



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

**Incurred Costs Audit  
PCN3, Inc.**

**Contract No. 2110038/4400009999**

**CA 24-1439**

**November 19, 2024**

**Sue Stengel  
Inspector General**





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

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*Superintendent*

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*Inspector General*

November 19, 2024

Mr. Matthew Friedman  
Chief Procurement Officer  
Procurement Services Division  
Los Angeles Unified School District  
333 S. Beaudry Avenue, 28th Floor  
Los Angeles, CA 90017

RE: Audit of PCN3, Inc.  
Contract No. 4400009999

Dear Mr. Friedman:

This is the final report on our audit of PCN3, Inc. - Contract No. 4400009999.

Please contact our office if you have any questions.

Sincerely,

*Mark H. Pearson*

Digitally signed by Mark H. Pearson  
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Mark H. Pearson, CPA, CFE, CIGA  
Assistant Inspector General

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Sue Stengel, Esq., CIG  
Inspector General

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# Audit of PCN3, Inc. Contract No. 4400009999

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## EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) audited Contract No. 2110038/4400009999<sup>1</sup> (Contract), which was awarded to PCN3, Inc. (PCN3) for the seismic retrofit<sup>2</sup> of the Benjamin Franklin High School auditorium. The contract was originally awarded for \$6,090,000, and change orders totaling \$2,646,174 increased the total contract value to \$8,736,174 as of February 29, 2024. Our audit included an evaluation of PCN3's invoice amounts and change order process. We performed this audit to ensure PCN3's compliance with the Contract, to manage risks, control costs, and promote transparency and accountability in the change order execution processes.

The conclusions and recommendations from our audit are detailed below.

### Audit Conclusions

1. As of February 29, 2024, the total amount<sup>3</sup> invoiced by PCN3 was allowable and supported based on the percentage of completed construction work as outlined in the Contract's Schedule of Values (SOV).<sup>4</sup>
2. As of February 29, 2024, the District issued 259 change orders with a combined value of \$2,646,174 under the Contract, increasing the contract value by 43% to \$8,736,174. The scope of work of these change orders included replacing damaged materials and fixtures and other significant renovations requested by the end user. Our review of a sample of 30 change orders (which totaled \$1,068,464 and amounting to about 40% of the total value of the 259 change orders) found that the change orders were reasonable, were properly authorized by Facilities Services Division (FSD) Project Execution Branch (PEX) staff, and that the documentation for the change orders complied with District policies and procedures.
3. PCN3 completed the contracted scope of work in compliance with the terms and conditions of the Contract for the audit period, as determined by the project architect's sign-off of five of seven punch list reports, validating that most of the outstanding work was satisfactorily completed.<sup>5</sup>

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<sup>1</sup>[https://www.lausd.org/cms/lib/CA01000043/Centricity/domain/184/audit\\_files/PCN3\\_Inc.\\_-4400009999\\_NOA\\_2110038\\_FRANKLINHS.pdf](https://www.lausd.org/cms/lib/CA01000043/Centricity/domain/184/audit_files/PCN3_Inc._-4400009999_NOA_2110038_FRANKLINHS.pdf)

<sup>2</sup> Seismic retrofit involves modifying existing structures to make them more resistant to seismic activity, ground motion, or soil failure due to earthquakes.

<sup>3</sup> PCN3 submitted 20 project payment applications totaling \$8,308,917 to the District for work completed as of February 29, 2024.

<sup>4</sup> The Schedule of Values is a comprehensive document that lists every billable item or task in a construction project along with its corresponding dollar value.

<sup>5</sup> Punch Lists No. 6 and No. 7 were also subsequently signed off by the project architect as completed on November 14, 2024.

**Audit of PCN3, Inc.**  
**Contract No. 4400009999**

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4. The payment and performance bond cost charged by PCN3 on change orders executed from Contract inception through August 15, 2024, exceeded its actual bond cost by \$23,936. As a result of our audit, PEX executed a credit change order, Change Order No. T-871, in that amount to correct the overcharged bond costs.

