



LOS ANGELES UNIFIED SCHOOL DISTRICT
Investing in LAUSD

Office of the Inspector General



Annual Report to the Board of Education

Fiscal Year 2016

LOS ANGELES UNIFIED SCHOOL DISTRICT

Office of the Inspector General

VISION

To be a proactive agency striving for excellence and continuous positive change in the management and programs of the Los Angeles Unified School District.

MISSION

To promote a culture of accountability, transparency, collaboration and integrity through the performance of audit and investigative services designed to drive continuous improvement, support effective decision making and detect and deter waste, fraud and abuse.

CORE VALUES

Accountability

Efficiency

Integrity





Los Angeles Unified School District

Office of the Inspector General

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Ken Bramlett, MPA, CIG
Inspector General

July 29, 2016

Board of Education:

I am pleased to submit the Office of the Inspector General's (OIG) Annual Report. This report is required by the OIG's Charter and contains our accomplishments for the period July 1, 2015 through June 30, 2016.

The OIG conducts audits, contract audits, investigations, and special reviews of the Los Angeles Unified School District's (District) programs and operations to detect and prevent waste, fraud, and abuse, and to identify opportunities for improving efficiency and effectiveness. Our goal is to enhance the public's confidence in the District by assisting District management with making continuous improvements in its programs and operations, and fostering integrity in its personnel.

During FY 2016, the OIG issued **86** reports which collectively identified over **\$6.2 million** in monetary benefits. Our reports described actions that District management could take to strengthen controls, improve operations, manage risks and oversee contract activities more effectively. We also issued **99** due diligence reports to help District management with employment and contract evaluations and to promote greater accountability and effectiveness.

On behalf of all OIG staff, I would like to thank the Board for its continued support of the Office of the Inspector General.

Ken Bramlett
Inspector General

About the Office of the Inspector General

The Board of Education of the Los Angeles Unified School District created the Office of the Inspector General in 1998, and the State legislature granted it certain statutory authorities and powers in 2000 and in 2002.

The OIG reports directly to the Board of Education. We conduct independent audits, reviews and investigations of District operations, contracts and vendors in order to:

- ✓ Find ways to improve processes, programs, functions and activities
- ✓ Provide information that supports effective decision making
- ✓ Identify real or potential misuse of District resources
- ✓ Prevent and detect waste, fraud and abuse within the District

Through our work, we strive to encourage a culture of accountability, transparency, collaboration and excellence and to assist the Board of Education and the Superintendent in their efforts to provide a high quality education for the students and parents of the Los Angeles Unified School District.

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A. HIGHLIGHTS OF WORK PERFORMED AND BENEFITS PROVIDED

INTERNAL AUDIT ACTIVITIES

There were several key projects done in FY 2016 that were noteworthy. These audits focused on the care of District assets, the monitoring of important activity, and the readiness of District schools to deal with emergencies. The following are some of key projects we completed:

An audit of **Maintenance & Operations (M&O) Inventory Controls** was done to determine whether controls over M&O purchases and inventories of supplies, materials, and equipment were adequate to protect District resources. This audit noted that various actions were needed to strengthen approvals, custody and record keeping of goods inventoried at District M&O areas. District management agreed with all 25 recommended actions.

The OIG also performed an audit that reviewed the process for **Attendance Reporting for Teachers**. The Board approved an attendance policy and specific District policies and procedures to guide employees in the appropriate use of illness and personal necessity time. This area has various process owners but was of particular interest to the Human Resources Division. This audit focused on the preparation and maintenance of documentation related to teachers' attendance reporting at schools, and verified its reliability and consistent preparation. We found numerous instances where time cards and absence forms were not completed, maintained, or properly entered into the District's enterprise reporting system. We also observed that there was inadequate action taken to monitor and address excessive absences by some teachers. Because such conditions can result in higher costs to the District and possible disruption to the academic progress of students, we recommended that the District form a multi-departmental task force to address the conditions noted in our report and to formulate a corrective action plan. The District agreed to implement this recommendation and indicated it would be interested in the OIG possibly revisiting this area in the future.

We also conducted an audit of **Emergency Preparedness of Schools** to determine whether District schools were in compliance with policies and procedures related to emergency and disaster preparedness. We visited 36 school locations and we were encouraged to find that many of the schools visited as part of our sample maintained an adequate number of search and rescue kits and a copy of the Quick Response Guide containing the names of emergency team members, immediate response actions, contact information, maps and evacuation plans. However, the audit disclosed that eight of 30 schools visited had insufficient amounts of emergency water on hand. We also noted that a small number of the schools visited did not have classroom emergency supplies. District management showed a strong interest in the results of this audit and was receptive to the recommendations made for strengthening conditions in this area.

In FY 2016, the Quality Control and Assurance function supporting Internal Audit became much more active in assisting with the performance of special projects and in conducting follow-up work. One special project included a **Trend Analysis Report**

related to Charter Schools. The purpose of this report was to summarize some of the most common conditions noted in OIG charter school audit reports issued between 2006 and 2015. This report was of interest to the Board of Education because while audits of individual charter schools are important to support the District's oversight of charter schools, it is also important for the results of such audits to be summarized periodically so that any systemic issues can be identified. Understanding what these systemic issues are and making this information available to current and future charter school operators is important so that these operators may manage the schools in an efficient manner and in compliance with their charter agreements.

