



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

**Audit Report  
of  
Ferguson Enterprises, LLC  
Contract No. 4400007987**

**CA 23-1396**

**May 26, 2023**



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

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**Jackie Goldberg, President**  
**Dr. George J. McKenna III**  
**Dr. Rocio Rivas**  
**Scott M. Schmerelson**  
**Nick Melvoin**  
**Kelly Gonez**  
**Tanya Ortiz Franklin**  
*Members of the Board*

**Alberto M. Carvalho**  
*Superintendent of Schools*

**Sue Stengel**  
*Inspector General*

May 26, 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: Ferguson Enterprises, LLC - Contract No. 4400007987

Dear Ms. Reece:

This is the final report on our audit of Ferguson Enterprises, LLC - Contract No. 4400007987.

Please contact our office if you have any questions.

Sincerely,

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

\_\_\_\_\_  
Susan Stengel, Esq., CIG  
Inspector General

c: Cheri Thomas  
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## Audit of Ferguson Enterprises, LLC Contract No. 4400007987

### Introduction

The Office of the Inspector General (OIG) audited contract number 4400007987<sup>1</sup> (Contract) awarded by the Los Angeles Unified School District (District) to Ferguson Enterprises, LLC (Ferguson) to purchase plumbing supplies, tools, and materials for repair and maintenance projects District-wide. The Contract's term was from February 5, 2020 to February 4, 2023, and the Contract had a total value of \$12,500,000. As of September 7, 2022, the District paid Ferguson \$10,956,265 for purchases made under this Contract. We audited this Contract to monitor Ferguson's compliance with the contract terms and to verify the District's receipt of the purchased items.

### Scope and Objectives

The objectives of our examination were to determine the following:

- (1) Whether the billed rates reflected the discounts stipulated by the Contract.
- (2) Whether the billed items were delivered to the District.
- (3) Whether Ferguson paid the required volume rebates that were due to the District.

Our examination covered payments made by the District related to the Contract from February 5, 2020 through September 7, 2022.

### Methodology

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

- Interviewed management and staff from Facilities Services Division's Maintenance and Operations (M&O) Branch to obtain an understanding of the District's internal controls and processes.
- Interviewed Ferguson's management about their internal controls and business operations.
- Validated the unit prices, manufacturer part numbers, and product descriptions billed against Ferguson's authorized quotations and the District's approved purchase orders.
- Compared the billed unit rates with the billable unit rates that were calculated based on the manufacturers' list prices according to TRA-SER<sup>2</sup> and the percent discounts stipulated in the Contract.
- Reviewed bills of lading/packing slips and delivery reports/receipts signed by District

<sup>1</sup> Contract No. 4400007987 - IBF No. 2000001902, Master Plumbing Supplies MRO - Ferguson Enterprises, LLC.

<sup>2</sup> TRA-SER is an online pricing system that contains the manufacturers' list prices obtained directly from the manufacturers for various plumbing, mechanical, and electrical products. It is owned and operated by Trade Service, and it is used by electrical, plumbing, and mechanical contractors to obtain up-to-date pricing information when preparing bids.



## Audit of Ferguson Enterprises, LLC Contract No. 4400007987

personnel acknowledging receipt of the billed items.

- Inspected the installed items to ascertain that the billed items were delivered to the District.
- Calculated the quarterly volume rebate amounts due, reviewed the rebate payments remitted, and determined the unpaid volume rebates and interest due.

### Results of Audit

#### **1. Determine whether the billed rates reflected the discounts stipulated by the Contract.**

The Contract specified a list of items that Ferguson was to provide to the District under the Contract and the respective discount percentages which Ferguson should apply to the manufacturers' prices when billing the District for those items. These items included such things as faucets, water filters, valves, fittings, toilets/urinals/tanks, and sprinkler components. From February 5, 2020 to September 7, 2022, the District paid Ferguson \$10,956,265 for 5,690 invoices submitted under the Contract.

We reviewed the billed unit prices on a sample of 1,390 invoices<sup>3</sup> to determine if the proper discounts were provided to the District. We found that the billed unit rates differed from the billable unit rates—the rates we calculated using the manufacturers' list prices according to TRA-SER and the Contract stipulated percentage discounts—for products billed on 618 invoices. The discrepancies led to a total difference of \$114,252 between the total billable amount and the total billed amount. In addition, our testing found that seven invoices included \$752 of freight charges, which were unallowable per the Contract. Therefore, total questioned costs amounted to \$115,004 (\$114,252 overbilling + \$752 freight charges) for the audit period.

