



Los Angeles Unified School District
Office of the Inspector General
Audit Unit

Contract Audit Report

*Incurred Cost Audit
McGrath Rent Corp DBA Mobile Modular
Management Corporation
Contract No. 4400003919*



Los Angeles Unified School District Office of the Inspector General

Mónica García, President
Kelly Gonez
Dr. George J. McKenna III
Nick Melvoin
Dr. Ref Rodriguez
Scott M. Schmerelson
Dr. Richard A. Vladovic
Members of the Board

Independent Auditor's Report

Vivian Ekchian
Interim Superintendent of Schools

Ken Bramlett, MPA, CIG
Inspector General

April 25, 2018

Ms. Sung Yon Lee, Interim Chief Procurement Officer
Procurement Services Division
Los Angeles Unified School District
333 S. Beaudry Avenue, 28th Floor
Los Angeles, CA 90017


Dear Ms. Lee:


This is our report of the incurred cost audit of the amount billed by McGrath Rent Corp DBA Mobile Modular Management Corporation (McGrath) under Contract No. 4400003919 (Contract) with the Los Angeles Unified School District (District).

Our audit determined that the amounts billed on the Contract were allowable, accurate and adequately supported by relevant source documents. The contractor provided and delivered the lease and/or rental units as required by specific purchase orders under the Contract. The lease and/or rental units provided and delivered conformed to the requirements of the Contract and were DSA approved. However, we identified \$1,016 of questioned costs composed of \$753 of unreasonably prorated rents for periods less than three days, and \$263 of unallowable tax charge.

We appreciate your continued support of our audit services.

Sincerely,


Austin E. Onwualu, CPA, CGMA, CIG
Deputy Inspector General, Audits


Ken Bramlett, MPA, CIG
Inspector General

c: Richard Lui
Cheri Thomas

About the Office of the Inspector General

The Office of the Inspector General reports directly to the Board of Education. We conduct independent audits, reviews and investigations of District operations, contracts and vendors in order to:

- ✓ Find ways to improve processes, programs, functions and activities.
- ✓ Provide information that supports effective decision making.
- ✓ Identify real or potential misuse of District resources.
- ✓ Prevent and detect waste, fraud and abuse within the District.

Through our work, we strive to encourage a culture of accountability, transparency, collaboration and excellence and to assist the Board and the Superintendent in their efforts to provide a high quality education for the students and parents of the Los Angeles Unified School District.

EXECUTIVE SUMMARY

We have examined the amounts billed by McGrath Rent Corp DBA Mobile Modular Management Corporation (McGrath) under Contract No. 4400003919 (Contract) with the Los Angeles Unified School District (District). The Contract was for providing yearly lease, month to month rental, and relocation of single story modular relocatable buildings (lease and/or rental units). The objectives of the examination were to determine whether (i) the amounts billed were allowable, accurate and adequately supported by relevant source documents, (ii) the Contractor provided and delivered the lease and/or rental units as required by specific purchase orders under the Contract, and (iii) the lease and/or rental units conformed to the requirements of the contract and were DSA approved.

McGrath's management was responsible for the costs billed. Our responsibility is to express an opinion based on our examination.

In our opinion,

- The amounts billed on the Contract were allowable, accurate and adequately supported by relevant source documents.
- The Contractor provided and delivered the lease and/or rental units as required by specific purchase orders under the Contract.
- The lease and/or rental units provided and delivered conformed to the requirements of the Contract and were DSA approved.
- However, we identified \$1,016 of questioned costs composed of \$753 of unreasonably prorated rents for periods less than three days, and \$263 of unallowable tax charge.

Recommendation

Since the above questioned invoices in the amount of \$1,016 have not been paid by the District, we recommend that the Procurement Services Division (Relocatable Housing Unit) should not approve these invoices.