**INTRODUCTION**

On November 9, 2021, the Los Angeles Unified School District awarded the Contract to PCN3 for a fixed-priced amount of \$6,090,000 for the seismic retrofit of the Benjamin Franklin High School auditorium. The project also included an upgrade of the auditorium outside walkway ramps to comply with the Americans with Disabilities Act<sup>6</sup> (ADA).

**SCOPE AND OBJECTIVES**

The objectives of our examination were to determine the following:

- (i) Whether the Contractor completed the scope of work required by the Contract and billed the authorized amount for the work.
- (ii) Whether District staff complied with change order policies and procedures during the award of the change orders.

Our examination covered the \$8,308,917 billed for the contract work through February 29, 2024.

**METHODOLOGY**

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

- Interviewed PEX staff to obtain an understanding of the District's internal control process for construction projects.
- Interviewed PCN3 management about their internal controls and business operations.
- Examined payment applications to ensure that District personnel reviewed and approved them. This included a review of the project schedule of values, the percentage of completion, and the amount billed for each line item of work, as well as the total retainage for each Application for Payment submitted to the District.

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<sup>6</sup>ADA is a federal civil rights law that prohibits discrimination against people with disabilities in everyday activities.

# **Audit of PCN3, Inc.**

## **Contract No. 4400009999**

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- Compared and reconciled the District's progress payments for the Contract with PCN3's records.
- Reviewed PEX policies and procedures for approving and issuing change orders.
- Verified that project change order packages were properly authorized by District representatives, that proposed amounts were supported by a district-prepared fair cost estimate and a contractor cost proposal, and that the final negotiated costs were justified based on the required scope of work.
- Reviewed available inspection reports to substantiate progress claimed on the payment applications.
- Assessed approved change orders to verify that the correct bond fee was charged based on the contractor's actual project bond cost percentage.
- Conducted a site visit at the Benjamin Franklin High School Auditorium with the project's Owner Authorized Representative<sup>7</sup> (OAR) to verify that the seismic retrofit project was completed according to the project's scope of work.

### **RESULTS OF AUDIT**

#### **1. The Contractor completed the scope of work required by the Contract and billed the contract-authorized amount for the work.**

As of February 29, 2024, PCN3 invoiced the District a total of \$8,308,917 for work performed against this Contract. We reviewed all pay applications and verified that the schedule of values, percentages of completion, and amounts billed for each performance period, were reviewed and approved by the OAR prior to payment. At the time of our audit, the seismic retrofit of the auditorium, which was the Contract's original scope of work, was completed. We reviewed the five punch lists that have been signed off by the project architect, verifying that the billed work was completed. We also conducted a walkthrough with the OAR at the project site to verify the job status (photographs of the completed work are presented in Exhibit A). We determined that the total amount billed by PCN3 as of February 29, 2024 was authorized by the contract for the work completed.

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<sup>7</sup> The Owner Authorized Representative is the designated authorized representative of the owner (District) who administers the Contract.

## **Audit of PCN3, Inc.**

### **Contract No. 4400009999**

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However, our review also determined that the 2% bond rate used by PCN3 in charging bond cost for change order work exceeded the actual bond rate of 0.88%, resulting in excessive bond costs being charged to the District for change order work. We reviewed all change orders executed through August 15, 2024, and determined that excessive bond costs charged on change orders totaled \$23,936. As a result, the OAR executed a credit change order, Change Order No. T-871, in the amount of \$23,963 to remedy the overcharge.

This issue of excessive bond cost charges has been identified in previous audits conducted by our office. In response to these findings, PEX has revised its cost-estimating policies and procedures to ensure that bond rates reflect actual costs on change orders. PEX began implementation of the new procedures<sup>8</sup> (linked below) in early 2024 to prevent future occurrences of this issue. The implementation and effectiveness of PEX's new procedures will be evaluated in a separate audit conducted by our office.

