,162	1,066,717	33,921,064	34,987,781	464,652,381
Total modernization	693,599,599	1,086,966	37,509,025	38,595,991	655,003,608
Early childhood education:					
Renovation/repair	9,793,305	—	224,216	224,216	9,569,089
Expansion	11,524,337	468,389	5,372,356	5,840,745	5,683,592
Education center	26,462,909	—	—	—	26,462,909
Support costs	1,813,881	—	175,209	175,209	1,638,672
Labor costs	399,865	—	101,547	101,547	298,318
Total early childhood education	49,994,297	468,389	5,873,328	6,341,717	43,652,580
Information Technology Department (ITD):					
Indirect support – ITD:					
Support costs	1,885,200	—	61,165	61,165	1,824,035
Labor costs	1,948,402	31,640	1,218,502	1,250,142	698,260
Nonlabor	827,082	—	524,715	524,715	302,367
Technical support	10,000,000	—	402,526	402,526	9,597,474
Tech and communication infrastructure:					
Supplies	49,472,686	13,290	7,131,994	7,145,284	42,327,402
Upgrading and stocking library	29,176,178	—	1,207,220	1,207,220	27,968,958
Total Information and Technology Department (ITD)	93,309,548	44,930	10,546,122	10,591,052	82,718,496
Charter Schools:					
Expansion	26,129,845	—	7,518	7,518	26,122,327
Support	10,437,319	—	—	—	10,437,319
Total Charter Schools	36,567,164	—	7,518	7,518	36,559,646
Joint use:					
Project costs	5,741,178	—	—	—	5,741,178
Employee fringe benefits	1,528,368	43,887	287,047	330,934	1,197,434
Interest	5,069,730	—	—	—	5,069,730
Unallocated costs as of June 30, 2004	—	—	27,211,668	27,211,668	(27,211,668)
Total Measure K Project Costs	\$ 2,616,777,353	47,542,378	366,424,840	413,967,218	2,202,810,135

See accompanying notes to the statement of project costs.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to the Statement of Project Costs

Period from November 1, 2002 (inception) to June 30, 2004

(1) Measure K School Bond Construction Program Background

The Measure K School Bond Construction Program (Program) is intended to provide funding for continued improvements to schools and to provide an additional 112,000 new seats for children and to build new neighborhood schools. Additionally, the Program has set funds aside for improving the neighboring communities by enhancing recreational activities and providing after-school space by constructing new schools near parks and libraries.

The Board of Education has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of the Measure K School Bond issues are used for the purposes stated in the resolution which placed Measure K on the 2002 ballot. The Measure K School Bond initiative authorized the issuance of \$3.35 billion in bonds, after which \$2.1 billion was issued in March 2003, followed by an additional issuance of approximately \$100 million. The proceeds from the Measure K School Bonds are to be used for projects such as repairing leaky roofs, connecting classrooms to intranets and the internet, equipping libraries with new books, and construction of new schools and early education centers. All projects to be funded under the Measure K School Bond Construction Program must be included in the Board of Education approved Strategic Execution Plans, which detail the scope of work to be done for each project. The District has established a Bond Charging Policy to outline the allowable expenditures for the Measure K School Bond Construction Program related costs. Such policies specifically state that no funds will be spent for teacher or administrator salaries or for operating expenses.

All projects are managed by approved District Program Managers. Program Managers are responsible for managing all program-related activities, including the maintenance of the District's master schedule and the master program budget.

(2) Basis of Presentation

The accompanying statement of project costs has been prepared in conformity with accounting principles generally accepted in the United States of America. The accompanying Statement of Project Costs reflects the flow of economic resources management and is presented on the full accrual basis of accounting.

(a) Budget (Unaudited)

The amounts include within the budget (unaudited) column in the accompanying statement of project costs represents the costs that are expected to be expended to complete the various projects.

(b) Actual Costs Incurred

The amounts included within the total actual costs column in the accompanying statement of project costs represents actual expenditures paid and accrued by the Los Angeles Unified School District for the period from November 1, 2002 (inception of the program) to June 30, 2004.

(c) Unallocated Costs

The amounts included in the accompanying statement of project costs represent expenditures incurred as of June 30, 2004 but not yet allocated to a specific cost category.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to the Statement of Project Costs

Period from November 1, 2002 (inception) to June 30, 2004

(3) State Funding

The Facilities Division transferred \$35.8 million in expenditures for seven projects to Measure K funds in order to leverage the local bond funds against State matching funds. These projects were going to be funded by Escutia funds from the State but because of increasing construction costs, the Escutia funds were insufficient to fund all projects originally planned under Escutia. The transfer resulted in an additional \$80 million of State matching funds for the New Construction Phase I program. All seven projects are identified in the Measure K Bond language and in the New Construction Strategic Execution Plan.