INTRODUCTION

On April 21, 2015, Los Angeles Unified District (LAUSD) issued Invitation For Bid (IFB) No. FC-88A seeking bids for yearly Lease, Month to Month Rental, and Relocation of Single Story Modular Relocatable Buildings (DSA Approved). McGrath Rent Corp (DBA Mobile Modular Management Corp) was the successful bidder and was awarded a unit rate requirement Contract on September 2, 2015, for an initial Contract period from September 1, 2015 to August 31, 2018, plus two (2) one-year options to extend the contract for additional period at the election of the District. A total of \$9,000,000 was authorized under the Contract. As of August 31, 2017, about 23 purchase orders with a total of over \$3,000,000 have been issued, and McGrath has billed a grand total of \$991,905 under 114 invoices, which excluded leases and rental costs to relocate

schools affected by the Porter Ranch gas leak incident. Those costs (leases and rental) are directly reimbursable by California Gas Company.

SCOPE AND OBJECTIVE

The objectives of the examination were to determine whether (i) the amounts billed were allowable, accurate and adequately supported by relevant source documents, (ii) Contractor actually provided and delivered the lease and/or rental units as required by specific purchase orders under the Contract, and (iii) the lease and/or rental units provided and delivered conformed to the requirements of the contract and were DSA approved. McGrath's management was responsible for the costs billed.

The audit covered all billed costs for the Contract period from September 3, 2015 through August 31, 2017.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and 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 McGrath's compliance with the Contract provisions and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We conducted our examination from December 7, 2017 to January 26, 2018.

METHODOLOGY

To accomplish our examination objectives, we (i) interviewed District personnel to obtain an understanding of the Contract terms, compensation requirements, the scope of work, the billing and review process, and other matters relevant to this audit, (ii) verified the actual construction cost and compared the audited construction cost with the billed cost to determine if the billed construction cost was accurate, allowable and adequately supported, and (iii) performed site observation to determine whether the Contractor delivered the Contract deliverables in compliance with the Contract terms.

EVALUATION OF INTERNAL CONTROLS

McGrath is responsible for establishing and maintaining effective internal controls over compliance with the requirements of the Contract.

In planning and performing our examination, we considered McGrath's internal control over compliance with the requirements related to billing (internal control) to determine the examination procedures for the purpose of expressing our opinion on whether the amounts billed were adequately supported and in accordance with the Contract's terms and conditions, but not for the purpose of expressing an opinion on the effectiveness of McGrath's internal control. Accordingly, we do not express an opinion on the effectiveness of McGrath's internal control. A deficiency in

internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of contract requirement on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material noncompliance will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

RESULTS OF EXAMINATION

As of August 31, 2017, McGrath billed a total \$991,905 under 114 invoices which did not include the lease/rental costs related to relocating schools near Porter Ranch subsequent to the gas leak.

A. Sample Testing

On a statistical sampling basis, we selected and tested a sample of 23 invoices with an aggregated amount of \$608,593 or 61% of the total billed costs of \$991,905. We verified that (i) those billings were supported by approved purchase orders, (ii) the unit rates were in compliance with the Contract Unit Price schedule, and (iii) the relevant DSA certifications and reports were properly maintained in the project file under specific purchase orders. We found the following exceptions:

Finding No. 1 Unreasonable Prorated Rent and Tax Charge Error

During a sample testing, we found that Invoice#1107100 was billed for prorated rent of less than three days in the amount of \$162. This invoice represented costs that were not billable to the District according to the Contract terms and conditions. Based on the initial finding, we further analyzed the entire list of invoices and identified two more such unreasonable prorated invoice charges for an additional amount of \$591. We also identified a third invoice with \$263 of tax charge, which was an error because according to the Contract, no tax charges should be billed to LAUSD. The total unreasonable prorated rents and tax charge error amounted to \$1,016. The Contractor concurred.

Except for the above findings, there were no other exceptions. The audit result is summarized as follows:

Invoice#	Date	PO#	Questioned	Subtotal	Note
1107100	9/1/2016	4500242399	\$162		
1305965	5/1/2017	4500279660	333		
1385636	8/1/2017	4500284860	258	753	1
200924178	6/14/2017	4500274951	263	263	2
			\$1,016	\$1,016	

- Notes:** 1. Unreasonable prorated rent
2. Unallowable tax charge by error

Recommendation

Since the above questioned invoices in the amount of \$1,016 have not been paid by the District, we recommend that the Procurement Services Division (Relocatable Housing Unit) should not approve this invoice.

