



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

**Audit of AESCO Technologies, Inc.
Contract No. .4400004100**

CA 21-1281

May 5, 2021



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

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Members of the Board

Austin Beutner
Superintendent of Schools

William Stern
Inspector General

May 5, 2021

Ms. Judith Reece, Chief Procurement Officer
Procurement Services Division
Los Angeles Unified School District
333 S. Beaudry Ave., 28th Floor
Los Angeles, CA 90017

RE: AESCO Technologies, Inc.
Contract No. 1690003/4400004100

Dear Ms. Reece:

This is the final report on our audit of AESCO Technologies, Inc. related to contract no. 1690003/4400004100.

Please contact our office if you have any questions.

Sincerely,

Austin E. Onwualu

Austin Onwualu, CPA, CIG
Deputy Inspector General, Audits

William Stern

William Stern, MBA, CIG, QIAL, CPP, CFE
Inspector General

Attachment

c: Richard Lui
Cheri Thomas

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Audit of AESCO Technologies, Inc. Contract No. 1690003/4400004100

Introduction

The Office of the Inspector General (OIG) audited contract number 1690003/4400004100 (contract) awarded by the Los Angeles Unified School District (District) to AESCO Technologies, Inc. (AESCO) for providing special inspections at school site construction projects and associated laboratory testing services. Work performed by AESCO under the contract was authorized by time-and-material task orders with specified performance periods.

Scope and Objectives

During the period from November 1, 2015 through June 30, 2020, AESCO submitted to the District 323 invoices totaling \$1,015,419. The objectives of this audit were to determine the following:

- (i) Whether the billed amounts were adequately supported and complied with the terms and conditions of the contract
- (ii) Whether the services were provided as required by the task orders

Methodology

To accomplish our objectives, we performed the following:

- Interviewed District and AESCO personnel to obtain an understanding of the contract requirements and the related internal controls
- Determined the employment status (employee versus non-employee) of the inspectors and their proper billing rates by reviewing insurance policy documentation
- Validated the rates billed on the invoices against the contract's rate schedule
- Traced the number of hours billed on the invoices to the employees' time sheets and daily inspection reports
- Traced the number of hours on the employees' timesheets to AESCO's payroll registers
- Verified the project number on the timesheets
- Reviewed the invoices from subcontractors
- Compared selected task orders against the relevant daily inspection report



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Results of Audit

Objective 1 - Determine whether the billed amounts were adequately supported and in accordance with contract terms and conditions.

The original contract specified one set of hourly rates for inspection services, but with the execution of Amendment No. 1, two sets of hourly rates became effective in June 2016 for each labor category: employee rates and non-employee rates. Exhibit B of the contract's Amendment #1 stated the following: "Employee rates are for staff that receive both health benefits and vacation/sick time from the Consultant and benefits outlined in the State of California, Director of Industrial Relations, Prevailing Wage Determination, issue date August 22, 2014." Procurement Services Division confirmed that the employee rates should be used to bill for services provided only by those employees who receive employee benefits (health benefits and vacation/sick time benefits) directly from AESCO in addition to benefits from the labor union.

For the period covered by our audit, AESCO used employee rates to bill for services provided by sixty-two inspectors. According to AESCO, sixty-one of the inspectors were at-will employees. Our audit found that AESCO contributed to the labor union fringe benefits trust fund for those sixty-one employee inspectors but did not provide health benefits directly to them. AESCO did not contribute to the labor union fringe benefits trust fund for the non-employee inspector, which was a violation of section 5.2 of the Project Stabilization Agreement (PSA). Because none of the sixty-two inspectors received both health benefits and vacation/sick time from AESCO in addition to benefits outlined in the State of California Director of Industrial Relations Prevailing Wage Determination, services provided by them after the effective date of Amendment No. 1 should not have been billed using the employee rates.

We reviewed all invoices billed for the period from November 1, 2015 to June 30, 2020 and determined that the differences between the billed amounts and the billable amounts calculated using the non-employee rates amounted to \$76,405. As a result, the total overbilling amounted to \$76,405 for the period covered under the audit.