Our testing also found invoices billed for products not included in the Contract. M&O staff explained that the District needed a variety of plumbing parts that were not in the Contract, and in those instances, M&O requested quotes from Ferguson before issuing purchase orders for those products. We reviewed a sample of 34 invoices and identified billings for non-contracted products totaling \$145,874 that were purchased from Ferguson. For the products billed, we reviewed the quotes and purchase orders to ascertain that the prices and quantities billed on the invoices matched those on the quotes and purchase orders. Furthermore, we compared the billed unit prices with the manufacturer list prices listed on TRA-SER to ascertain that the billed prices did not exceed the manufacturers' list prices. Based on our testing, we determined that the amounts billed for the non-contracted products were reasonable, authorized, and adequately supported. Nevertheless, the District should amend the Contract to add those products to the Contract in order to ensure that the products are purchased at prescribed discounts.

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<sup>3</sup> This sample included all invoices that billed for parts with unit rates over \$100.



## Audit of Ferguson Enterprises, LLC Contract No. 4400007987

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### 2. Determine whether the billed items were delivered to the District.

We selected a statistical sample of 34 invoices to test whether the billed items were delivered to the District. For 29 of the invoices, the products billed were delivered by Ferguson; for 5 of the invoices, the products were shipped directly by the manufacturers to the District. We reviewed the bills of lading/packing slips and delivery reports/receipts related to those invoices and noted that they were signed by District personnel acknowledging receipt of the items billed.

The items billed on the 34 invoices were mostly small plumbing parts (such as washers, valves, tube fittings, and nuts and bolts) except for 30 water heaters, which had a total cost of \$16,210. Those water heaters were delivered to the various M&O area locations and subsequently installed at various schools by the respective M&O units. We inspected seven of the installed water heaters at two high schools, two middle schools, and two elementary schools and validated the serial numbers and descriptions of the water heaters billed. See photos of the installed water heaters in Exhibit A.

### 3. Determine whether Ferguson paid the required volume rebates that were due to the District.

The Contract required Ferguson to pay a one percent (1%) volume rebate on payments received from the District for sales made under the Contract, excluding sales tax. All rebate amounts not paid within thirty days of the end of each calendar quarter would bear interest at the rate of one and one-half percent (1.5%) per month until paid in full.

From February 5, 2020 through September 7, 2022, the District made payments totaling \$9,897,715, excluding sales tax, to Ferguson. Therefore, the District was entitled to volume rebates totaling \$98,977 related to those payments. Ferguson remitted volume rebates totaling \$95,184 to the District related to those invoices, resulting in an unpaid balance of \$3,793 as of March 31, 2023. Calculating interest on the balances owed every month for that period, we determined that the District was entitled to \$4,660 of interest related to those payments as of March 31, 2023. Therefore, a total of \$8,453 (\$3,793 + \$4,660) of volume rebates and interest was due to the District as of March 31, 2023.

### Recommendations

Ferguson should refund the District \$123,457, which is the total of \$115,004 for the overbilling and \$8,453 for volume rebates and interest.

The Procurement Services Division (PSD) should collect \$123,457 from Ferguson and amend the Contract to add the other regularly needed products to the Contract.



## Audit of Ferguson Enterprises, LLC Contract No. 4400007987

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### Responses

#### *Ferguson's Response*

On May 5, 2023, Ferguson issued a check in the amount of \$123,457 to refund the District for the overbilling, unpaid volume rebate, and interest.

#### *Procurement Services Division's Response*

PSD agreed with our findings and recommendations. PSD also confirmed the receipt of the \$123,457 check from Ferguson.

### Audit Team

This audit was performed by the following auditors:

Stella Lai, Audit Manager  
Joanna Vuong, Principal Auditor



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

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**Jackie Goldberg, President**  
**Dr. George J. McKenna III**  
**Dr. Rocio Rivas**  
**Scott M. Schmerelson**  
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*Members of the Board*

**Alberto M. Carvalho**  
*Superintendent*

**Sue Stengel**  
*Inspector General*

**Independent Auditor's Report**

We have examined the amounts billed by Ferguson Enterprises, LLC (Ferguson) under contract number 4400007987 (Contract) for the period from February 5, 2020 through September 7, 2022 and Ferguson's compliance with the terms and conditions of the Contract. Ferguson's 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 Ferguson'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.

