



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

**Audit Report of  
Smith System Manufacturing Company  
Contract No. 4400006575**

**CA 22-1334**

**April 26, 2022**



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

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April 26, 2022

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

RE: Smith System Manufacturing Company - Contract No. 4400006575

Dear Ms. Reece,

This is the final report on our audit of Contract No. 4400006575 awarded to Smith System Manufacturing Company to provide school and administrative furniture.

Please contact our office if you have any questions.

Sincerely,

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

***Salvatore Randazzo***  
Salvatore Randazzo  
Interim Inspector General

Attachment

c: Richard Lui  
Cheri Thomas

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# Audit of Smith System Manufacturing Company Contract No. 4400006575

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## **Introduction**

The Office of the Inspector General (OIG) audited Contract Number 4400006575 (Contract) awarded by the Los Angeles Unified School District (District) to Smith System Manufacturing Company (Smith System). The Contract was for Smith System to provide school and administrative furniture.

The initial term of the Contract was 36 months, from July 1, 2018 through June 30, 2021, with up to two 12-month extensions upon approval. On May 5, 2021, the District extended the Contract term to June 30, 2022. Smith System has billed the District a total of \$8,025,734 for furniture purchased by the District during the period from the inception of the Contract through December 31, 2021.

## **Scope and Objectives**

The objectives of this audit were to determine whether: (i) the billed amounts were allowable and adequately supported in accordance with the terms and conditions of the Contract, and (ii) Smith System paid one percent (1%) volume rebate on the total pre-tax sales price of all purchases as required by the Contract.

## **Methodology**

To accomplish our examination objectives, we performed the following procedures:

- Interviewed District staff and obtained an understanding of the contract terms, scope of work, District's internal controls and processes
- Inquired of Smith System's management about their internal controls and business operations
- Reviewed Smith System's published catalogs and price sheets included in the contract documents for the manufacturer's listing prices
- Calculated the purchase order value by multiplying the listing prices with the ordered quantities
- Assessed the appropriate discount rate based on the value of the purchase order
- Calculated the billable unit prices by applying the appropriate discount rate to the listed prices
- Compared the billable unit prices with the billed unit prices
- Validated the billed quantity and description of the furniture by reviewing the District's goods receiving reports, signed proof of delivery provided by Smith System and District issued purchase orders
- Verified the mathematical accuracy of the invoice amounts



## Audit of Smith System Manufacturing Company Contract No. 4400006575

- Calculated the volume rebate due to the District and assessed interest for volume rebate that was not paid on time according to contract terms
- Compared the paid volume rebate with the audit calculated volume rebate due to determine if Smith System paid volume rebate as required

### Results of Audit

#### **1. Determination of whether the billed amounts were allowable and adequately supported in accordance with the terms and conditions of the Contract.**

The Contract's scope of work was to provide school and administrative furniture. Section III, Rate Schedule, of the Contract specified various discount rates, depending on the value of the purchase, to apply to the Smith System's listing prices to calculate the billable unit prices.

Purchase Order Value	Discount Rate
Less than \$10,000	32%
Between \$10,000 and \$50,000	34%
Between \$50,000 and \$100,000	36%
Between \$100,000 and \$150,000	38%
Greater than \$150,000	40%

The District paid Smith System a total of \$8,025,734 for furniture purchased under 300 purchase orders during the period from the inception of the Contract through December 31, 2021.

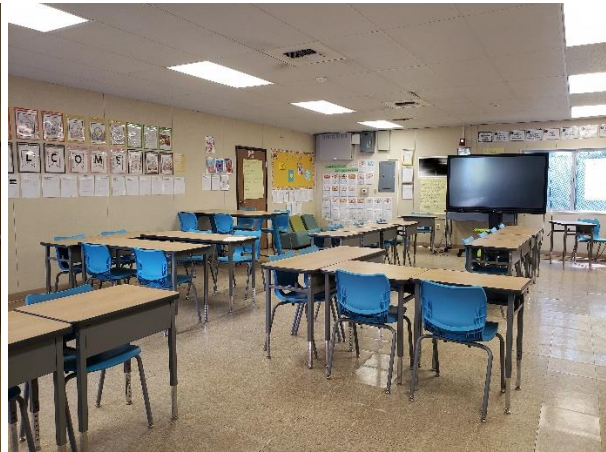
To determine if the billed amounts were allowable and adequately supported, we tested a statistically selected sample of 40 purchase orders totaling \$3,929,550, which represented 49% of the total amount paid to Smith System under the Contract as of December 31, 2021. We reviewed Smith System's published catalogs and price sheets included in the contract documents for the listing prices, calculated the purchase order value by multiplying the listing prices with the ordered quantities, assessed the appropriate discount rate based on the calculated purchase order value, and calculated the billable unit prices by applying the appropriate discount rate to the listing prices. We compared the billable unit prices with the billed unit prices and found no variance. We validated the billed quantity and description of the furniture by reviewing the District's goods receiving reports, signed proof of delivery provided by Smith System and District issued purchase orders. We calculated the total billable amount, compared those with the billed amount and found no variance.

Based on our detailed testing, we found that the billed amounts were allowable and adequately supported in accordance with the terms and conditions of the Contract in all material respects.

Below are pictures of sample school furniture provided by Smith System for Reseda High School.



## Audit of Smith System Manufacturing Company Contract No. 4400006575



### **2. Determination of whether Smith System paid one percent (1%) volume rebate on the total pre-tax sales price of all purchases as required by the Contract.**

Section II.A.6 of the Contract specifies that Smith System shall pay the District a one percent (1%) volume rebate on the total voucher payments made against the total sales, excluding taxes, and based on the voucher issuance date. This volume rebate shall be due and payable to the District within thirty (30) days of the end of each calendar quarter for products provided and billed during such calendar quarter. The Contract further required that all rebate dollar amounts not paid within thirty (30) days of the end of the previous calendar quarter shall bear interest at the rate of one and one-half percent (1.5%) per month until paid in full.

During the audit, we recalculated the volume rebate payable to the District based on the audit determined total pre-tax amount of the paid purchase orders as of December 31, 2021, assessed interest for the volume rebate not paid on time when applicable, and compared with the actual paid



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volume rebate amount, and determined that Smith System paid the volume rebate as required by the Contract.

### **Audit Team**

This audit was performed by the following auditors:

Rey Bejerano, Audit Manager  
Shelly Guo, Principal Auditor



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### Independent Auditor's Report

We have examined the amounts billed by Smith System Manufacturing Company (Smith System) under Contract Number 4400006575 (Contract) for the period from July 1, 2018 through December 31, 2021, and Smith System's compliance with volume rebate payments requirement. Smith System's management is responsible for the amounts billed and for complying with volume rebate payment requirements. Our responsibility is to express an opinion based on our examination.

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

In our opinion, the amounts billed were allowable and adequately supported in accordance with the terms and conditions of the Contract in all material respects and Smith System paid the volume rebate as required by the Contract.

***Austin E. Onwualu***

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Austin Onwualu, CPA, CIG  
Deputy Inspector General, Audits

April 5, 2022



## **Know about fraud, waste or abuse?**

### **Tell us about it.**

Maybe you are a school district employee, a parent or just a concerned citizen. Regardless, you can make a difference!

Maybe you know something about fraud, 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 email or 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.

### **Whistleblower Protection**

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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Los Angeles, CA 90017  
Phone: (213) 241-7700  
Fax: (213) 241-6826  
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### **Fraud, Waste and Abuse Hotline**

**(866) 528-7364 or (213) 241-7778**

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