**(4) Budget Balances from Inception to
Fiscal Year Ended June 30, 2004 (unaudited)**

The following is a summary of the budgeted revenues and expenditures for the Measure K School Bond Construction Program from November 1, 2002 (inception) through June 30, 2004:

Bonds issued (fiscal year 2002/2003)	\$ 2,100,000,000
Bonds projected to be issued in 2003/2004	550,000,000
Interest (actuals plus projected for 2003/2004)	<u>14,319,731</u>
Total bonds issued and interest as of June 30, 2003	2,664,319,731
Less expenditures/project costs from inception to fiscal 2003/2004	<u>(461,509,596)</u>
Available budget balance as of June 30, 2004	<u><u>\$ 2,202,810,135</u></u>

Measure K
Agreed Upon Procedures



KPMG LLP
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355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Accountants' Report on Applying Agreed-Upon Procedures

The Board of Education
Los Angeles Unified School District:

At your request, we have performed the procedures enumerated below for the Measure K School Bond Construction Program (Measure K) administered by the Los Angeles Unified School District (the District). The tasks we undertook were agreed to by the District's officials and were performed solely to assist the District and its management in fulfilling its oversight responsibility surrounding the administration of Measure K School Bond Construction Program funding for the year ended June 30, 2004. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our areas of inquiry and the corresponding findings are as follows.

A. Procedure

Review compliance with the expenditure provisions/restrictions in Measure K Initiative, including testing that the administrator's salary, have not been charged against Proposition BB monies.

Results

We obtained and inspected the provisions/restrictions imposed by Measure K. Of the transactions we tested (see Procedures C-F below), we noted that the District was in compliance with the expenditure provisions/restrictions in the Proposition BB Bond Initiative and that no "administrator costs," as that term is used in Measure K guidelines, has been charged against Measure K.

We also obtained a record of income earned on unexpended Measure K Bond proceeds for the year ended June 30, 2004. We received supporting documentation for such income earned aggregating \$32,440,484, and determined that for the year ended June 30, 2004, such revenues had been appropriately credited against Measure K.

B. Procedure

Review the process for incurring "Measure K School Bond Construction Program" expenditures.

Results

We obtained and inspected the District's current formal Construction Management Policies and the policies for Professional Service Contracts. We also obtained and inspected the Funds Allocation and Bond Charging Procedures. These formal policies were developed by the District's Facilities Services Division (Facilities).

We noted that the contractor and professional service provider selection and payment procedures are revised periodically; in this regard, we noted that the most recent revision to both policies was on September 3, 2003. Under the District's formal policy, costs charged to the Measure K School Bond Construction Program must be costs that are specifically identifiable to projects included in the District's Board-approved Strategic Execution Plan. Additionally, costs that are incurred for general and administrative purposes at the District level may not be charged to the Measure K School Bond Construction Program.

C. Procedure

Review the process for payment of "Measure K School Bond Construction Program" expenditures.

Results

In conjunction with our review of the District's Construction Management Policies and the policies for Professional Service Contracts discussed above, we obtained and inspected the District's formal Fund Allocation and Bond Charging Procedures. We noted that an authorized representative of the Project Management Firm must "certify" invoices relating to professional services. Further, the invoice, along with a District-approved Encumbrance/Payment Request form, including evidence of approval by an appropriate Los Angeles Unified School District employee, must be submitted in order to process the payment.

With respect to construction expenditures, we noted that Owner Authorized Representative (OAR) must certify the Application for Payment and submit a completed Contractor Payment Transmittal, which includes an authorized Encumbrance/Payment Request form, Application for Payment, and the Owner Assessment Summary. We also noted that the District Facilities Contract Invoice Unit (FCIU) Analyst reviews all requests for payment for compliance with the expenditure policy for Measure K prior to the processing of the payment by the District.

D. Procedure

Test the internal controls over the processes described in items A and B above.

Results

We performed the following tests noting the following:

- We obtained and inspected the most recent Strategic Execution Plans for both New Construction and Existing Facilities, noting approval by the Board and inclusion of the New Construction projects that are funded under Measure K. We noted Existing Facilities has an established project listing which is included in Measure K.

Professional Services Contracts

- We obtained and inspected the Request for Proposal (RFP) packets for two (2) out of the twenty-five (25) professional service contracts that were awarded during the fiscal year ended June 30, 2004 to determine whether the RFP packets contained the required documents. Based on our test work, we noted three (3) people are required to conduct the interviews with the contractors. The only exception noted was that a panel of two (2) people conducted the interviews with the contractors.