The Quality Control and Assurance Specialist, supported by internal audit staff, led the effort to perform follow-up reviews on important audits that the OIG performed in previous years. Follow-up reviews are important and will continue every year because they help to confirm that issues identified as a result of OIG audits are properly addressed by management. Follow-up reviews also provide public assurance that OIG audits result in stronger controls, more effective management of risks, achievement of program goals, and good stewardship of public resources.

In FY 2016, three follow-up reviews were performed related to **Integrated Pest Management, Physical Education, and School Crisis Teams**. This work required interfacing with District staff from M&O, School Operations and School Mental Health services as well as reviewing documentation to verify that OIG audit recommendations had been implemented. A total of 21 audit recommendations were followed-up on, and we found that 87% of the recommendations had been implemented, with the remainder of the recommendations still in the process of being implemented.

Finally, internal audit staff performed several projects in support of the Investigations Unit this year.

CONTRACT AUDIT ACTIVITIES

During FY 2016, the OIG conducted audits of various contracts and issued 40 reports which identified \$1.3 million in total questioned costs. Out of the \$1.3 million questioned this year, the District has been refunded \$1 million to date. In addition, as a result of our audit findings, a contractor waived an additional \$3.7 million of unbilled site delivery fees owed by the District.

The OIG is confident that contract audit activities have served as a deterrent to contractors and to employees who would otherwise attempt to circumvent policies, procedures and the law. The following are some contract audit activities that supported the District's procurement efforts and school construction, repair & modernization programs during FY 2016.

Supporting School Construction, Repair & Modernization Programs

The OIG conducted an audit of Tilden-Coil Constructors, Inc.'s \$36.5 million contract to construct **Valley Region Span K-8 No. 2**. The audit found that Tilden-Coil had inappropriately included costs related to the District's change orders on the buyout schedule, thereby claiming cost overruns on the project and receiving 100% of the developer's contingency balance instead of sharing 50% of the cost savings with the District. We also found that Tilden-Coil had billed excessive bond costs on the change orders. We questioned \$225,057 billed by Tilden-Coil for the project. Procurement sent a demand letter for a refund of the questioned costs.

The OIG conducted a special review of the **Job Order Contracting (JOC)** contractor prequalification and selection processes implemented by the Facilities Services Division (FSD) since the passage of Assembly Bill No. 2580. The bill required that JOC master contracts be awarded to the most qualified prequalified bidder rather than the lowest responsive bidder. We found that the Prequalified Unit was not properly scoring the bidders in the prequalification process and that the JOC Unit was not awarding the JOC contracts to the most qualified prequalified bidder most of the time. As a result of our review, FSD indicated that it would take actions to address our findings. FSD also stated that it would implement a revised bidding procedure to ensure that contracts are awarded to the most qualified bidder and would work to revise the JOC legislation to allow multiple awards from one bid package.

A **market survey** was performed of fully burdened labor rates and laboratory testing rates for environmental consulting services in support of the Procurement Services Division (PSD). Through the survey we determined the fully burdened labor rates and laboratory testing rates that public sector entities in the Los Angeles and neighboring counties are paying for environmental consulting services. The results of our survey will be used as a baseline by PSD in negotiating fully burdened hourly rates for such services.

The OIG conducted a special review to address various questions raised by the Principal at an affiliated charter **Middle School** about the installation of wireless access points at the school. Our review determined, among other things, that (i) more access points did not mean higher exposure to radio frequency electromagnetic radiation, (ii) the radio frequency power density of the access points was very low, and (iii) the wireless access points installed at the school were enterprise grade.

A technical evaluation of the procedures which FSD implements to ensure **Quality Control and Quality Assurance of Design Submittals** was also performed. While we found that overall, the quality control and assurance procedures were detailed and comprehensive, there were redundancies and duplications of effort in the review process which hindered progress and added costs to planned projects. We also found that the Quality Control Plans which certify the quality of design submittals and which consulting architects are contractually bound to implement, were too varied in scope and specificity to be of consistent value.

Supporting Procurement and Other District Operations

The OIG conducted an audit of two Gold Star Foods, Inc.'s contracts totaling \$310 million to provide fresh produce, bread products and other miscellaneous food products to District schools. Our audit found \$998,960 of questioned costs. As a result of settlement negotiations, Gold Star refunded \$791,200 to the District and agreed to waive an additional \$3.7 million in unbilled site delivery fees.

The OIG also conducted a technical evaluation of the **School Greening Initiatives** administered by FSD. The District has a long and much-lauded commitment to environmental sustainability of which school greening initiatives are a major component. Along with the successes, we found areas for improvement including the need for long-term maintenance, without which the benefits of greening initiatives cannot be sustained. We also found that these benefits depended upon strengthening and improving the partnerships with nonprofits and community groups, who often apply for state and local grants to green their schools.

