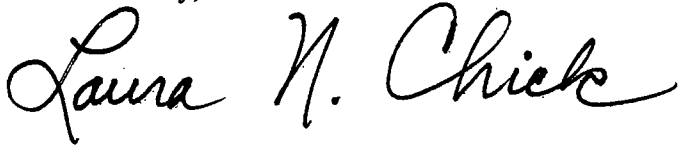


It is clear from this initial review that there is a disturbing lack of transparency and accountability at LAUSD. A successful audit program cannot be measured by sheer quantity, but rather by the quality of reviews, the independence of the auditor and the expedient implementation of recommendations. The only conclusion I can draw from my review is that there are many areas in the LAUSD that need serious audit attention. I reiterate my offer.

Sincerely,

A handwritten signature in black ink that reads "Laura N. Chick". The signature is written in a cursive, flowing style.

LAURA N. CHICK
City Controller

cc: Members of the Los Angeles Board of Education
Mayor Antonio Villaraigosa
Member of the Los Angeles City Council



City of Los Angeles Office of the Controller

Assessment of Reports Submitted to the City Controller by the Los Angeles Unified School District

March 9, 2006

Laura N. Chick
City Controller

ASSESSMENT OF REPORTS SUBMITTED TO THE CITY CONTROLLER BY THE LOS ANGELES UNIFIED SCHOOL DISTRICT

INTRODUCTION & BACKGROUND

The Los Angeles Unified School District (LAUSD) is the second largest district in the nation, serving 746,000 students in grades K-12 for the citizens of the City of Los Angeles and 25 other municipalities. LAUSD currently operates 822 schools and has plans for 159 school construction projects, including building 80 new schools. School construction accounts for almost \$4.9 billion of the District's \$13.2 billion budget for FY 2005-2006.

The mission of LAUSD is clear: "To educate all students to a high level of achievement that will enable them to be responsible individuals and productive members of the greater society." Recent reports have cited high dropout and low graduation rates, critical shortages of math, science, and special education teachers, declining student enrollment, varying teacher quality, overcrowding of schools, and poor maintenance as serious issues calling into question the District's ability to successfully achieve its mission.

In December 2005, the City Controller offered to oversee an outside, independent management audit of the LAUSD which was negotiated in the District's recent contract with United Teachers Los Angeles (UTLA). In a meeting between the Controller and the School Board President, the Controller was asked to look at the audits and reports that were already released on the District before determining whether another audit was necessary.

On December 27, 2005, pursuant to the California Public Records Act, Section 6250 et seq. of the Government Code, the City Controller requested the Superintendent of the LAUSD to provide copies of all audits, reports and studies of the District for Fiscal Years 2000-2001 through the present. The Controller also requested any information related to responses to and implementation of recommendations made in these audits, reports, and studies. On January 20, 2006, the District delivered numerous boxes containing the requested documents.

ASSESSMENT RESULTS

The purpose of this report is to provide some insight and added transparency into what has been audited, reviewed, or studied of the District's operations over the last five years. Based on the evidence provided:

- While LAUSD is the subject of hundreds of reviews, it appears that LAUSD lacks a systematic approach or strategy to ensure key aspects of its operations are independently audited in order to assist leadership in meeting the District's mission.

- Reviews of LAUSD have focused more on assessing general administrative functions, rather than on how the District could more effectively meet its core mission.
- It is unclear how LAUSD uses the information provided by the various audits, studies and analyses to effect positive change, since there was little evidence of implementation status and many of the internal reviews did not contain formal recommendations.

The remainder of this report presents in more detail our observations and conclusions.

ASSESSMENT APPROACH

The purpose of the Public Records request was to provide the City Controller with all necessary documents to determine the extent and types of audits and reviews that have been recently conducted of LAUSD. The Controller was particularly interested in whether the audits and reviews provided adequate coverage of core mission functions. In addition, the Controller sought to determine the current implementation status of recommendations noted in the reports, i.e., whether corrective actions were taken by the District to address any weaknesses or deficiencies noted in the reports.

Controller staff first inventoried, catalogued, and categorized all documents submitted by LAUSD. Each document was assigned a control number, and identifying information was entered into a database for further analysis. Data elements noted included:

- Author;
- Date issued;
- Document type (audit, audit response, status report, follow-up audit, miscellaneous correspondence);
- Included recommendations;
- Review type (financial, compliance, information systems, performance, program evaluation);
- Scope (District Administration; District-wide, or school specific); and
- General subject area

Controller staff also categorized reports as providing information or analysis that was either:

- a) Directly related to LAUSD's ability to achieve its core mission – providing a quality education to its students; or
- b) Solely related to administrative functions that indirectly support LAUSD's ability to achieve its mission.