District and McCrath’s Response

Both the Contractor and Procurement Services Division concurred with our recommendation.

B. Site Observation

In order to determine that the contractor actually provided and delivered the lease and/or rental units according to purchase order requirements, we conducted a physical observation of five selected school sites. We identified all 57 classrooms and restrooms, checked their identification numbers and observed their conditions. We noted that as required by the purchase order, the mobile classrooms and restrooms were in compliance with the purchase order requirements and were in good condition.

The following are photos of some classrooms and restrooms taken during the site visit.

48’ X 40’ Classroom



48’ X 40’ Classroom



24' X 40' Classroom



12' X 40' Classroom



12' X 40' Restroom



12' X 40' Restroom



Inside Classroom



Inside Classroom



Back of Classroom



Back of Classroom



REPORT DISTRIBUTION

This report is intended solely for the information and use of the Facilities Services Division and is not intended to be and should not be used by anyone else. This report may not be released, in full or part, to any entity outside LAUSD or to any internal department without prior approval of the Office of the Inspector General.

ENGAGEMENT TEAM

This examination was conducted by the Office of the Inspector's General Audit Unit team:

Mindy Qu, Audit Manager
Silas Awujo, Principal Auditor
Tony Li, Senior Auditor


ATTACHMENT A

***Response from
Procurement Services Division
to Draft Audit Report CA 00-000***

INTER-OFFICE CORRESPONDENCE
Los Angeles Unified School District

TO: Austin Onwualu
Office of the Inspector General

Date: April 17, 2018

FROM: Sung Yon Lee 
Procurement Services Division

SUBJECT: **RESPONSE TO DRAFT AUDIT REPORT (MCGRATH RENT CORP DBA
MOBILE MODULAR MANAGEMENT CORPORATION – CONTRACT
NO. 4400003919)**

The following is in response to the draft report of McGrath Rent Corp DBA Mobile Modular Corporation – Contract No. 4400003919. The results of the audit indicated the following.

RECOMMENDATION #1: PAGE 1

REPORT STATES: *“Since the above questioned invoice in the amount of \$1,016 has not been paid by the District, we recommend that the Procurement Services Division should not approve this invoice.”*

RESPONSE: Procurement Services Division (PSD) and Facilities Services Division (FSD) concur with the recommendation. FSD (Relocatable Housing Unit) will not approve the questioned invoice for payment as it does not comply with the terms of the contract. PSD has no role in approving contract sponsor’s invoice.

If you have any questions, please call me at 213-241-3087.

SYL:rl

c: Aaron Bridgewater, Facilities Services Division
Hon Chan, Procurement Services Division

ATTACHMENT B

***Response from Mobile Modular
to Draft Audit Report CA 00-000 –
Contract No. 4400003919***

RESPONSE FROM MOBILE MODULAR



Corporate Office
5700 Las Positas Rd., Livermore, CA 94551
Tel 925 606 9200 | Fax 925 453 3200

Date: 4/17/2018

Audit Manager
Los Angeles Unified School District
Office of the Inspector General, Contract Audit Unit
333 South Beaudry Avenue, 12th Floor
Los Angeles, CA 90017

This letter confirms that Mobile Modular concurs with the audit findings as they are written and received by Mobile Modular on April 2nd, 2018. No other action is needed at this time as this closes out the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Ryan Swindell", is written over a faint, circular watermark or stamp.

Ryan Swindell
Regional Sales Manager

Know about fraud, waste or abuse?

Tell us about it.

Maybe you are a School District Employee, or maybe you are a private citizen. Either way, you are a taxpayer.

Maybe you know something about fraud, or waste, or some other type of abuse in the School District.

The Office of the Inspector General has a hotline for you to call. You can also write to us.

If you wish, we will keep your identity confidential. You can remain anonymous, if you prefer. And you are protected by law from reprisal by your employer.

Call the hotline:

**(213) 241-7778
or
(866) LAUSD-OIG**

Write to us:

**Fraud Hotline Center
333 S. Beaudry Ave., 12th Floor
Los Angeles, CA 90017**

Website:

<http://achieve.lausd.net/oig>