INVESTIGATIVE ACTIVITIES

During FY 2016, the OIG received **228 complaints/allegations**, most of which required some level of investigative follow-up through the OIG's Fraud Hotline. The Fraud Hotline exists to allow the public to readily report allegations of fraud, waste and abuse. Allegations received from concerned employees, vendors, and the public, are either investigated by the OIG or referred to District administrators for investigation and disposition or to an outside agency better suited to handle the matter.

The OIG also received requests from within the District for due diligence and background investigations. Due diligence and background investigations help to reduce the risks of doing business with outside entities, improve contract and employment decisions, help to avoid costly liability situations, and promote greater accountability and effectiveness. The OIG issued **99 Due Diligence and Background Reports** related to charter schools, executive level employment, and contract and procurement matters.

The OIG initiated and continued investigating a myriad of allegations involving waste, fraud and abuse throughout the year. The OIG also conducted several complex investigations involving violations of District rules and policies. These investigations provided the Board of Education and the Superintendent with information that allowed them to take appropriate action in order to mitigate the reoccurrence of similar policy violations and to protect the integrity of District programs. The OIG issued **6 Reports of Investigation and 9 Case Memorandums**.

The OIG made **3 referrals** to the Public Integrity Division of the Los Angeles County District Attorney's Office that resulted in criminal investigations being initiated against District employees for misappropriating District funds, theft and benefits fraud.

At the end of the fiscal year, there were **81** investigative matters that were still in progress. These matters include investigations involving criminal acts of waste, fraud and abuse. These investigations are actively being pursued and once completed will be presented for consideration of criminal prosecution.

In some cases, due to the nature of the allegations and our preliminary findings, investigations may be adjudicated administratively. Since the OIG is statutorily limited in the disclosure of investigations, only some of the administratively adjudicated cases are summarized in Appendix A of this report. These cases represent only a limited portion of the investigations conducted by this office.

The Inspector General is authorized by state statute to subpoena witnesses, administer oaths or affirmations, take testimony, and compel the production of all information that reasonably relates to an inquiry or investigation undertaken by the OIG. During FY 2016, the OIG issued **16 subpoenas** for business or financial records.

B. BACKGROUND OF THE OIG

In August 1998, the Board of Education (Board) of the Los Angeles Unified School District began the process of establishing a department within the District whose mission would be to detect and prevent waste, fraud, and abuse in District operations and programs. Those efforts resulted in combining the District's auditors and investigators to form an Internal Audit and Investigations Department. In January 1999, the Board appointed the Department's first Director, and in February 2000, the Board adopted the name, Office of the Inspector General and changed the Director's title to Inspector General. The Board resolution which took this action stated:

"The Board wishes to instill a culture of excellence and professionalism in all aspects of the mission of the Los Angeles Unified School District and finds that an Inspector General approach to detecting and preventing waste, fraud and abuse in all District programs and operations enhances this culture of excellence."

Following the Board's action, the District secured legislative support for the OIG during the 2000 legislative session with the introduction of Senate Bill (SB) 1360 and its enactment on September 26, 2000, which granted the OIG statutory authority to conduct investigations. The legislature again addressed the issue in 2002 with Assembly Bill (AB) 2425 which amended Education Code Sections 35400 and 35401 and authorized the Inspector General to conduct audits, granted confidentiality to all investigative files and work-product, and extended the original sunset provision to January 1, 2015. In 2014, Assembly Bill (AB) 1825 further extended the sunset provision of Education Code Sections 35400 and 35401 to January 1, 2025.

Education Code Sections 35400 and 35401 grant the OIG statutory authority to perform some of its most critical functions. The OIG's statute:

- Establishes the OIG's authority to (i) conduct audits and investigations and (ii) report matters to the local district attorney or the Attorney General for further action.
- Grants the OIG power to (i) subpoena witnesses, (ii) administer oaths or affirmations, (iii) take testimony, and (iii) compel the production of all information and documentary evidence deemed material and relevant to an inquiry or investigation undertaken by the inspector general.
- Provides confidentiality of (i) every investigation, including, but not limited to, all investigative files and work-product and (ii) the identity of the individual or individuals involved.
- Imposes penalties for (i) any disclosure of information by the inspector general or that office that was acquired pursuant to a subpoena, and (ii) any person that, after the administration of an oath or affirmation, states or affirms as true any material matter that he/she knows to be false.

The Association of Inspectors General, a standard setting body for Inspectors General, believes that the preferable way for an OIG to be established is by statute. This is the manner in which the District chose to give authority and credibility to its OIG.

THE OIG CHARTER

The OIG Charter outlines its authority and responsibilities and also provides that the Board expects and encourages the OIG to be an independent voice that expresses its views without censorship by District management. Education Code Section 35400 which authorizes the OIG to conduct audits and investigations is embodied in the Charter.