In our opinion, the critical functions necessary to enable the District to successfully achieve its mission include:

- 1) District oversight
On a District-wide level, the actions taken by management to ensure that the mission is being met (i.e., student academic performance), and that it complies with various mandates, laws and regulations.
- 2) Teachers and instructional staff
The performance and ability of people in the classroom. This would include the necessary recruitment, development and retention strategies to ensure schools have highly qualified and effective teachers.
- 3) Instructional materials and other resources
The adequacy of facilities, technology, textbooks, and other supplies that directly support both teachers and students to help them achieve academic success.
- 4) Curriculum and instructional programs
The effectiveness of the strategies, subject areas and instructional methods used in schools, as directly related to achieving a high level of academic performance.
- 5) Learning environment
Other general programs and activities not directly related to classroom activities, which support students to optimize their academic performance (e.g., school safety issues, after-school programs, transportation, nutrition, alternative learning environments, counseling programs, etc.)

Documents that did not relate to one of these five functions, including general financial analyses, statistical data that did not include a narrative or conclusion, and reviews of petty cash controls and contract administration, were classified as related to administrative functions.

Controller staff then analyzed the data to provide a high-level assessment of the documents provided by the District.

OBSERVATIONS & CONCLUSION

- 1. WHILE SUBJECT TO HUNDREDS OF REVIEWS, LAUSD MANAGEMENT APPEARS TO LACK A CLEAR, OVERALL PICTURE OF WHAT HAS BEEN REVIEWED, WHERE THE PROBLEMS ARE, AND WHAT AREAS MAY NEED ADDITIONAL ATTENTION.**

The numerous boxes delivered by LAUSD contained more than 1,000 separate documents, each ranging from one to hundreds of pages in length. The documents included audit reports, studies, reviews and miscellaneous correspondence. After eliminating duplicate copies, we noted 983 unique reports that comprised the population of documents considered in this assessment.

We noted that 80% of the documents were authored by internal LAUSD units, including the Office of the Inspector General (OIG), Program Evaluation and Research Branch

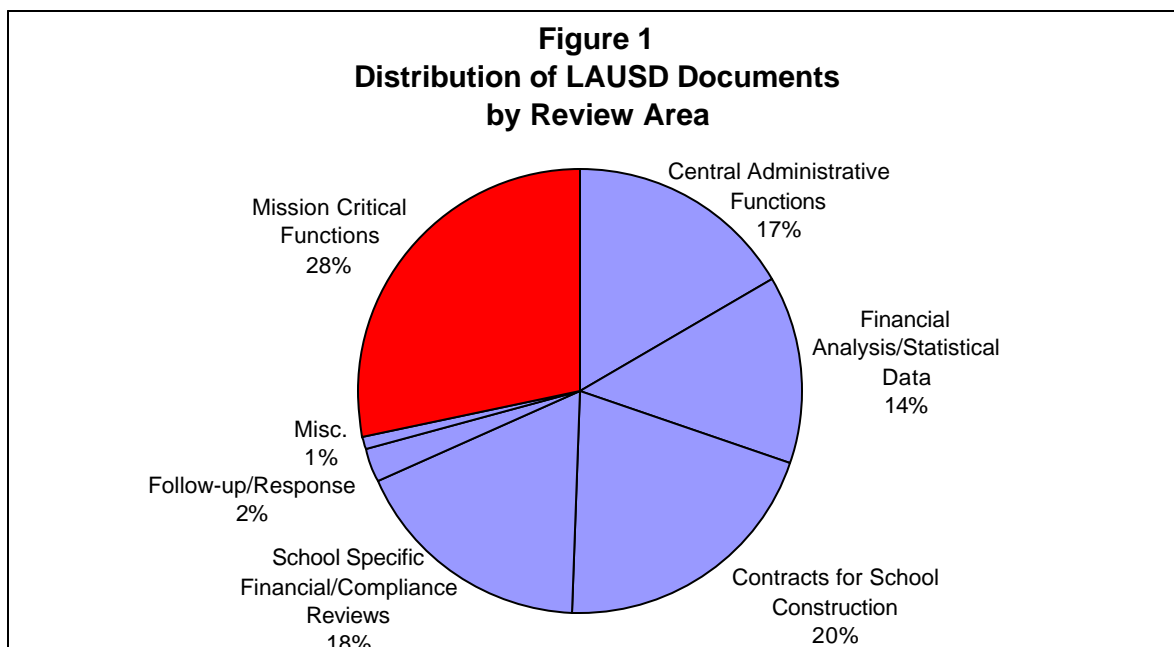
(PERB), and Independent Analysis Unit (IAU). The remaining 20% were authored by agencies external to LAUSD, including the U.S. Department of Education, California State Department of Education, California State Controller's Office, Los Angeles County Office of Education, and outside consultants.

