



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

**Audit Report
of
Arey Jones Educational Solutions, Inc.
Contract No. 4400004883**

CA 23-1388

May 11, 2023



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

Jackie Goldberg, President
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Superintendent of Schools

Sue Stengel
Inspector General

May 11, 2023

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: Arey Jones Educational Solutions, Inc.
Contract No. 4400004883

Dear Ms. Reece:

This is the final report on our audit of Arey Jones Educational Solutions, Inc. for Contract No. 4400004883.

Please contact our office if you have any questions.

Sincerely,

Austin Onwualu

Austin Onwualu, CPA, CIG
Deputy Inspector General, Audits

Sue Stengel, Esq.
Inspector General

c: Cheri Thomas
Ivory King



**Audit of Arey Jones Educational Solutions, Inc.
Contract No. 4400004883**

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Audit of Arey Jones Educational Solutions, Inc. Contract No. 4400004883

Introduction

The Office of the Inspector General (OIG) audited Contract Number 4400004883 (Contract) awarded by the Los Angeles Unified School District (District) to Arey Jones Educational Solutions, Inc. (Arey Jones) to provide Lenovo computers, related hardware, and integration services for administrative and instructional needs of schools and offices. The Contract required the delivery of computers in accordance with the District's technical specifications and Rate Schedule (Section III of the Contract), which provided unit cost discounts off the list price. The Contract was identified as a potentially high-risk Contract due to the OIG risk assessment and was selected for audit as part of the FY 2023 Audit Plan.

The original Contract period was from June 15, 2016, to June 14, 2019, with two one-year options, which extended the Contract period to June 14, 2021. Arey Jones billed, and the District paid \$62,259,282 from the Contract's inception through the period ending June 14, 2021.

Scope and Objectives

Our examination included all purchases made by the District under the Contract.

The objectives of our examination were to determine whether:

- (i) The amounts billed were adequately supported, allowable, and in accordance with Contract terms and conditions.
- (ii) Arey Jones paid the 1% volume rebate on the total sales price of all purchases as required by the Contract.
- (iii) The required deliverables were provided as required by the Contract.

Methodology

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

- Interviewed District and Arey Jones personnel to obtain an understanding of the Contract requirements and the related internal controls.
- Verified that billed invoices were approved by District personnel.
- Verified Arey Jones' packing lists and receiving reports for signatures to validate the delivery of purchased units.
- Compared the list unit prices against the billed unit prices and confirmed that the discount provided by Arey Jones met the stated discount requirements.
- Calculated the volume rebate owed based on the terms of the Contract and the purchases made by the District.
- Verified the canceled checks remitted as payment for the volume rebate against the calculated volume rebate owed.



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- Reviewed purchase orders, packing lists, and invoices to determine if the delivered computer systems met the Contract requirements.
- Verified that the Open Catalog Interface (OCI)¹ was provided as required by the Contract.

Results of Audit

1. Determine whether the amounts billed were adequately supported, allowable, and in accordance with Contract terms and conditions.

During the Contract period from June 15, 2016 through June 14, 2021, the District's purchases from Arey Jones totaled \$62,259,282, billed through 3,351 invoices. Table No. 1 illustrates these billed invoices by year.

Table No. 1- Summary of billed invoices by year:

Fiscal Year	No. of Billed Invoices	Total Billed Amount
2017	660	\$ 9,833,673
2018	505	8,206,952
2019	644	9,881,268
2020	743	18,719,925
2021	720	13,283,447
2022*	79	2,334,017
Grand Total	3,351	\$ 62,259,282

* Purchases were made within the Contract period but were not delivered and billed until FY 2022.