On October 13, 2015, the Board approved an updated OIG Charter. Some of the key Charter provisions authorize the Inspector General to:

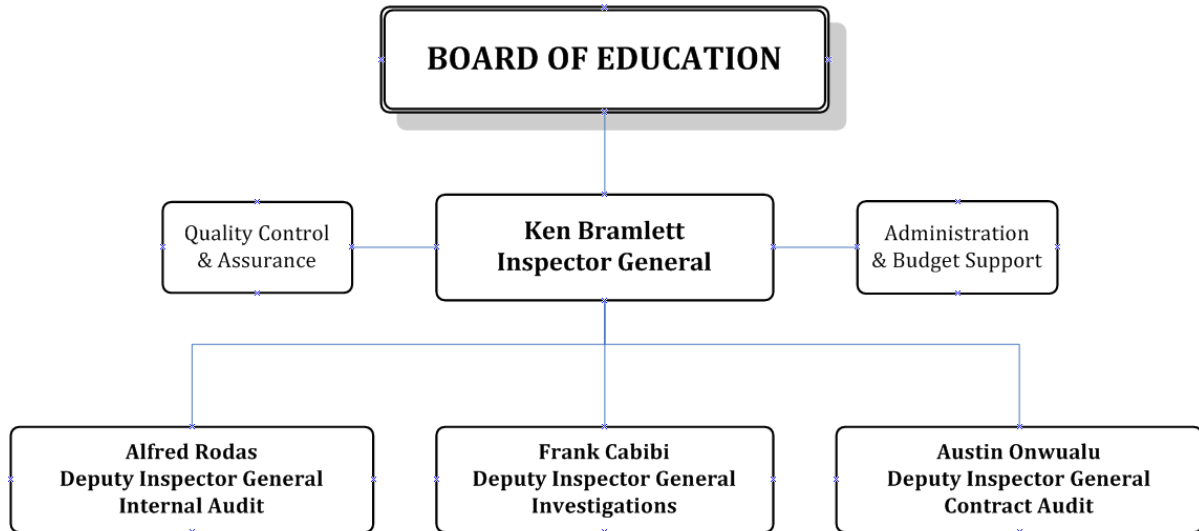
- ❑ Audit and investigate any and all functions within the District as well as charter schools, charter school management organizations, and private entities that do business with the District.
- ❑ Have full, free and unrestricted access to all District records, reports, audits, reviews, plans, projections, documents, files, contracts, memoranda, correspondence, data or information on hardcopy or electronic media, or other materials of the District.
- ❑ Subpoena witnesses, administer oaths or affirmations, take testimony and compel the production of such books, papers, records and documents as may be deemed relevant to any audit, inquiry or investigation undertaken.
- ❑ Hire staff or employ contract services within the scope of the budget authorized by the Board of Education, and within employment and public procurement requirements.

ORGANIZATIONAL STRUCTURE

The OIG reports directly to the Board to provide it with the necessary independence from District managers and staff who may attempt to protect the programs they administer or who may also be implicated. Accordingly, the responsibility for auditing and investigating is assigned to individuals following professional standards with clear independence from District management.

The OIG is comprised of auditors and investigators who have the authority to examine any and all functions within the District and those of private entities that do business with the District. The Internal Audit and Contract Audit Units, conduct performance audits and contract audits that cover a wide range of programs, processes, functions, areas and topics. The Investigations Unit conducts due diligence investigations and investigations of malfeasance by individuals. Due diligence investigations are conducted in support of the District's ongoing efforts to assess senior management applicant backgrounds as well as those of new charter school applicants. Malfeasance investigations, which often result from Hotline allegations, sort out the truth about allegations of misconduct by District employees and contractors.

The Inspector General manages the OIG, and is appointed by the Board for specified terms that may be renewed at the Board's discretion at the conclusion of the assigned term. The Inspector General manages the OIG with the assistance of three Deputies. The basic organizational structure is set forth below.



BUDGET AND STAFF

The Inspector General is charged with managing the OIG. During FY 2016, the OIG had 57 authorized positions and a budget of \$4.5 million in general funds, \$3.2 million in bond funds, and approximately \$167,000 in workers compensation funds. The Inspector General is assisted in managing the OIG by three Deputy Inspectors General who oversee audit and investigative activities. The OIG is supported by administrative staff and internal quality control staff tasked with ensuring that all work performed adheres to professional standards.

The OIG is a highly educated professional staff where nearly all have at least a four-year degree, and most have either advanced degrees or one or more professional certifications in their areas of expertise. The staff also has a diligent work ethic and is committed to providing quality service to all elements of the District. Additionally, the ethnic diversity of the OIG is reflective of every major ethnic group present in the District.

In all of our work, the OIG seeks to provide the Board and District staff with independent and objective information about the operations of the District and of those who do business with it. The OIG's Vision and Mission statements guide our efforts as we seek to meet the objectives set forth in the OIG Charter that was created by the Board and to support the District in the achievement of its core mission.

AUDIT ACTIVITIES AND ORGANIZATION

The OIG is comprised of two audit units, an Internal Audit Unit and a Contract Audit Unit. The organization and activities of these audit units are described in more detail below.

Internal Audit Unit

The Internal Audit Unit conducts performance audits on District programs, processes and functions for efficiency and effectiveness to ensure that adequate internal controls are in place and to verify that the reviewed areas are in compliance with laws, regulations and District policies and procedures. Internal Audit also performs limited school reviews that provide information about best practices for school operations.