#### **2. Change orders were reasonable, adequately supported, and executed in accordance with the District's policies and procedures.**

FSD awarded 259 change orders totaling \$2,646,173.95 under the Contract as of February 29, 2024. The change orders were primarily due to project upgrades requested by the project end-user. 30 change orders totaling \$1,068,463.97, or 40% of the total change orders, were selected for review. For each change order, we reviewed the following: (i) documentation initiating the change order, such as a request for proposal, construction directive, and DSA-approved construction changes; (ii) the District's fair cost estimate; (iii) the contractor's change order proposal and documents supporting the proposed amounts for labor, materials, equipment, and subcontractors' estimates; (iv) the record of negotiation; and (v) proper authorization and approval from District representatives. The final negotiated change order amounts for 29 out of 30 change orders tested did not exceed the District's fair cost estimates for the change order work. For one change order, the fair cost estimate was lower than the final change order amount because it omitted some of the scope of work to be performed. Based on the work performed, we determined that the change orders issued under this contract were reasonable, adequately supported, and executed in accordance with District policies and procedures.

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<sup>8</sup>[https://www.lausd.org/cms/lib/CA01000043/Centricity/domain/184/audit\\_files/14.22\\_PEX\\_Cost\\_Estimating\\_Procedures\\_02122024.pdf](https://www.lausd.org/cms/lib/CA01000043/Centricity/domain/184/audit_files/14.22_PEX_Cost_Estimating_Procedures_02122024.pdf)

**Audit of PCN3, Inc.  
Contract No. 4400009999**

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**Audit Team**

The following auditors performed this audit:

Katherine Monishi, Audit Manager  
Stella Lai, Audit Manager  
Valerie Logan, Principal Auditor





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

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*Superintendent*

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*Inspector General*

### Independent Auditor's Report

We have examined the amounts billed by PCN3, Inc. (PCN3) under Contract Number 4400009999 (Contract) for the period from November 9, 2021, through February 29, 2024, and PCN3's compliance with the terms and conditions of the Contract. PCN3'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 PCN3'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 of PCN3's compliance with the specified requirements.

In our opinion, the amount billed by PCN3 against the Contract for the period from November 9, 2021, through February 29, 2024, was supported and allowable in accordance with the contract terms and conditions, in all material respects. The project change orders were also found to be executed according to FSD's change order policies and procedures.