Construction Contracts

- We inspected the bidding documents provided to us by the District for two (2) construction contracts that were bid during fiscal year 2004. We confirmed that the documents are signed and approved.
- We reviewed the District's Recommendation to Award Memo, Encumbrance Request Form, and the Bid and Acceptance Form for the contracts noted above and we confirmed the inclusion of the appropriate documentation and authorizing signatures.
- We examined construction contractor submitted invoices for the contracts noted above and noted that the Owner Authorized Representative reviewed invoices for all items required by the contract prior to approval of payment.
- We examined sixteen (16) Payment Transmittals. Six (6) of the Payment Transmittal related to construction contracts and ten (10) of the Payment Transmittal related to professional services contracts. We agreed the invoice amount and vendor to the check copy and examined the Transmittal for evidence of review by FCIU prior to processing by the District. Based on our test work, we noted that one (1) invoice for \$3,354,514 lacked evidence of review by FCIU on line 13 of the encumbrance report. We also noted that one (1) invoice lacked the proper LAUSD approving signature.

Management's Response to Line 13 Exception: Although line 13 was not signed, the FCIU BPAT reviewer initialed on line 15 (expenditure request line) as such the payment was properly authorized.

Management's Response to Missing Approval: The payment request was approved by a District employee who is the local District Project Manager at Local District K and was reviewed by the FCIU BPAT reviewer assigned to the local district.

- We obtained and inspected thirty (30) invoices for expenditures selected from the detailed expenditure listing provided to us by the District's general accounting division for evidence of appropriate review by an FCIU analyst to test the compliance with the Measure K Bond Charging policies. Based on our test work, we noted that one invoice for \$1,791,095 lacked evidence of review by FCIU on line 13 of the encumbrance report.

Management's Response to Line 13 Exception: Although line 13 was not signed, the FCIU BPAT reviewer signed on line 15 (expenditure request line) as such the payment was properly authorized.

E. Procedure

Review compliance with the expenditure provisions/restrictions in the “Measure K School Bond Construction Program,” including conducting appropriate tests to determine that “Measure K” bond funds are used only to build, equip, and repair schools and provide instructional materials.

Results

We selected a sample of thirty (30) expenditures from a detailed listing of expenditures provided to us by the District. The thirty (30) expenditures selected for test work were comprised of twenty (20) payment vouchers and ten (10) journal vouchers. We obtained the thirty (30) warrant packages and reviewed the invoices to determine whether or not District administrative costs or District overhead were paid for through the use of “Measure K” funds. We noted that no funds were used for such purposes.

Our review of the twenty (20) payment vouchers, indicated that fifteen (15) were for the purchase of sites for the construction of new schools and five (5) were for planning, asbestos sampling, safety and technology, or the preparation of property. The ten (10) journal vouchers obtained from District general accounting division were determined to be distributions of expenditures from the Measure K Relocation Imprest Fund. We obtained the actual warrant package relating to the expenditure/journal vouchers from the District FSD Department and noted that the expenditures made were not for District administrative costs.

F. Procedure

Select a sample of transactions and perform appropriate tests to ensure that expenditures were made in compliance with the “Measure K School Bond Construction Program” initiative.

Results

We selected a sample of thirty (30) expenditures from a detailed listing of expenditures provided to us by the District. We obtained the warrant packages and reviewed the invoices and supporting documentation for compliance with the Measure K School Bond Construction Program initiative. The thirty (30) expenditures selected were comprised of twenty (20) payment vouchers and ten (10) journal vouchers. Based on our inspection of the twenty (20) payment vouchers, we noted that fifteen (15) were for the purchase of sites for the construction of new schools and five (5) were for planning, asbestos sampling, safety and technology, or the preparation of property. The ten (10) journal vouchers selected for test work, and obtained from the District’s general accounting division, were determined to be for distributions of expenditures from the Measure K Relocation Imprest Fund. We obtained and inspected the actual warrant information and backup documentation relating to the expenditures/journal vouchers from the District’s Facilities Department.

We noted that all thirty (30) expenditures tested were in compliance with the Measure K School Bond Construction Program initiative and the costing methodology outlined in the District’s Bond Charging Procedures. Additionally, we reviewed the invoices supporting the thirty (30) invoices for compliance with the Measure K initiative by the Facilities Contract Invoice Unit (FCIU), as evidenced by the approval signature of the FCIU analyst on the Encumbrance/Payment Request Form. We noted no exception.

G. Procedure

Inspect budget to actual expenditures, as applicable, to ensure that actual expenditures against budgeted amounts are reviewed by District management.

Results

In a separate report dated January 7, 2005, we expressed an unqualified auditors' opinion on the statement of project costs for the Measure K School Bond Construction Program for the period from November 1, 2002 (inception) to June 30, 2004.