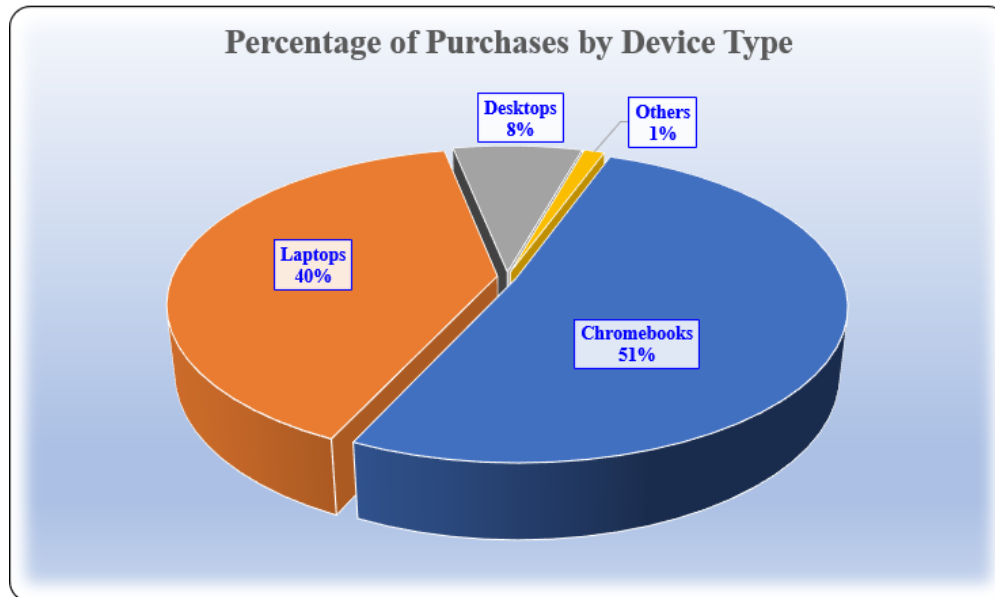
The purchased amounts can be broken down by device type: \$31,989,087 for Chromebooks, \$24,837,106 for laptops, \$4,693,770 for desktops, and \$739,319 for other items, which included extra chargers, monitors, laptop carts, and tablets. Graph No. 1 illustrates the device type purchased as a percentage of the total purchases made by the District under the Contract.

¹ Open Catalog Interface (OCI) is an open standard for a software interface developed by SAP for Punch-Out Catalogs that connects buyers' procurement systems with suppliers' eCommerce systems.



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Graph No. 1 – Percentage of Purchases by Device Type



The Contract's scope of work required Arey Jones to provide computers and related peripheral equipment to the District. Section III – Rates Schedule Section of the Contract also provided for device type and description and denoted discounts off the list price for each device purchased.

To determine if the billed amounts were adequately supported and allowable, we selected a statistical sample of fifty-nine invoices totaling \$9,810,737, which represented 16% of the total amount of invoices billed under the Contract. For the selected sample of fifty-nine invoices, we performed the following:

- Verified the District invoice checklist for signature showing review and approval by District personnel.
- Compared the billed invoice for device descriptions and unit price to the approved and issued purchase order.
- Compared the list price to the billed unit price and confirmed that the discount provided by Arey Jones met the stated discount requirements of the Contract.
- Verified the mathematical accuracy of the billing.

Based on the audit procedures performed, we determined that the billed amounts were adequately supported, allowable, and in accordance with the terms and conditions of the Contract.



Audit of Arey Jones Educational Solutions, Inc. Contract No. 4400004883

2. Determine whether Arey Jones paid a 1% volume rebate on the total sales price of all purchases as required by the Contract.

Section II.A.5 of the Contract required Arey Jones to pay the District one percent (1%) volume rebate on the total sales price of all purchases, excluding taxes. This volume rebate shall be due and payable to the District within thirty (30) days of the end of each calendar quarter for purchases invoiced and paid during said calendar quarter. The Contract added that all rebate dollar amounts not paid within thirty (30) days of the end of the previous quarter shall bear interest at one and one-half percent (1.5%) per month until paid in full.