Recommendations

AESCO should:

- Refund the District \$76,405.
- Implement proper policies and procedures to only use employee rates to bill for services provided by those inspectors who receive both health benefits and vacation/sick time from the Consultant and benefits outlined in the State of California, Director of Industrial Relations, Prevailing Wage Determination (dated August 22, 2014).



Audit of AESCO Technologies, Inc. Contract No. 1690003/4400004100

- Contribute to the labor union fringe benefits trust fund for all the inspectors as required by the PSA.

District management should:

- Seek recovery of the overbilled amount.
- Enforce AESCO's compliance with the PSA.

Objective 2 - Determine whether the services were provided as required by the task orders.

Our review of the daily inspection reports prepared for 10 out of 50 completed task orders issued within the audit period found that the services were provided as required by the task orders.

Responses

AESCO's Response:

AESCO did not agree with the audit report findings. AESCO indicated that they provided the benefits outlined in the State of California DIR (vacation, health, pension, training, etc.). These benefits were paid by AESCO to the employees through the union fund and there were no requirements for AESCO to pay the same benefits to the employees directly. AESCO also stated that they paid for employees' payroll tax, unemployment insurance, workers' compensation insurance, liability insurance, vehicle insurance, mileage, vehicle expense and much more. For those reasons, AESCO indicated that their inspectors were classified as employees of AESCO and their services were billed at the contract's employee rates.

Furthermore, AESCO indicated that they were forced to use a non-employee inspector to cover a job due to a last-minute cancellation from the originally dispatched employee-union inspector to keep the project on schedule. AESCO also indicated that they used the only inspector available at that time and paid the inspector at the prevailing wage rate including all benefits.

OIG's Response:

AESCO's statement that there was no requirement to pay employee benefits to the employees directly was correct. However, not paying employee benefits to the employees directly precluded AESCO from using the employee rates since those rates were meant only for employees who received both health benefits and vacation/sick time from AESCO and benefits from the labor union. Furthermore, AESCO's prudent use of a non-employee inspector to cover



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Contract No. 1690003/4400004100**

a job did not negate the contract's requirement to use non-employee billing rates for services provided by the non-employee inspector.

PSD's Response:

PSD concurs with our findings. PSD stated that it will take the following actions:

- Demand payment of \$76,405 from AESCO.
- Advise AESCO to implement policies and procedures to only use employee rates to bill for services provided by inspectors who receive both health benefits and vacation/sick time from the Consultant and benefits outlined in the State of California, Director of Industrial Relations, Prevailing Wage Determination (dated August 22, 2014).
- Advise AESCO to ensure that they contribute to the labor union fringe benefits trust fund for all the inspectors as required by the PSA.

Audit Team

This audit was performed by the following auditors:

Stella Lai, Audit Manager
Vilma Baquir, Senior Auditor



Los Angeles Unified School District Office of the Inspector General

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Independent Auditor's Report

We have examined the amounts billed by AESCO Technologies, Inc. (AESCO) under contract number 1690003/4400004100 (contract) for the period from November 1, 2015 through June 30, 2020, for compliance with the terms and conditions of the contract. AESCO's management was 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 AESCO States, and accordingly, included examining, on a test basis, evidence supporting AESCO'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.

We determined that AESCO overbilled the District \$76,405 due to the use of incorrect billing rates.

In our opinion, except for the overbilled amount referred to above, the amounts billed by AESCO under the contract for the period from November 1, 2015 through June 30, 2020 were adequately supported and allowable in accordance with the contract terms and conditions in all material respects.

Austin E. Onwualu

Austin Onwualu, CPA, CIG
Deputy Inspector General, Audits

February 11, 2021



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April 22, 2021

Mr. Austin Onwualu
 Deputy Inspector General, Audits
 Office of the Inspector General
 Los Angeles Unified School District
 333 South Beaudry Ave
 12th floor
 Los Angeles, CA 90017

RE: Draft Audit Report of Contract NO. 4400004100

Mr. Onwualu,

AESCO disagree with your assessment for the following reason:

LAUSD requires AESCO's inspection staff to be members of Local 12 (PLA), LAUSD and AESCO are part of the PLA agreement with Operating Engineers (Local 12). Local 12 Master Labor Agreement for inspection refer to the inspectors as "Employees" and to the company as "Employer". AESCO pays the benefits outlined in the State of CA, DIR (Vacation, Health, Pension, Training, Etc.) to the employees through the union fund by the agreement with the union. Since all the benefits outlined in the State of CA, DIR (Vacation, Health, Pension, Training, Etc.) are paid by the employer to the employees through the union fund there are NO requirements for the employer to pay the same benefits again straight to the employees.