We obtained the Adjusted Budget and actual expenditures from the "Measure K School Bond Construction Program Expenditures Program and Object Type" from the District for the year ended June 30, 2004. We agreed the Current Modified Budget and actual expenditures to the Measure K School Bond Construction Program Fund financial statements as reported in the District's Comprehensive Annual Financial Report without exception.

We compared the Adjusted Budget to actual expenditures in fiscal year 2004, noting a positive variance. From our discussion with District Accounting and Facilities personnel, we were informed that the budget represents the allocation of the proceeds of Measure K bond sales received to date. As most projects included in Measure K are in the planning phase, the positive variance represents the remaining bond proceeds available for Measure K projects. We further noted that budget to actual amounts are presented to the Board of Education on a quarterly basis for their review and approval.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the District's administration of the Measure K School Bond Construction Program. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you.

This report is intended solely for the information and use of the Board of Education, management, and members of the Citizen's Oversight Committee of the Los Angeles Unified School District and is not intended to be, and should not be, used by anyone other than these specified parties.

We thank the members of the Citizen's Oversight Committee and the staff of the Los Angeles Unified School District for their assistance and cooperation in performing our review. We shall be happy to meet and discuss our findings at your convenience.

KPMG LLP

January 7, 2005

Proposition BB
Statement of Project Costs



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Education
Los Angeles Unified School District:

We have audited the accompanying statement of project costs of the Proposition BB School Bond Construction Program of the Los Angeles Unified School District (the District) for the period from April 1, 1997 (inception) through June 30, 2004. Such statement of project costs is the responsibility of the District's management. Our responsibility is to express an opinion on the accompanying statement of project costs based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of project costs is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of project costs. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of project costs referred to above presents fairly, in all material respects, the project costs of the Proposition BB School Bond Construction Program for the period from April 1, 1997 (inception) through June 30, 2004 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

January 7, 2005

**LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Statement of Project Costs

Period from April 1, 1997 (inception) through June 30, 2004

	Adjusted budget (Unaudited)	Actual costs incurred			Unspent balance
		April 1, 1997 (inception) through June 30, 2003	Project costs, year ended June 30, 2004	Total Project costs, through June 30, 2004	
Repairs/School Contracts:					
Nonhealth and safety:					
Air-conditioning	\$ 228,562,870	196,418,235	12,387,596	208,805,831	19,757,039
Bleachers	14,855,820	9,508,584	2,305,343	11,813,927	3,041,893
Safety and technology	445,395,855	180,832,151	115,074,560	295,906,711	149,489,144
Lockers	5,844,241	3,778,705	911,180	4,689,885	1,154,356
Lunch shelters	16,975,770	12,481,854	1,911,555	14,393,409	2,582,361
Security grills	28,062,035	20,264,728	2,520,769	22,785,497	5,276,538
Total nonhealth and safety	739,696,591	423,284,257	135,111,003	558,395,260	181,301,331
Health and safety repairs:					
Ventilation replacement	10,978,348	8,233,646	2,590,895	10,824,541	153,807
Auditorium renovations	7,688,404	4,111,802	1,176,941	5,288,743	2,399,661
Lighting	5,828,049	5,451,702	47,596	5,499,298	328,751
Paving	133,943,183	101,186,038	14,035,884	115,221,922	18,721,261
Electrical	19,366,881	7,367,274	1,486,429	8,853,703	10,513,178
Painting	47,187,866	26,006,252	19,682,584	45,688,836	1,499,030
Wall systems	14,040,057	11,086,576	1,899,858	12,986,434	1,053,623
Floor coverings	34,066,714	21,545,087	6,304,288	27,849,375	6,217,339
Locks	785,712	654,593	131,119	785,712	—
Plumbing	70,079,405	47,716,339	11,284,772	59,001,111	11,078,294
Roofing	6,178,050	6,071,382	98,594	6,169,976	8,074
Gutters	28,475,164	20,316,382	3,949,377	24,265,759	4,209,405
Total health and safety repairs	378,617,833	259,747,073	62,688,337	322,435,410	56,182,423
Total Repairs/School Contracts	1,118,314,424	683,031,330	197,799,340	880,830,670	237,483,754
State Matching Funds:					
New construction:					
Construction	307,052,920	139,571,242	50,984,136	190,555,378	116,497,542
Tests	1,770,104	1,315,116	454,988	1,770,104	—
Inspections	2,888,270	1,713,648	1,174,622	2,888,270	—
Sites	393,302,242	387,486,943	5,815,299	393,302,242	—
Plans	67,065,667	61,784,372	5,281,295	67,065,667	—
Nonreimbursable costs	899,753	847,097	52,656	899,753	—
Total new construction	772,978,956	592,718,418	63,762,996	656,481,414	116,497,542
Modernization:					
Construction	44,412,591	20,327,331	13,757,202	34,084,533	10,328,058
Inspections	534,707	533,355	1,352	534,707	—
Sites	1,887,921	1,868,059	19,862	1,887,921	—
Plans	3,424,656	3,065,375	359,281	3,424,656	—
Nonreimbursable cost	66,209	66,209	—	66,209	—
Total modernization	50,326,084	25,860,329	14,137,697	39,998,026	10,328,058
Total State Matching Funds	823,305,040	618,578,747	77,900,693	696,479,440	126,825,600
Class size reduction costs:					
Portables	97,294,245	57,915,202	9,798,159	67,713,361	29,580,884
New schools/centers	24,985,171	7,972,770	348,341	8,321,111	16,664,060
Renovation	1,500,000	540,367	—	540,367	959,633
Opening of closed schools	7,440,129	7,305,848	25,589	7,331,437	108,692
Total class size reduction costs	131,219,545	73,734,187	10,172,089	83,906,276	47,313,269

**LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Statement of Project Costs

Period from April 1, 1997 (inception) through June 30, 2004

	Adjusted budget (Unaudited)	Actual costs incurred			Unspent balance
		April 1, 1997 (inception) through June 30, 2003	Project costs, year ended June 30, 2004	Total Project costs, through June 30, 2004	
Other costs:					
Program/Project Manager Fees	\$ 304,287,845	193,989,205	61,494,430	255,483,635	48,804,210
Insurance	31,839,045	25,215,511	6,345,211	31,560,722	278,323
Project-related salaries	14,767,738	1,129,266	4,456,433	5,585,699	9,182,039
Asbestos/lead consultants	5,002,077	4,947,133	—	4,947,133	54,944
School-determined needs	8,348,532	5,388,785	822,403	6,211,188	2,137,344
Board Area Match Program	14,058,258	6,328,793	1,466,107	7,794,900	6,263,358
Hazard mitigation	6,996,696	6,996,635	61	6,996,696	—
Reprographic and other costs	4,280,000	2,940,260	155,875	3,096,135	1,183,865
Bonds building effort	5,792,577	685,704	1,672,634	2,358,338	3,434,239
PERS recapture	2,649,568	2,228,464	421,104	2,649,568	—
OIG contractor audits	5,524,000	—	391,593	391,593	5,132,407
Refund 1996 COPs	15,344,829	15,344,829	—	15,344,829	—
Cost of issuance	1,187,067	1,024,215	13,766	1,037,981	149,086
Total other costs	420,078,232	266,218,800	77,239,617	343,458,417	76,619,815
Unallocated costs as of June 30, 2004	—	—	25,000,000	25,000,000	(25,000,000)
Contingency	20,194,158	—	—	—	20,194,158
Total Proposition BB Project Costs	\$ 2,513,111,399	1,641,563,064	388,111,739	2,029,674,803	483,436,596

See accompanying notes to the Statement of Project Costs.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Project Costs

Period from April 1, 1997 (inception) through June 30, 2004

(1) Proposition BB School Bond Construction Program Background

*Los Angeles Unified School District
Proposition BB School Bond Construction*

Proposition BB authorized the Los Angeles Unified School District to issue \$2.4 billion in general obligation bonds. Bond proceeds are to be utilized for projects such as the repair of safety hazards, asbestos removal, installation of air-conditioning, making classrooms accessible to the disabled, upgrading security, and the construction of new classrooms. Proposition BB specifically states that no bond proceeds are to be used for administrator salaries.

The Proposition BB School Bond Construction Program (Program) is intended to provide needed health and safety improvements to more than 800 deteriorating schools and 15,000 buildings and to match State funds for new construction and modernization projects. The Los Angeles Unified School District Board of Education has established a Citizen's Oversight Committee to ensure that the proceeds of the Proposition BB School Bond Construction Program issues are used for the purposes stated in the resolution, which placed the Proposition BB on the 1997 ballot.

All projects are managed by LAUSD approved Program Managers. The Board of Education must approve all project contracts. Each Program Manager is responsible for managing all program-related activities, including the maintenance of master construction schedules and the master program budgets.

(2) Basis of Presentation

The accompanying Statement of Project Costs has been prepared in conformity with accounting principles generally accepted in the United States of America. The accompanying Statement of Project Costs reflects the flow of economic resources management and is presented on the full-accrual basis of accounting.

(a) Adjusted Budget (Unaudited)

The amounts included within the adjusted budget (unaudited) column in the accompanying Statement of Project Costs represent costs that are expected to be expended to complete the various projects.

(b) Actual Costs

The amounts included within the total actual costs columns in the accompanying statement of project costs represent actual expenditures paid and accrued by the Los Angeles Unified School District for the period from April 1, 1997 (inception) through June 30, 2004.