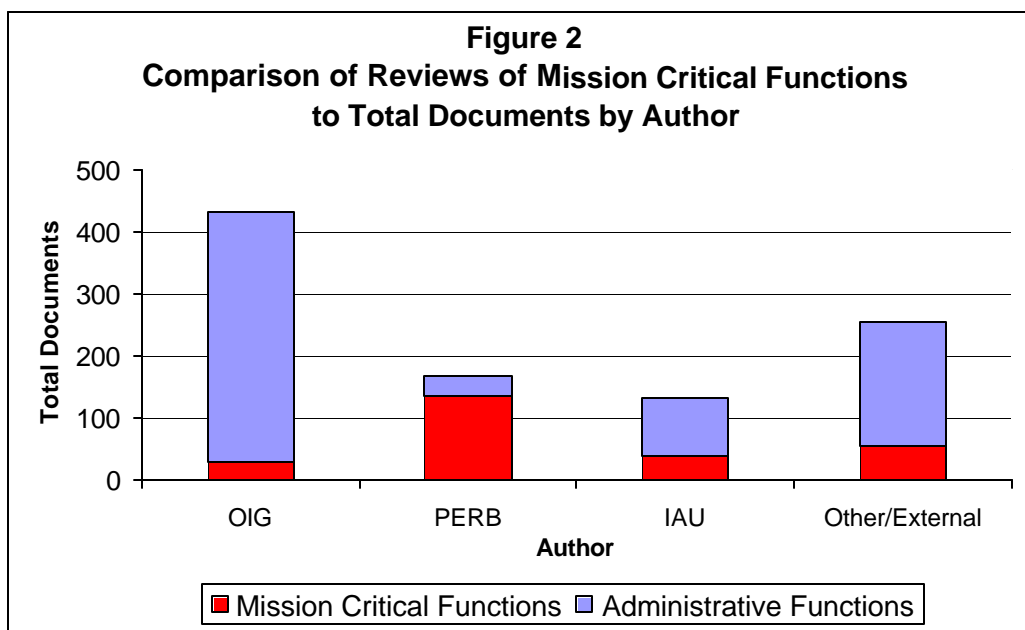
Further analysis of the reports was necessary to determine the focus of the reviews (administrative functions vs. core mission functions) and the actions taken by the District to address any noted weaknesses.

It is obvious that LAUSD has been the subject of many audits, reviews and analyses by a variety of both internal and external entities. However, based on the evidence provided, there is no indication of a systematic approach used by the District not only to identify areas of serious concern (as noted through report findings of subject areas reviewed) nor to inform the leadership on critical areas where additional audit attention is needed. Such an approach would assist the District in achieving its vision and inform management of actions needed as part of its strategic plan.

2. AUDITS, ANALYSES, AND REVIEWS FOCUS PRIMARILY ON GENERAL ADMINISTRATIVE FUNCTIONS, RATHER THAN ON HOW LAUSD CAN MORE EFFECTIVELY MEET ITS CORE MISSION.

Although the documents provided included approximately 270 reports that reviewed areas directly associated with the District's mission, the vast majority focused on administrative functions, such as construction contract reviews, petty cash audits and other school-specific reviews, central administration reviews, and budget analyses, as illustrated in Figure 1 and Figure 2.





Office of Inspector General (OIG)

The OIG reports directly to the Los Angeles Board of Education (Board). The OIG conducts audits, investigations, and reviews of programs and operations within the District. While the OIG was the largest single author of documents provided (430 reports), the majority of their reviews dealt with compliance and/or financial issues rather than assessing the efficiency and effectiveness of programs and operations. Less than 10% of the OIG reports focused on areas directly related to LAUSD’s mission, such as District oversight, curriculum, and instructional staff. The remaining OIG reports were primarily reviews assessing the financial soundness of firms with which LAUSD was considering entering into contracts, incurred costs and claims by contractors, and controls over petty cash funds assigned to specific schools.

Program Evaluation and Research Branch (PERB)

The PERB reports to District senior leadership and the Board. The PERB evaluates various programs and provides findings to program managers and District leadership so that necessary improvements can be made. These reports evaluated program effectiveness and provided insight on the factors related to their success or failure. One hundred thirty-four of the 167 PERB reports (14% of the total 983) related to the effectiveness of District oversight, teachers/instructional staff, instructional materials/other resources, curriculum/instructional programs, or the learning environment. However, there was no evidence of any outcome or action taken by LAUSD as a result of those reports.