The Deputy Inspector General for Internal Audit manages the Internal Audit Unit with the assistance of Audit Managers who manage the audit staff assigned to internal audit projects. Audit Managers are key “strategic thinkers” and “subject matter experts” within the OIG. They serve as “issue area managers” or “program managers”, who during the development of the annual work plan provide key information about areas that are susceptible to waste, fraud or abuse, as well as opportunities for improving efficiency and effectiveness. They are also the main contacts with District staff, particularly senior management. They also track recommendations and ensure that follow-up audits are conducted when needed.

The Internal Audit Unit also includes Principal Auditors who are responsible for conducting, individually or with the assistance of other auditors, performance audits of critical and complex processes, programs and functions.

Contract Audit Unit

The Contract Audit Unit conducts audits of the District’s procurement system which include procurement contracts for goods and services as well as contracts for the construction and modernization program. The Unit is responsible for conducting pre-award and post-award audits of all contracts and also provides support to District procurement officials in areas such as conducting rate surveys, claims and litigation support. The Unit conducts audits of contracts to ensure that District vendors and contractors comply with the requirements of their contracts and that contracted funds, especially bond funds are expended as intended and that the District received what it paid for. Contract Audit activities also help to ensure that all District programs and Units using or managing bond funds have adequate internal controls in place.

The Deputy Inspector General for Contract Audit heads the Contract Audit Unit and is a direct report to the Inspector General. The Deputy manages the Contract Audit Unit with the assistance of professional audit staff, an architect and administrative support staff.

Auditing Standards

The OIG audit units do their work primarily in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The Internal Audit Unit also uses the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. The Contract Audit Unit also uses the Statement on Standards for Attestation Engagements and the Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants.

Annual Risk Assessment Process

In the spring of every year, the OIG performs a global risk assessment which is the foundation for the Work Plan that guides the OIG in deciding which projects to undertake the following year. In addition, the OIG performs periodic risk assessments throughout the fiscal year to ascertain which issues pose the greatest risk to the District.

Annual Work Plan

The OIG audit units perform their work primarily in accordance with *Government Auditing Standards* that mandate that audit units operate pursuant to an annual work plan that identifies the specific areas of focus for an upcoming fiscal year which must be approved by the Board. The annual work plan is a “working” document that is modified throughout the year as circumstances, priorities, and resource availability dictate. The work plan is available on our website.

Effective planning in the District requires extensive knowledge of the District’s mission and the programs and activities that implement that mission. Accordingly, the OIG instituted issue area monitoring to strengthen our internal coordination and overall planning process. Audit Managers play a key role in our planning process.

The work plan describes the work of the Internal Audit Unit, the Contract Audit Unit, and the Investigations Unit, respectively. Due to the differences in the type of work performed, each unit follows a format that is best suited for presenting their work in the work plan.

Auditor Credentials and Qualifications

All auditors have four-year degrees from accredited colleges or universities, and auditors assigned as contract auditors have a minimum of three years of contract audit experience as Senior Auditors. Many of our auditors hold advanced degrees, licenses and certifications.¹

¹ Certified Internal Auditor; Certified Fraud Examiner; Certified Public Accountant; Certified Government Financial Manager; Certified Government Auditing Professional; Certified Financial Services Auditor; Master in Business Administration; Master in Information Systems; Master in Accountancy.

Additionally, members of the Internal Audit and Contract Audit Units are also active in professional organizations, such as the American Institute of Certified Public Accountants, Institute of Internal Auditors, Association of Certified Fraud Specialists, Association of Government Accountants, Association of Local Government Auditors, Association of Certified Fraud Examiners, and Information Systems Audit and Control Association. Staff of the Contract Audit Unit is also active in professional organizations such as the National Association of Construction Auditors.

External Assistance

Government Auditing Standards require that the staff assigned to conduct audits should collectively possess adequate professional proficiency for the tasks required. If the staff lacks that proficiency, the standards provide that an organization may need to employ personnel or hire outside consultants knowledgeable in such areas as accounting, statistics, law, engineering, etc.

During FY 2016, we retained the outside firm Crowe Horwath LLP to provide consulting services.

INVESTIGATIVE ACTIVITIES AND ORGANIZATION

The Investigations Unit investigates allegations of improper or illegal activities by District employees, contractors or other entities doing business with the District. The Investigations Unit also performs a variety of other services which are described in this section. Most of the investigative workload results from the receipt of allegations of improper activity. The Investigations Unit also receives referrals from the OIG audit sections. The remaining workload consists of proactive projects designed to prevent waste, fraud, and abuse.

The Deputy Inspector General for Investigations manages the staff and work of the Investigations Unit with the assistance of a Supervising Investigator.

Fraud Hotline - The OIG receives allegations of waste, fraud, and abuse from various sources, including mail, in person, email, by referral from other District departments and outside agencies, and the District's Fraud Hotline. The OIG Charter mandates that the Investigations Unit manage the District's Fraud Hotline. All reports received by the Fraud Hotline are reviewed and matters that warrant action are opened as investigations or referred to the proper District department for appropriate remediation. The OIG Fraud Hotline numbers are (213) 241-7778 and (866) LAUSD-OIG.