To determine if the 1% volume rebates were paid, as required by the Contract, we reconciled all invoices billed under the Contract and calculated the volume rebates due for each quarter. We compared the calculated volume rebates amount against the canceled rebate checks and confirmed receipt of the payments with the District's Accounting and Disbursements Division.

Based on the audit procedures performed, we determined that the 1% volume rebate was remitted timely and Arey Jones paid the District the proper volume rebate amounts as specified in the Contract.

3. Determine whether the deliverables were provided as required by the Contract.

The scope of the Contract required the delivery of computer systems and related equipment. Also, Section II.35 of the Contract – Open Catalog Interface (OCI) required the contractor to develop a secure Punch-Out Catalog utilizing SAP's² OCI. A screenshot of the OCI is depicted in the screenshot below after photo #3.

To determine if the required deliverables were provided, we performed the following:

- a. Using the purchase orders, packing lists, and receiving reports provided by Arey Jones for the selected sample of fifty-nine invoices:
 - We verified Arey Jones' packing list and receiving reports for the quantity delivered, description and type of devices delivered, and authorized signatures accepting delivery of the devices.
 - We randomly selected three hundred eighty-seven serial numbers from the packing lists and verified the serial numbers to the actual devices.
- b. We verified the Punch-Out Catalog / OCI developed by Arey Jones by visiting <https://portal.areyjones.com/landing/lausd/mainmenu>.

² System Application and Product in Data Processing (SAP) is the District's accounting and purchasing system.



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The following photos are of the devices observed during our on-site verification.