AESCO "Employer" pays the inspectors' "Employees" payroll tax, unemployment insurance, workers comp insurance, liability insurance, vehicle insurance, mileage, vehicle expense and much more. In case of an inspector "Employee" injury, AESCO's "the Employer" insurance covers all medical expense for the inspector "Employee". Also, during this hard time (pandemic), AESCO "Employer" covered sick leave and time out for the inspectors' "Employees", which is NOT covered by the union benefit.

Therefore, AESCO's inspectors are classified as employees of the "Company" and billed based on LAUSD Employee Rate.

AESCO was forced in one incident to use a non- employee inspector to cover a job due to a last-minute cancelation from the originally dispatched employee- union inspector. To retrofit the problem and to keep the project on schedule AESCO used the only inspector available at that time. The inspector was paid the PW including all benefits.

Construction Material Testing/ Inspection ♦ Environmental ♦ Geotechnical Engineering Services
www.AescoTech.com



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Please let me know if you have any questions.

Kay Alabed

Kay Alabed
President

Adam Chamaa

Adam Chamaa
V. President

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Los Angeles Unified School District Procurement Services Division

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JANICE SAWYER
Business Manager

JUDITH REECE
Chief Procurement Officer

March 24, 2021

Mr. Austin Onwuah, Deputy Inspector General, Audits
Los Angeles Unified School District
Office of the Inspector General (OIG)
333 S. Beaudry Avenue, 12th Floor
Los Angeles, CA 90017

**RE: RESPONSE TO DRAFT INCURRED COST AUDIT REPORT NO. CA-00-000
AESCO TECHNOLOGIES, INC.
CONTRACT NO. 1690003/4400004100**

Dear Mr. Onwuah,

Procurement Services Division (PSD) is in receipt of the above-referenced draft incurred cost audit report dated February 23, 2021. Below is an outline of our responses to the audit findings and recommendations.

Recommendation #1: *OIG recommends that AESCO refund the District \$76,405.*

Response: PSD agrees with this recommendation. A demand letter will be issued to AESCO Technologies, Inc. (AESCO) to refund the District \$76,405 for the overbilled amount in using employee rates for non-employees.

Recommendation #2: *OIG recommends that AESCO implement policies and procedures to only use employee rates to bill for services provided by those inspectors who receive both health benefits and vacation/sick time from the Consultant and benefits outlined in the State of California, Director of Industrial Relations, Prevailing Wage Determination (dated August 22, 2014).*

Response: PSD agrees with this recommendation. AESCO will be advised to implement policies and procedures to only use employee rates to bill for services provided by inspectors who receive both health benefits and vacation/sick time from the Consultant and benefits outlined in the State of California, Director of Industrial Relations, Prevailing Wage Determination (dated August 22, 2014).

Recommendation #3: *OIG recommends that AESCO contribute to the labor union fringe benefits trust fund for all the inspectors as required by the PSA.*

Response: PSD agrees with this recommendation. AESCO will be advised to contribute to the labor union fringe benefits trust fund for all the inspectors as required by the PSA.

If you have any questions, please do not hesitate to contact me at judith.reece@lausd.net.

Sincerely,

JUDITH REECE
Chief Procurement Officer

JR/cg

c: J. Ballardo
R. Kapoor

J. Woessner
R. Lui

C. Thomas

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The Board approved the Whistleblower Protection Policy on February 12, 2002. This policy protects LAUSD employees who make allegations of improper governmental activity from retaliation or reprisal. To assure the reporting of any activity that threatens the efficient administration of the LAUSD, reports that disclose improper governmental activities shall be kept confidential.

General Contact Information

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