In our opinion, for the invoices paid by the District from February 5, 2020 through September 7, 2022, Ferguson billed unit rates that reflected the discounts stipulated in the Contract, delivered the billed items to the District, and paid the District the required amount of volume rebates, in all material respects.

However, our examination found that Ferguson overbilled the District by \$115,004 and underpaid volume rebates by \$8,453 including interest, resulting in a total amount due of \$123,457.

**Austin Onwualu**

Austin Onwualu, CPA, CIG  
Deputy Inspector General, Audits

April 4, 2023



PAYMENT RECEIVED FROM FERGUSON

SC03R6 (08/16)

#FERGUSON 751 Lakefront Commons  
Newport News VA 23806

2000295293  
May 05, 2023

60 - 102 / 433  
VOID AFTER 90 DAYS

Pay To The Order Of: LOS ANGELES UNIFIED SCHOOL DISTRICT  
333 S BEAUDRY AVE  
28TH FLOOR  
LOS ANGELES, CA 90017

\*\*\*\*\*\$123,457.00\*\*\*

Amount: ONE HUNDRED AND TWENTY-THREE THOUSAND FOUR HUNDRED AND FIFTY-SEVEN DOLLARS 00/100

*Kevin M. Murphy*  
Authorized Signature

PNC Bank, N.A. 001

DOCUMENT CONTAINS COLORED BACKGROUND ON WHITE PAPER. "VOID" FEATURE, SIMULATED WATERMARK (REVERSE SIDE), MICRO-PRINT BORDER.

PROCUREMENT SERVICES DIVISION'S RESPONSE

DocuSign Envelope ID: DDA58BF0-C9B4-45F4-86E3-C9F6D9C1AF5C

INTER-OFFICE CORRESPONDENCE  
Los Angeles Unified School District

**TO:** Austin Onwualu, Deputy Inspector General  
Office of the Inspector General

**Date:** May 15, 2023

**FROM:** Judith Reece, Chief Procurement Officer  
Procurement Services Division

DocuSigned by:  
*Judith Reece*  
F799964C6CD74AE...

**SUBJECT: RESPONSE TO DRAFT AUDIT REPORT OF FERGUSON  
ENTERPRISES LLC – CONTRACT NO. 4400007987**

The following is in response to the draft incurred cost audit report of Ferguson Enterprises LLC, Contract No. 4400007987. The results of the audit indicated the following:

**RECOMMENDATION: PAGE 3**

**REPORT STATES:** *“We recommend Procurement Services Division should collect \$123,457 from Ferguson and amend the Contract to add the other regularly needed products to the contract.”*

**RESPONSE:** Procurement Services Division (PSD) agree with the finding and recommendations. A check was received from Ferguson Enterprises in the amount of \$123,457 for overbilling and volume rebates and interest.

JR:ct

INSTALLED WATER HEATERS



**Franklin High School  
Bradford White - 6 gals. Utility 1.5kW 1  
Element Residential Electric Water Heater  
Serial # XD47765629**



**Fremont High School  
Bradford White - 6 gal. Utility 1.5kW 1  
Element Residential Electric Water Heater  
Serial # WJ46527411**

INSTALLED WATER HEATERS



**Madison Middle School**  
**Bradford White - FVIR Eco-Defender Safety System®**  
**30 gal. Tall 32 MBH Residential Natural Gas Water Heater**  
**Serial # WH46461072**



**Vinedale Elementary School**  
**Bradford White - FVIR Eco-Defender Safety System®**  
**40 gal. Tall 40 MBH Residential Natural Gas Water Heater**  
**Serial # WH46446612**

INSTALLED WATER HEATERS



**Olive Vista Middle School**  
**Bradford White - FVIR Eco-Defender Safety System®**  
**40 gal. Tall 40 MBH Residential Natural Gas Water Heater**  
**Serial # WH46446608**



**Olive Vista Middle School**  
**Bradford White - FVIR Eco-Defender Safety System®**  
**30 gal. Tall 32 MBH Residential Natural Gas Water Heater**  
**Serial # WH46461070**

**INSTALLED WATER HEATERS**



**Mountain View Elementary School  
Bradford White - FVIR Eco-Defender Safety System®  
40 gal. Tall 40 MBH Residential Natural Gas Water Heater  
Serial # WH46446624**

## **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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Phone: (213) 241-7700  
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**Fraud, Waste and Abuse Hotline**  
**(866) 528-7364 or (213) 241-7778**  
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