General Investigations - Reports of Investigation are issued upon completion of an investigation and summarize the evidence disclosed during the investigation. Some investigations are concluded by a Case Memorandum when it is determined that the facts of the case do not warrant a full investigation. The Education Code requires that every investigation, including all investigative files and work product, be kept confidential. The OIG is precluded from investigating allegations that involve crimes

against children. Allegations involving crimes against children are referred to the appropriate law enforcement agency.

Due Diligence Reports - The OIG has taken a proactive role to ensure the District contracts with responsible vendors and approves responsible charter school operators. Investigative staff performs public record investigations, commonly referred to as due diligence reports. These reports are requested by various District offices and divisions. Due diligence reports help to reduce the risks of doing business, improve contract and employment decisions, and promote greater accountability and effectiveness.

Subpoenas - Education Code Sections 35400 and 35401 grant the OIG the authority to conduct investigations, subpoena witnesses, administer oaths or affirmations, take testimony, and compel the production of all information deemed material, reasonable, and relevant to any OIG inquiry or investigation.

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

Investigating Standards

The Investigations Unit conducts its investigations according to the *Principles and Standards for Offices of Inspectors General*. The Association of Inspectors General drafted these principles and standards based on the quality standards for Federal Inspectors General issued by the President's Council on Integrity and Efficiency. The principles and standards represent generally accepted principles, quality standards, and best practices applicable to federal, state, and local offices of Inspectors General.

Investigator Credentials and Qualifications

The staff of the Investigations Unit possesses a variety of investigative backgrounds and skills. The majority of investigators have four-year degrees from accredited colleges or universities, and many also hold advanced degrees as well as professional certifications and accreditations such as Certified Public Accountant (CPA) and Certified Fraud Examiner (CFE). The staff includes former employees of investigative or regulatory agencies such as the U.S. Department of Justice Office of the Inspector General (DOJ-OIG), U.S. Environmental Protection Agency (EPA), Internal Revenue Service Criminal Investigations Division (IRS-CID), U.S. Federal Probations, Los Angeles County Sheriff's Department, and private and corporate firms performing Private Investigations, Loss Prevention Fraud Investigations, and Public Accountancy (CPA) functions.

C. ANALYSIS OF WORK PRODUCTION

FISCAL YEAR-END 2016					
	Projects Planned*	Projects Completed	In Progress	Carried Over to FY 2017**	Canceled
Internal Audit	50	31	2	11	6
Contract Audit	78	40	17	0	21
Investigations	211	130	81	-	-

* *Projects Planned* include additional project requests received by the OIG during the fiscal year.

***Carried Over to FY 2017* may include (i) projects that were planned but not started in FY 2016 and (ii) projects that were started but not completed in FY 2016.

The following sections provide additional analysis of the work produced by each operational unit of the OIG.

Internal Audit Work Analysis

The Internal Audit Unit began the fiscal year with 28 planned projects that were listed in the FY 2016 annual work plan, but this number increased throughout the fiscal year as a result of new requests for services, as well as the inclusion of carried over projects from prior fiscal years. During FY 2016, a total of 31 projects were completed, 10 of which were the result of requests for our services from various stakeholders, including the Board, Senior Management and school principals.

There were 11 projects in various stages of completion as of June 30, 2016 that were carried over to FY 2017. Also, during FY 2016, six projects planned for the year were cancelled due to reprioritization of our projects.

Contract Audit Work Analysis

The Contract Audit Unit began the fiscal year with 50 projects that were authorized by the FY 2016 annual work plan. In addition, there were 10 projects that remained open from prior fiscal years.

As the fiscal year progressed, FSD and Procurement requested additional projects, both anticipated and not anticipated. By the end of the fiscal year, 78 projects were ultimately authorized consisting of 68 new projects and 10 ongoing projects from prior years.

The following is a summary of the Unit's fiscal year activity ending June 30, 2016:

FY 2016 Work Plan	Original Plan	Updated Plan*	Projects Completed	In Progress	Carryover to FY17	Canceled
Construction Contract	14	14	2	5	-	7
Prof Services Contract	25	25	10	7	-	8
Special Reviews	4	6	2	1	-	3
Technical Evaluation	5	5	3	1	-	1
As-Needed	2	18	13	3	-	2
FY 2016 Subtotal	50	68	30	17	0	21
Prior Year Projects		10	10	-	-	-
FY 2016 Grand Total	50	78	40	17	0	21

** The Updated Plan column includes the additional projects requested by FSD and Procurement throughout the year.*

During the annual risk assessment process for FY 2017, the OIG made an assessment of the projects that had not been initiated during FY 2016. Based on this assessment, none of the projects were carried over to the FY 2017 annual work plan. The projects that were not identified as having the level of risk required to be carried over to FY 2017 will no longer be performed unless they are requested by the Board or District Management and sufficient OIG resources are available.

During the year, we prioritized completing the audits that we received special requests for as well as completing the ongoing audits from prior years. As a result, we issued 40 reports.

Investigative Work Analysis

The following is a summary of the Investigations Unit's fiscal year activity ending June 30, 2016.