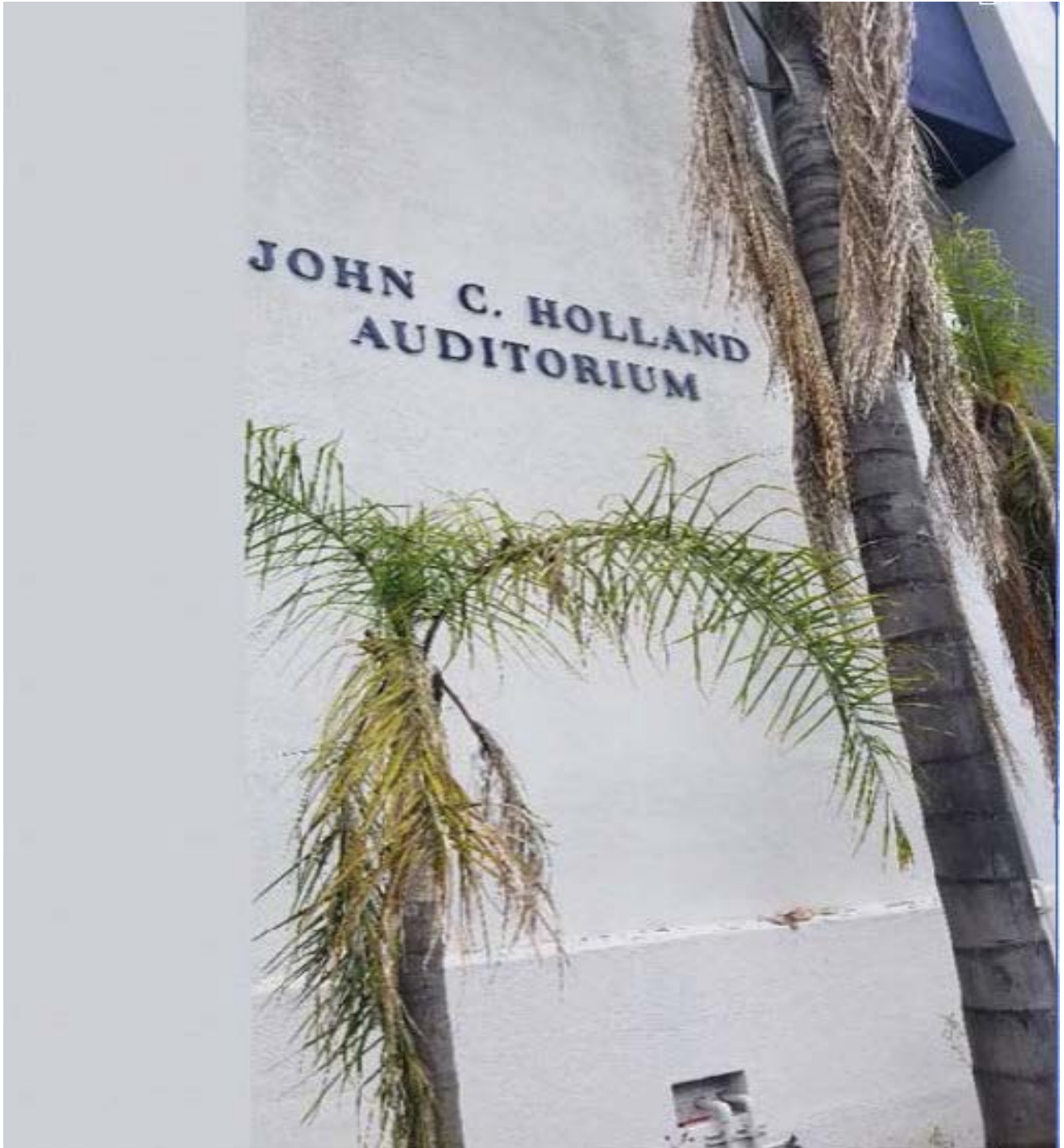
Our examination also found that PCN3's bond cost charged on change orders executed through August 15, 2024, exceeded its actual bond cost on the change order work by \$23,636.

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Mark H. Pearson, CPA, CFE, CIGA  
Assistant Inspector General

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**Exhibit A**  
**Pictures of the Renovation Work**