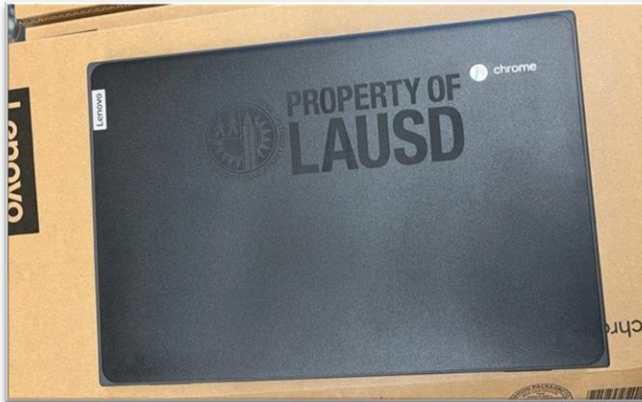


Photo 1 – Front Photo of Chromebook



Photo 2 – Bottom Photo of Chromebook

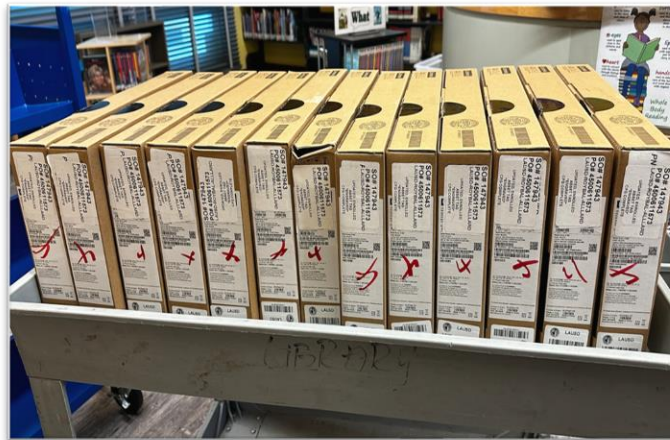
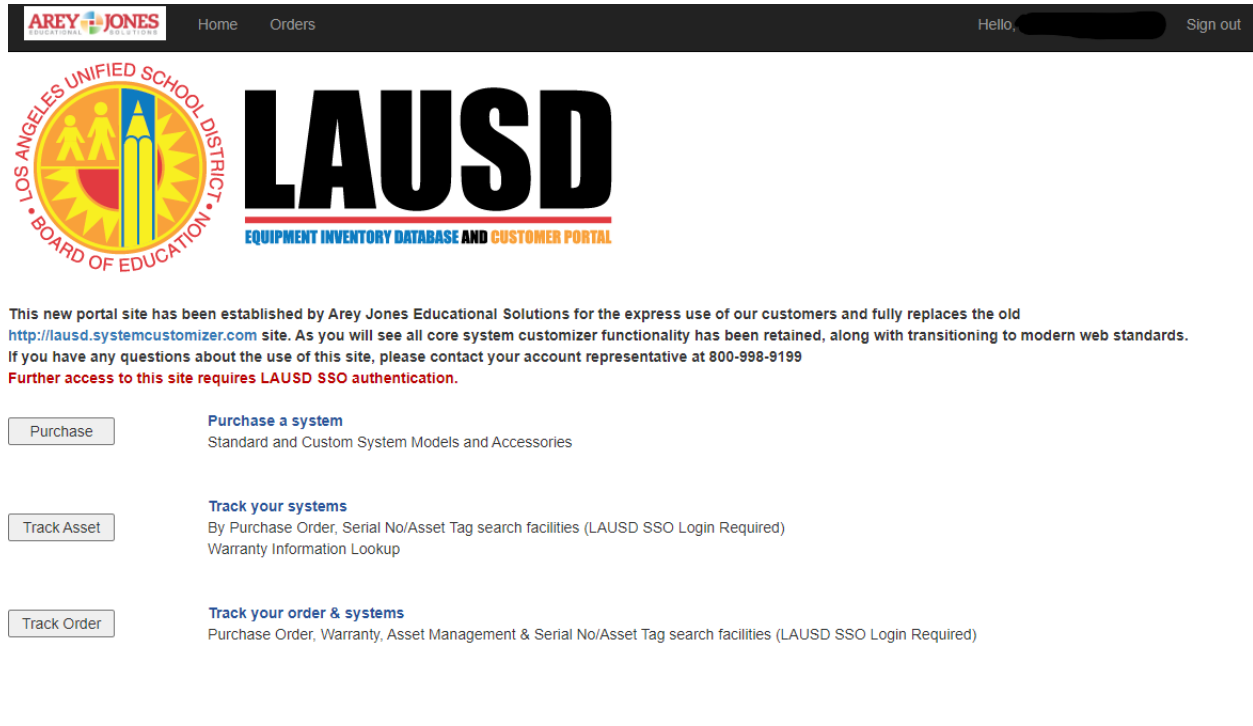


Photo 3 – Spare Chromebooks for contingencies



Audit of Arey Jones Educational Solutions, Inc. Contract No. 4400004883

The screenshot below shows the web portal and OCI maintained by Arey Jones.



© 2023 - Arey Jones Educational Solutions

Photo 4 – Screenshot of Open Catalog Interface (OCI) portal developed and maintained by Arey Jones.

Based on the audit procedures performed, we determined that Arey Jones provided a Punch-Out Catalog in accordance with the Contract requirements. We also determined that Arey Jones delivered the purchased computer systems and related equipment as required by the Contract.

Audit Team

The following auditors performed this audit:

Mark Pearson, Audit Manager
Mark Po, Principal Auditor



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Superintendent of Schools

Sue Stengel
Inspector General

Independent Auditor's Report

We have examined the amounts billed by Arey Jones Educational Solutions, Inc. (Arey Jones) under Contract Number 4400004883 (Contract) for the period from June 15, 2016 through June 14, 2021. Arey Jones' management is 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 United States, and accordingly, included examining, on a test basis, evidence supporting Arey Jones' 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 of Arey Jones' compliance with the specified requirements.

In our opinion, the amounts billed were adequately supported, allowable, and in accordance with the terms of the Contract in all material respects. Arey Jones provided the purchased computer systems and related equipment and properly calculated and remitted payment for the volume rebates as required by the Contract.

Austin Onwualu

Austin Onwualu, CPA, CIG
Deputy Inspector General, Audits

March 29, 2023

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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Fraud, Waste and Abuse Hotline
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