FY 2016 Work Production by Project Type	
Type of Project	Completed/ Issued
Report of Investigation	6
Case Memorandum	9
Charter School Due Diligence	39
Contractor/Vendor Due Diligence	50
Executive Level Pre-Employment Due Diligence	10
Reports Issued	114
Subpoena	16
Total Investigative Matters	130

FY 2016 Hotline Calls Summary	
Disposition	# of Calls
Referred	131
Referred to Audit Unit	2
Not Referred	47
Preliminary Investigation	37
Investigation	11
Total Hotline Calls	228

As of June 30, 2016, there were **81** open investigative and due diligence matters.

D. ECONOMIC IMPACT

The OIG is committed to identifying and reducing waste, fraud, and abuse and to identifying opportunities for achieving greater economy, efficiency, and effectiveness that may result in the savings or recovery of funds that can be used toward student-related goals. The OIG classifies monetary benefits into the following major categories: restitution, settlements, funds put to better use, questioned costs and construction cost savings.

Restitution is the voluntary or court-ordered repayment of District funds that were obtained through fraudulent means. Settlements are formal legal agreements where funds are awarded to resolve damage claims. Funds put to better use incorporate recommendations that may result in more efficient use of District funds. Questioned costs are costs that are disallowed or unsupported and are primarily incurred on contracts, grants, and other forms of cooperative agreements. Construction cost savings are funds returned to the District from audits of 17406 contracts. These funds relate to savings from unused allowances and contingency funds imbedded in the contracts. OIG investigative activities may also result in monetary benefits such as fines and recoveries.

Quantifying the monetary value of OIG services for any one year often means assigning value in a given year for efforts that often span over several years. During FY 2016, the OIG identified \$6.2 million in monetary benefits through its audits, investigations, and special reviews.

<u>Report Type</u>	<u>Monetary Benefits</u>
Internal Audit	\$152,183
Contract Audit	\$5,100,213
Investigation	*\$1,000,000
<hr/>	
TOTAL	\$6,252,396

*During FY 2016, the Investigations Unit identified funds that were gained through improper or illegal means. However, unlike audit savings, these funds cannot be realized or estimated with any accuracy until the case has been adjudicated and restitution has been ordered. Restitution will be reported in the year it is ordered and received by the District.

E. CONCLUSION

This report is intended to provide information that informs the reader about the OIG, who we are, how we are organized, what we accomplished in FY 2016, and what benefits we brought to the District. FY 2016 was a productive year in which the OIG demonstrated both a desire and ability to be highly proactive and responsive to stakeholder concerns. OIG staff takes pride in being an office that contributes, in a significant manner, to the quality of education provided by the Los Angeles Unified School District.

We thank the Board of Education, the Superintendent and their staff for their support and cooperation, and we look forward to continuing this important work.

APPENDIX 1

SIGNIFICANT REPORT SUMMARIES

This appendix includes summaries of significant audits and investigations that are not discussed in Section A of this report.

Internal Audits

Internal Controls over Super Imprest Funds – Facilities Services Division (FSD) -

This audit was done to determine whether controls were working as intended for four Super Imprest funds and one basic imprest fund within FSD. Although we found that all disbursements made from the Super Imprest funds were for allowable expenditures, we found that the funds were not being adequately managed. Specifically, weaknesses included missing documentation, unavailable reconciliations, outstanding stale-dated checks had not been written-off, and reconciliations were not sent to the Controller as required. The control environment was also deemed to be weak due to inadequate oversight and lack of appropriate policies and procedures for the four Super Imprest funds. We provided nine specific recommendations to Facilities – Program Support; Management agreed with eight and partially agreed with one recommendation.

Follow-Up Audit of LAUSD’s DSA Closeout Certification Process - This follow-up audit was performed to determine whether the District had implemented actions to address concerns inherent in our recommendations of a 2012 OIG audit. According to the California Field Act, all construction projects on K-12 schools are subject to Division of State Architect (DSA) certification to ensure structural safety, fire and life safety, and accessibility. Evidence was provided by the Facilities Services Division that Management had taken actions to address our concerns to ensure a more efficient and effective DSA closeout certification process. Of the 35 original recommendations, 34 were fully implemented and one was partially implemented. In 2012, only 55% of all construction-completed projects were DSA certified. In 2016, we noted the positive condition that Management had increased the number of DSA certifications to 93% of all construction-completed projects.

Charter High School of the Arts – Multimedia and Performing – The OIG conducted an audit of the Charter High School of the Arts – Multimedia and Performing (the school) in support of the District’s oversight functions and noted that the school was in compliance with many but not all of the terms and conditions of its Charter Agreement. For example, our audit noted control weaknesses in governance structure, liability insurance policy details, employment documentation and other financial control issues related to expenditures/disbursements. We provided the school with six recommendations to ensure full compliance with the Charter Agreement and to enhance the current system of internal controls. The school agreed with all of our recommendations and stated it would take necessary steps to address our recommendations.