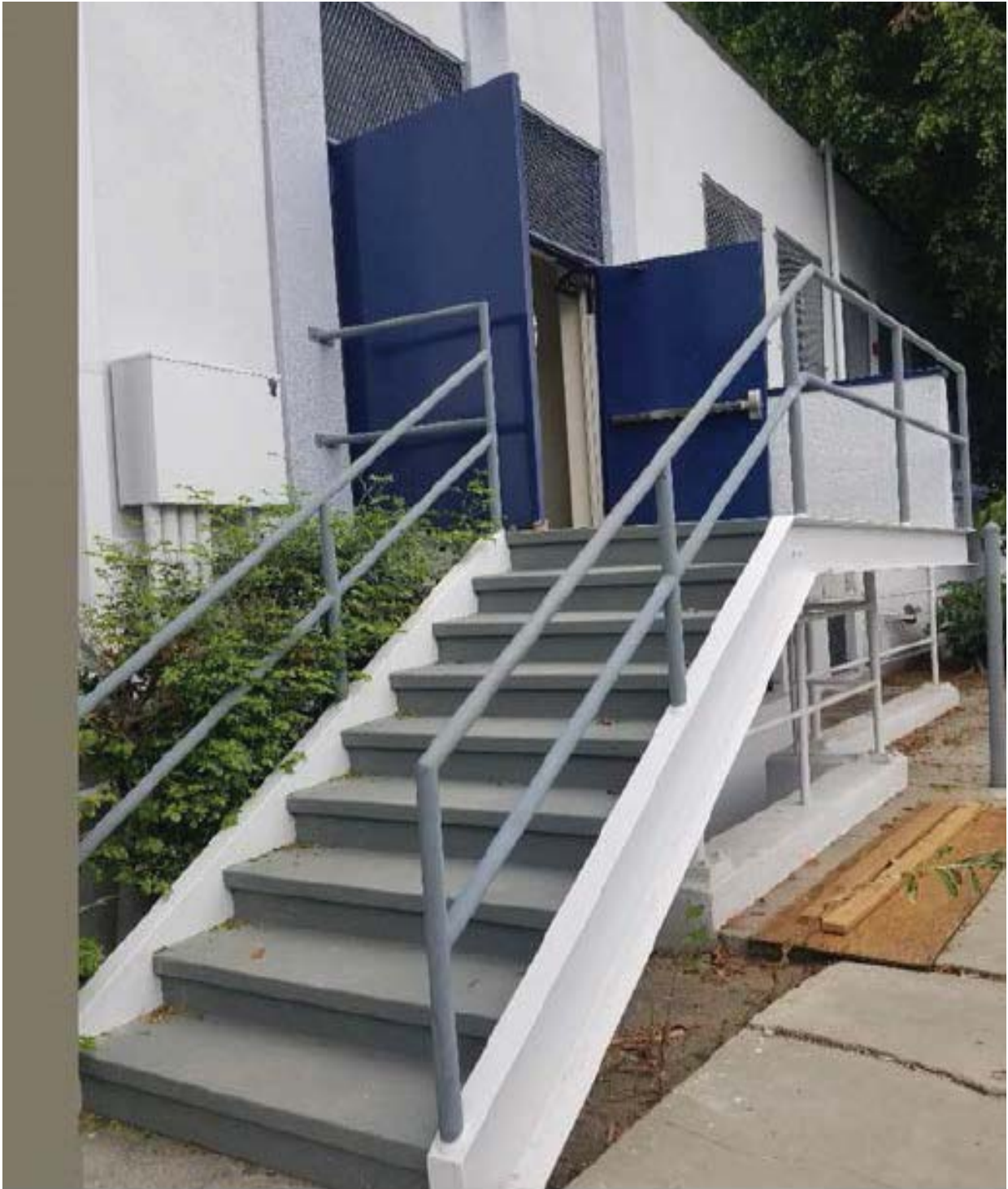
Benjamin Franklin High School Auditorium