(c) Unallocated Costs

The amounts included in the accompanying combined Statement of Project Costs represent expenditures incurred as of June 30, 2004 but not yet allocated to a specific cost category.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Project Costs

Period from April 1, 1997 (inception) through June 30, 2004

**(3) Budget Balances from Inception to
Fiscal Year Ended June 30, 2004 (Unaudited)**

The following is a summary of the budgeted revenues and expenditures for the Proposition BB Bond Construction Program from April 1, 1997 (inception) through June 30, 2004:

Bonds issued	\$ 2,400,000,000
Interest (actuals plus projected for 2003/2004)	130,563,800
Other income	<u>93,059</u>
	2,530,656,859
Less prepaid OCIP Insurance	<u>(17,545,460)</u>
Estimated Modified Budget Project	2,513,111,399
Less expenditures/project costs from inception through the year ended June 30, 2004	<u>(2,029,674,803)</u>
Available budget balance as of June 30, 2004	<u><u>\$ 483,436,596</u></u>

Proposition BB
Agreed Upon Procedures



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Independent Accountants' Report on Applying Agreed-Upon Procedures

The Board of Education
Los Angeles Unified School District:

At your request, we have performed the procedures enumerated below for the Proposition BB Bond Construction Program (Proposition BB) administered by the Los Angeles Unified School District (the District). The tasks we undertook were agreed to by the District's officials and were performed solely to assist the District and its management in fulfilling its oversight responsibility surrounding the administration of the District's Proposition BB School Bond Construction Program for the year ended June 30, 2004. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our areas of inquiry and corresponding findings are as follows:

A. Procedure

Review compliance with the expenditure provisions/restrictions in the BB Bond Initiative, including testing that the administrator's salary, have not, been charged against Proposition BB monies.

Results

We obtained and inspected the provisions/restrictions imposed by the Proposition BB Bond Initiative. Of the transactions we tested (see Procedures C-F below), we noted that the District was in compliance with the expenditure provisions/restrictions in the Proposition BB Bond Initiative and that no "administrator costs," as that term is used in Proposition BB guidelines, have been charged against Proposition BB monies.

We also obtained a record of income earned on unexpended Proposition BB Bond proceeds for the year ended June 30, 2004. We received supporting documentation for such income earned aggregating \$6,401,334 and determined that for the year ended June 30, 2004 such revenues had been appropriately credited against Proposition BB.

B. Procedure

Reconcile Proposition BB School Bond Construction Program statement of project costs as of June 30, 2004 with the monthly financial reports of BB budgets and expenditures prepared by LAUSD for the Citizens' Oversight Committee over the same period.

Results

In a separate report dated January 7, 2005, we expressed our unqualified auditors' opinion on the statement of project costs of the Proposition BB School Bond Construction Program administered by the District for the period from April 1, 1997 (inception) through June 30, 2004.

We obtained and inspected the monthly *Building Fund-Bond Proceeds Activity Status Report (Status Report)* of Proposition BB-related Budgets and Expenditures, which were prepared by the District's Financial Department for the benefit of the Bond Oversight Committee for the year ended June 30, 2004. We agreed the total project costs summarized in the District's *Status Report* of Proposition BB-related Budgets and Expenditures as of June 30, 2004 to the District's summary of total Proposition BB Bond expenditures as of June 30, 2004 noting no exceptions.

We obtained the District's reconciliation of the project costs incurred during fiscal 2004 to the District's Comprehensive Annual Financial Report (CAFR) as of and for the year ended June 30, 2004. We noted the fiscal year 2004 expenditures included in the project costs of \$414,511,355 were \$6,891,840 higher than the corresponding expenditures recorded in the District's CAFR. From our discussion with District's accounting personnel, we determined that the initial total project costs as of June 30, 2004 did not accurately report fiscal 2004 expenditures because of year-end post-closing adjustments of \$6,891,840 that had not yet been booked to the summary of project costs. These decreases were properly reflected in the summary of District's *Status Report* of Proposition BB related Budgets and Expenditures incurred through June 30, 2004. Additionally, we noted that approximately \$19.4 million had been over accrued in the statement of project costs and the CAFR and an adjustment was made to reduce the amount of expenditures for the year ended June 30, 2004. These post-closing adjustments decreased safety and technology expenditures and new construction cost expenditures

C. Procedure

Test the appropriateness of the allocations of Proposition BB expenditures to Proposition BB expenditure classifications (projects and programs).