Independent Analysis Unit (IAU)

The IAU is a research unit that reports directly to the Board. The documents authored by IAU appear related to specific requests from Board members. These requests ranged from simple budget questions to more complex studies on student performance. However, we found that only 37 of the 132 IAU documents (less than 4% of the total 983) reported on issues directly related to LAUSD’s ability to achieve its mission. For

example, the IAU researched important scholastic issues, such as the factors affecting student success at magnet schools, the percent of ninth graders passing algebra or math, and the number of tenth graders who are unable to read at a sixth grade level. However, there was no evidence of specific actions taken to address issues brought forth by the IAU.

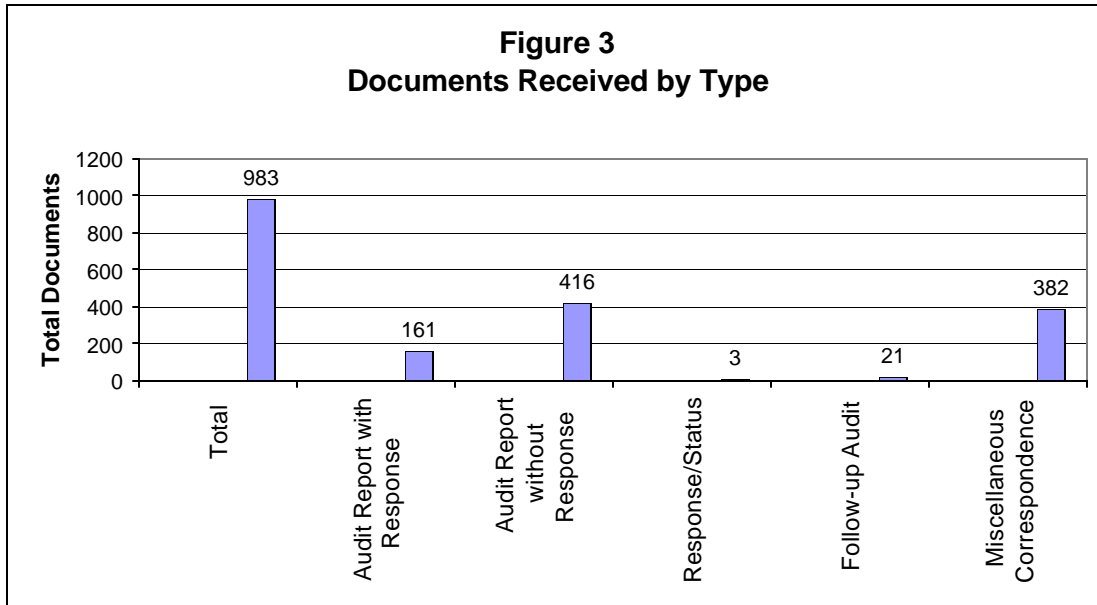
External Agencies

The reports prepared by outside agencies and consultants covered a wide variety of topics, but for the most part focused on compliance and/or financial issues, such as reviews of financial statements or LAUSD's reimbursement claims for legislatively-mandated programs. Only 54 external agency reports conducted over the last five years (5% of the total 983 reports) addressed issues directly related to LAUSD's ability to achieve its mission. Some of these notable reports included: an assessment of the implementation of Small Learning Communities in large high schools in Los Angeles; the impact of outdated, scarce textbooks on academic performance; and a peer review by the Council of the Great City Schools assessing the overall organizational and administrative structure of the District.

We recognize the importance of reviews to assess the adequacy of internal controls over administrative functions. They are necessary to ensure the accuracy of financial information, effective administrative operations, and compliance with relevant laws, regulations and internal policies. However, it is equally important to ensure the effectiveness of program operations that are targeted to improving student achievement. Our analysis noted a sizeable imbalance of reviews focused on administrative functions, rather than on the program performance of mission-critical functions.

3. IT IS UNCLEAR HOW THE LAUSD USES THE INFORMATION PROVIDED BY THE AUDITS, ANALYSES, AND REVIEWS TO EFFECT POSITIVE CHANGE.

One way to determine how an organization utilizes information related to its performance is to analyze both how it responds to the reported results and how it implements corrective actions to address the identified deficiencies. Despite the number of reviews completed over the five-year period, there was little documented evidence of implementation status, either through status reports prepared by District management or follow-up audits (see Figure 3). Additionally, a significant number of reports that addressed areas more directly related to the District's mission did not contain specific recommendations for improvement. Therefore, based on the documents provided, we cannot determine how the information contained in these reports is utilized by District management, or if it has resulted in effecting positive change.