**Exhibit A**  
**Pictures of the Renovation Work**



John C. Holland Auditorium Front Entrance

**Exhibit A**  
**Pictures of the Renovation Work**



John C. Holland Auditorium Side Entrance

**Exhibit A**  
**Pictures of the Renovation Work**



John C. Holland Auditorium – View of Completed Seismic Retrofit

**Exhibit A**  
**Pictures of the Renovation Work**



John C. Holland Auditorium ADA Walkway Upgrade

**Exhibit A**  
**Pictures of the Renovation Work**



Classroom on Main Floor of the Auditorium

**Exhibit A**  
**Pictures of the Renovation Work**



Renovation of Classrooms in Auditorium



**Exhibit A**  
**Pictures of the Renovation Work**



Renovation of Rehearsal Room in the Auditorium

**Exhibit A**  
**Pictures of the Renovation Work**



Renovation of the Interior of the Auditorium Ceiling

**Exhibit A**  
**Pictures of the Renovation Work**



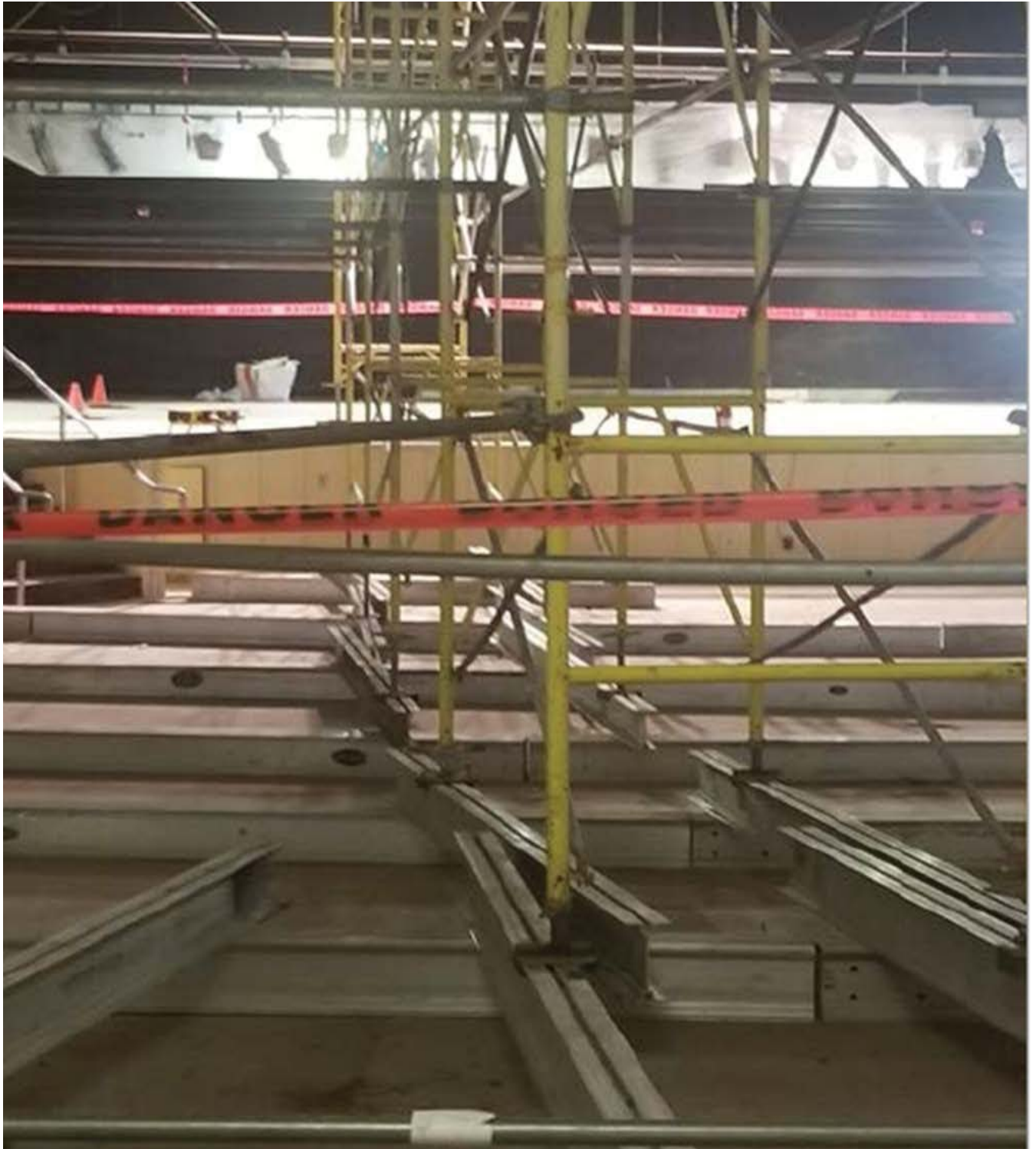
Renovation of the Auditorium – 2<sup>nd</sup> Level

**Exhibit A**  
**Pictures of the Renovation Work**



Renovation of the interior of the Auditorium Showing the Main Stage and 1<sup>st</sup> and 2<sup>nd</sup> Levels