Results

Utilizing a listing of Proposition BB expenditures provided to us by the District's management, we compared 30 Proposition BB expenditures (object code 4490) to Proposition BB expenditure classifications (projects and programs). We obtained and inspected the relevant supporting documentation for each expenditure in order to determine the nature of the expenditure. Specifically, we inspected each encumbrance request/pay form for evidence of authorizing signatures. We also verified that the encumbrance request/pay form had been coded to Fund 45. We agreed the dollar amount noted on the invoice to the dollar amount noted on the check copy. Finally, we agreed the expenditures selected for test work to the appropriate expenditure classifications.

Based on the test work performed, we noted the following exceptions:

- We noted that one material purchase for \$1,623.75 was improperly coded under object code 5801.

- We noted that for one material purchase for \$2,741.97, there was no object coding on the encumbrance/payment request form; however, it was properly coded in the system.
- We noted that one material purchase for \$4,923.61 was properly coded in the system but improperly documented on the encumbrance/payment request form.
- We noted that there was no encumbrance request form, no documented approvals, and no coding information in the supporting documentation for one material purchase tested which was for \$4,108.09.

Management’s Response: The expenditure selected for test work was incurred based on a request from either the school level or the information technology department and they may have different encumbrance request/payment procedures.

- We noted that for two of the material purchases tested which totaled \$2,657.68, there was no supporting vendor invoice included in the package of information provided to us; however, there was a LAUSD-generated “Local District ODC Invoice.” Upon further review, we noted that the FCIU department had a copy of the vendor invoices that approximated the dollar amount of the check copy without material exception.
- We noted that one material purchase tested was coded under object code 6490 (office machinery). The total material purchase expenditure was \$3,073.20 which included a refrigerator for \$517.13 which should have been coded under furniture and fixtures (code 4490).

D. Procedure

Test Proposition BB hours recorded on program and project management contractor timesheets and hours billed to the Proposition BB program by contractors.

Results

Project managers submit invoices for services on a monthly basis. We selected a sample of ten (10) out of seventeen (17) program and project managers used by the District and compared hours recorded on program and project managers’ timesheet to the hours billed on the Proposition BB Bond Construction Program. We selected 10 Fund Request – Microdata Sheet packets representing invoices submitted by the respective Project Managers. We inspected each of the packets noting each packet contained the Fund Request Form, the Project Manager invoice, the weekly itemized timesheets, and related supporting documentation and noted no exceptions.

We verified that the signatures of the Project Manager, Local District Facilities/Project Manager, and LAUSD main office Document Processing Unit were present on the selected Fund Request – Microdata Sheet packets.

We also agreed the rates being charged by the program and project managers to the approved rates, specified by the respective Program and Project Manager's contracts. We reviewed all invoices and timesheets for each contracted employee and agreed the hours worked and total costs to the invoices.

- We noted that one of the Project Managers used an incorrect rate of \$103.80 (instead of \$103.50) for an Office Engineer/Field Engineer, resulting in a difference of \$52.80.

For the sample referenced above, we noted that all hours billed were supported by each employee's detailed timesheet without exception. Additionally, we noted that the school names and project descriptions noted on the invoices appeared to represent work done on Proposition BB Bond renovation projects.

E. Procedure

Review compliance with the revised Change Order procedures for Proposition BB Bond Fund projects.

Results

We compared the District's change order procedures to the revised change order procedures utilized for Proposition BB to determine compliance with the District's formal Facilities Services Division Change Order Policies and Procedures. We also obtained and inspected the policy and procedures manual and noting any changes to the policies in effect throughout fiscal 2004.

We compared thirty (30) Change Orders to the District's Facilities Services Division Change Order Policies and Procedures to test the District's compliance with the District's formal revised policies and procedures. We selected fifteen (15) Change Orders from Existing Facilities and fifteen (15) Change Orders from New Facilities.

Our sample of thirty (30) Change Orders revealed the following exceptions from the District's Facilities Services Division Change Order Policies and Procedures which were last revised on September 8, 2003:

- Eight (8) Change Orders (CO) did not include a Request for Proposal (RFP).

Management's Response: The Change Orders did not require a Request for Proposal to be in the file. The Change Order policy and procedures that were in effect during the fiscal year ended June 30, 2004 did not require Change Orders to be preceded by an RFP. An RFP was only required for changes in the work considered "Owner Initiated Changes" which are requested and must be approved by the Local District Superintendent's office. Many times a Change Order will be preceded by a Construction Directive or can be the result of an "unsolicited" Change Order Proposal submitted by the Contractor (as allowed by the construction contract, General Conditions, Article 10).

- Three (3) Change Orders totaling \$6,784.61 were missing the Architect's approval signature.
- One (1) Change Order totaling \$662.41 was missing OAR's and Contractor's signature on the Justification of Contract Modification and Record for Negotiation.