While approximately 285 (66%) of the OIG audit reports included recommendations for corrective action, less than half of the reports contained formal responses from LAUSD. Further, there was evidence that the OIG followed-up on less than 20 audits. At the time these follow-ups were conducted, many of the audit findings remained open. There is evidence of only one instance where a second follow-up was conducted.

Upon closer inspection, we identified that more than one-third of the OIG reports were reviews of contracts related to the District's \$9.6 billion School Construction and Modernization Program. These reports were split evenly between reviews that assessed the financial soundness of firms with which LAUSD was considering entering into contracts and reviews of incurred costs and claims by contractors. We noted that the audits of incurred costs found over \$25 million in questioned or unsupported payments to contractors. While we cannot tell from the documents provided whether LAUSD used these audits to improve contract management procedures, we did note that very few audits conducted in 2005 found questioned or unsupported costs.

For the approximately 200 reviews completed by external agencies, about 30 (15%) included responses from LAUSD, and only four were follow-up audits. Again, while it is difficult to discern how LAUSD used the information provided in these reports, we identified a few instances where District management may not be addressing the issues presented to them, as described below.

The State Controller's Office primarily conducted reviews of LAUSD's claims for reimbursement of costs associated with State-mandated programs. Over five years, 15 audits conducted by the State Controller's Office identified over \$16 million in disallowed costs, which they requested to be returned. The State Controller's Office repeatedly found that the disallowed costs were the result of insufficient documentation and unsupported expenses. This raises questions about whether LAUSD synthesized these separate, repeat findings in order to identify and correct potential problems in its procedures for filing claims.

In another review conducted by an Independent Monitor for LAUSD, the District was found to have made limited or no progress in implementing the Chanda Smith Modified Consent Decree during the 2003-2004 school year. Moreover, the author considered the 2003-2004 school year to be a “lost year” in the three-year timeline to implement the decree. The author recommended that the Associated Superintendent for Special Education be empowered to implement the decree (as stated in the Decree) and for LAUSD senior leadership to prioritize special education reform in order to make up for the lack of progress in 2003-2004. However, in a subsequent report on LAUSD’s progress during the 2004-2005 school year, the Independent Monitor once again noted that there was little evidence that senior leaders had made special education reform a priority, and further stated that he had grave doubts whether LAUSD would be capable of making the necessary progress to meet the June 30, 2006 implementation deadline.

Finally, we observed that while documents prepared by PERB and IAU provided valuable information to LAUSD decision makers on critical educational programs, they presented only the results of their analyses or evaluation, and generally did not recommend actions to be implemented. The nature of these reports did not appear to require a formal follow-up, nor did they require a response from LAUSD management. As a result, we found no evidence that decision-makers used this type of information to improve the educational environment and, ultimately, the achievement of LAUSD students.

CONCLUSION

The assessment of LAUSD reports by City Controller staff confirms that the District undergoes hundreds of audits, reviews and analyses on an annual basis. However, the vast majority of these reports focus on general administrative or finance/compliance issues. There is a relative shortage of performance reviews focused on mission-critical functions. Additionally, because the reports that provide LAUSD with performance data are primarily authored by internal units (and generally do not provide recommendations), we found no evidence that District leadership is using these reports as a catalyst to effect positive change to help LAUSD achieve its mission to “educate all students to a high level of achievement”.

Attachment A Review Areas by Author

Review Areas	INTERNAL LAUSD UNITS				EXTERNAL AGENCIES	TOTAL	
	OIG	PERB	IAU	Other		Number of Documents	Percent of Total Documents
Mission Critical Functions							
District Oversight	5	42	19	12	32	110	11%
Teachers and Instructional Staff	1	21	13	5	2	42	4%
Instructional Materials	3	3	0	0	2	8	1%
Curriculum and Instructional Programs	4	47	2	6	5	64	7%
Learning Environment	17	21	3	1	13	55	6%
Sub-total Mission Critical	30	134	37	24	54	279	28%
Administrative Functions							
Contracts for School Construction	160	0	0	2	38	200	20%
Financial Analysis Statistical Data	0	8	76	4	46	134	14%
School Specific Financial/Compliance	121	23	4	15	12	175	18%
Central Administration	100	1	13	4	46	164	17%
Miscellaneous Documents	0	1	2	1	3	7	1%
Sub-total Administrative Functions	381	33	95	26	145	680	69%
Follow-up/Response	19	0	0	1	4	24	2%
Total	430	167	132	51	203	983	100%¹

¹ Percentages reflect some rounding.