**Exhibit B**  
**Pictures of Renovation Work in Progress**



Auditorium Interior Ceiling Renovation in Progress

**Exhibit B**  
**Pictures of Renovation Work in Progress**



Auditorium Interior Ceiling Renovation in Progress

**Exhibit B**  
**Pictures of Renovation Work in Progress**



Auditorium Interior 2<sup>nd</sup> Level Renovation

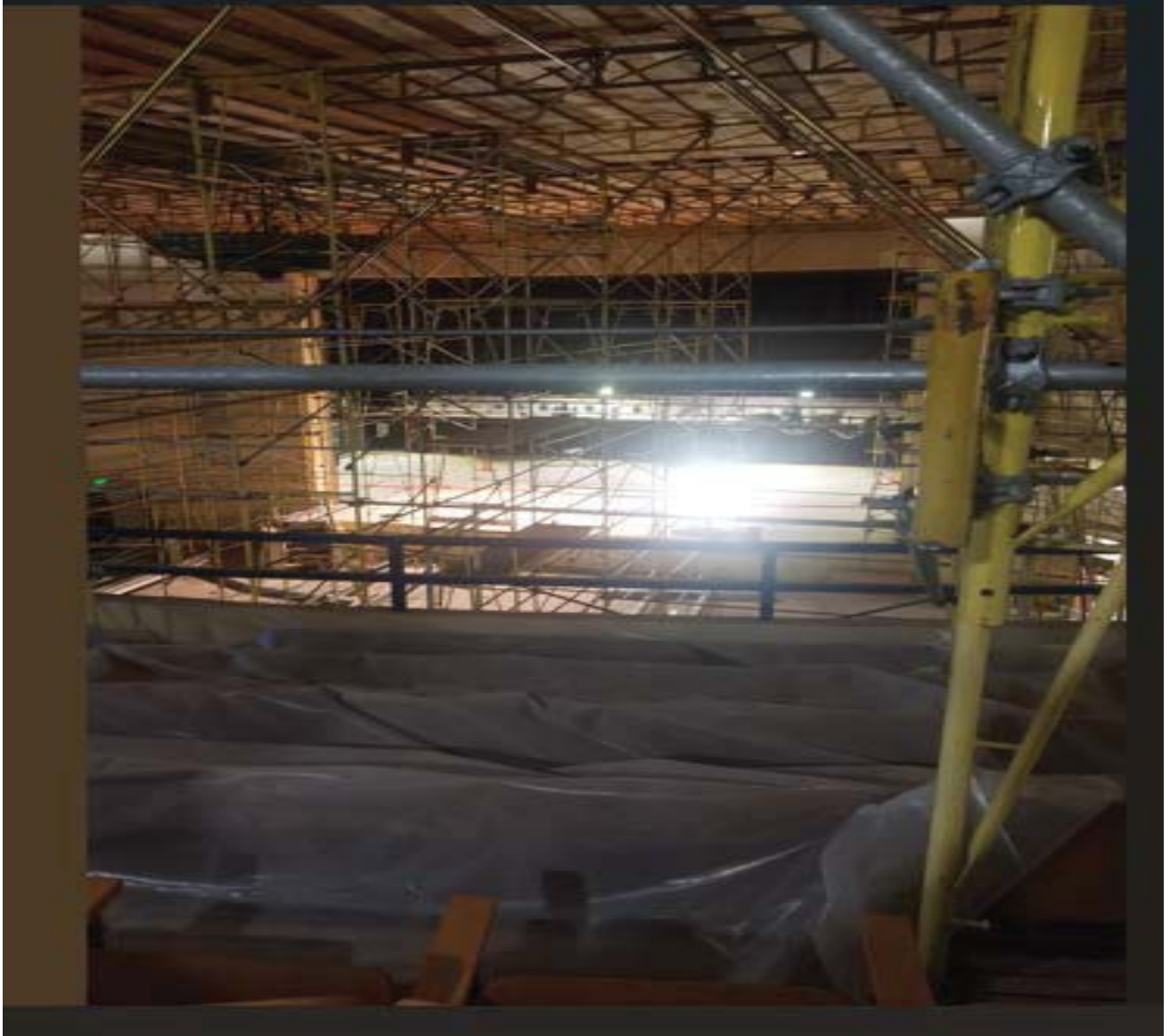
**Exhibit B**  
**Pictures of Renovation Work in Progress**



Auditorium Interior 2<sup>nd</sup> Level Renovation in Progress



**Exhibit B**  
**Pictures of Renovation Work in Progress**



Auditorium Interior Renovation: Stage, 1<sup>st</sup>, and 2<sup>nd</sup> Levels

## **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 ensure 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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