- One (1) Change Order totaling \$10,281 did not include the Change Order Package or Change Order Proposal.
- One (1) Change Order's Contract Number did not match the Contract Number in the list provided by the District, which was used to make our sample selection. The amount of the Change Order was \$10,281.

F. Procedure

Test "A" and "B" letters for compliance with LAUSD policy on the use of these types of contracts.

Results

We compared thirty (30) Type "A" and "B" letters issued during the fiscal year ended June 30, 2004 to the District policy provided to us by District personnel for compliance on the use of these types of letters/informal contracts. The District defines its policy on "A" and "B" letters in Financial Guide No. A-3. An "A" or "B" letter is an informally bid contract for work involving labor and material or rental of equipment. These informal contracts are used when work is of an urgent nature or is small in scope. The "A" or "B" letters are also used when services require the use of a skilled craftsman or specialized equipment.

Based on our inspection of the District's policy, we noted the following:

1. The project can be for painting, repainting, alterations, improvements, demolition, renovation, erection, construction, reconstruction, and repair work (except from maintenance as described below) for any District-owned, leased, or operated facility if the dollar amount of the work performed is less than \$14,999.
2. The work may also be related to repair and "maintenance" defined as routine, recurring, and usual work for the preservation, protection, and keeping of any District-owned or operated facility for its intended purpose in a safe and continually useable condition for which it was designed, improved, constructed, altered, or repaired. All painting projects are excluded. The dollar amount of the work performed is to be between \$15,000 and \$59,600 for the period from July 1, 2003 to December 31, 2003 and \$60,900 for January 1, 2004 to June 30, 2004.
3. For "A" letters exceeding \$2,000, the Branch Director or Deputy Director approval signatures are required.
4. For "B" letters exceeding \$5,000, the Branch Director or Deputy Director approval signatures are required.
5. For "A" and "B" letters greater than \$15,000 (not to exceed \$59,600 for the period from July 1, 2003 to December 31, 2003 and \$60,900 for January 1, 2004 to June 30, 2004), the contractor must:
 - Submit a bid guarantee bond in the amount of 10% of the bid amount. In lieu of a bid bond, contractors may submit a cashier's check for 105% of the bid.
 - Submit a performance bond from an admitted surety approved by the District.

For the thirty (30) Type “A” and “B” letters selected, we agreed the contract dollar amounts to the specified limit for the type of work performed and we confirmed the approval signature of the Branch Director or Deputy Director as required above noting no exceptions.

For letters selected for test work that were greater than \$15,000, we obtained proof of submission of a bid guarantee bond and a signed Abstract of Bids for sealed Types “A” and “B” letters without exception.

Finally, we noted that none of the projects related to the thirty (30) Type “A” and “B” letters tested above were issued both Type “A” or “B” letters that when combined totaled more than \$60,000. This procedure was performed to determine if “A” and “B” letter issued for related projects had been improperly combined or were in violation of LAUSD policy.

H. Procedure

Test costs charged to the District by project management firms for compliance with contract terms.

Results

Based on discussions with District management personnel, we noted that each of the seventeen (17) project management firms employed to oversee the Proposition BB School Board Program projects is required to enter into an agreement with the District which specifies the provisions of the work to be performed. All the agreements with the project management firms are similar in relation to contract terms and conditions. We tested the costs charged to District by the seventeen (17) project management firms for compliance with contract terms by performing the following procedures:

- For one of the agreements tested, Staffing Order No. 18 and 19 were signed by the Local Region C but were not signed by the Director of Facilities Projects or Designee. We also noted that Staffing Order No 30 was not signed by the Local District Manager, the Director of Facilities Projects or Designee, and Designated CM firm representative. The remaining staffing orders tested for this agreement had evidence of authorization without exception.

Management’s Reponse: Staffing Order No. 18 and 19 were signed by the Local Region C but they were never submitted to Central. Staffing Order No. 30 was misplaced by the vendor and was superceded by Staffing Order No. 31. Staffing Order No. 30 was never used by thee vendor in any of their invoices.

- For the other agreement tested, we noted one missing Appointment Memo for a contract personnel. We also noted an LAUSD representative did not appear to be present during an interview of another contract personnel.
- We compared a sample of costs charged to the District by the project management firms for compliance with contract terms. We selected a sample of ten (10) of the project managers and agreed the billing rates invoiced to the contract terms. As noted above, we noted that one of the project managers used an incorrect rate of \$103.80 (instead of \$103.50) for an Office Engineer/Field Engineer resulting in a difference of \$52.80.

We were not engaged to, and did not, conduct an examination. the objective of which would be the expression of an opinion on the District's administration of the Proposition BB School Bond Construction Program. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education and management of the Los Angeles Unified School District, and the Bond Oversight Committee, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

January 7, 2005