Early Education Centers – Eligibility Compliance - The primary objective of this audit was to determine if the controls over the Early Education Center admission processes were adequate and effective as well as to determine if all applicable Federal, State and District policies and procedures were being followed at all centers. Early Childhood Education programs receive both State and Federal funds and are required to follow regulations as set forth in Title 5, California Code of Regulations and Title 22, California Childcare Licensing Requirements. A total of 17 Early Education Centers were visited and 305 family file records were examined. We noted that Early Education Centers needed to enhance internal controls over the admissions process in order to fully adhere to all applicable Federal, State and District policies and procedures. The Early Childhood Education Division agreed with all of our recommendations and was in the process of taking the needed steps to address our recommendations.

Student Safety on School Buses Using Technology - This prospective analysis was done to provide the District with more information about the use, features and benefits of having video cameras in place on school buses. Our analysis included (1) a survey of other school districts using video cameras, (2) a study conducted by the Council of Great City Schools regarding video camera use in school buses, (3) research of different vendors that install video cameras and their various features and (4) challenges identified when considering the installation of a video camera system. The information provided in this Prospective Analysis Report is expected to assist the Transportation Services Division as it considers the installations of a video camera system on District buses in an effort to increase student and school bus driver safety.

Third Party Payroll Deductions - This audit was done to determine whether payroll deductions made from employee salary amounts were remitted to third party agencies in a timely manner. This is important because untimely remittance of these deduction amounts could make the District be non-compliant with certain contractual provisions and subject the District to penalties and interest. We noted that some remittances had in fact been made after stipulated due dates. For example, the District was required to pay CalSTRS for penalties and interest assessed for late remittance of teachers' contributions relating to the wage increase during the period from July 1, 2014 to March 31, 2015. Also, we noted that premium payments to United Healthcare Insurance Company for November 2014 amounting to \$415,610 were remitted past the due date. These conditions resulted from areas of risk that we deemed to be in need of management's attention. Management agreed to take the corrective actions we included in the audit report.

Contract Audits

Ferguson Enterprises, Inc. - The OIG conducted an audit of Ferguson Enterprises, Inc.'s \$39 million contract to provide plumbing supplies. The objectives of our audit were to determine whether the unit costs billed complied with the contract's terms and whether the items billed were received by the District. Our audit found \$66,442 of questioned costs which Ferguson agreed to refund.

BVCC, Inc. - An audit was conducted of BVCC, Inc.'s \$5.5 million contract to install and repair playground surfacing and concrete curbs. The primary objective of the audit was to determine whether the billed amounts were adequately supported and in accordance with the contract terms and conditions, and whether items billed were authorized and installed as stipulated in the task order. Our audit found \$9,650 of questioned costs which BVCC agreed to refund.

Pre-award Rate Review for Architectural and Engineering Services - Pre-award rate reviews of seven firms that proposed to provide architectural and engineering services to the District were performed. The rate reviews consisted of reviewing the firms' overhead and direct labor rates. The rate reviews helped PSD negotiate lower hourly rates than originally proposed by the firms resulting in significant savings to the District.

Pre-award Rate Review for Worker's Compensation Claims Administrative Services - The OIG conducted pre-award rate reviews of firms that submitted proposals to provide workers' compensation claims administration services. The purpose of the rate reviews was to determine if the proposed fees were supported and reasonable. We recommended that certain unsupported fees be waived and that overhead and escalation rates be adjusted.

Gorian and Associates - The OIG conducted an incurred cost audit of the amounts billed by Gorian and Associates, Inc. to provide geotechnical engineering support services. The objectives of the examination were to determine whether (i) amounts billed were adequately supported and in accordance with the contract, (ii) services were provided in accordance with the contract, (iii) services not included in the contract were pre-approved, and (iv) the total amount billed did not exceed the total contract amount of \$1.3 million. The results of the audit disclosed \$3,430 of questioned costs due to lack of supporting documentation and noncompliance issues.

Atlantic Express/Mission School Transportation - The OIG audited Atlantic Express/Mission School Transportation's contract to provide pupil transportation services. We found that (i) amounts billed were adequately supported and in accordance with contract, (ii) the buses used met the contract requirements, and (iii) drivers were licensed and had completed the required training.

Investigations

The Education Code requires that every investigation, including all investigative files and work product be kept "Confidential."

Recall Implementation Procedures - The OIG inquired into a tire recall notice involving the Transportation Service Division (TSD). The investigation found that a tire manufacturer stated the recall notice was issued in a timely manner to the District. The investigation further revealed that TSD was unaware of the recall notice for over two years before corrective action was taken. The recall affected short school buses, pickup trucks and light vans used by Maintenance and Operations (M&O). Investigators

learned that the breakdown in communication was attributed to the notice being sent to the District's Accounts Payable (AP) Branch instead of to TSD. As a preventative measure, the OIG recommended that future notices should be redundant to ensure they are received at multiple District locations. Additionally, TSD registered online with the tire manufacturer to ensure that recall notices are received in real time by TSD.

Payroll Fraud – An allegation was received from Payroll Administration regarding a check negotiated in the amount of \$4,786.84. The check was issued by the Los Angeles County Office of Education (LACOE) for the District. We discovered that the check's payee was a retired District teacher who was not expecting any additional checks during the time that the altered check was negotiated. The investigation determined that the account holder did not negotiate the check as she was incarcerated at the time. The check was returned to LACOE unpaid by the bank due to the discrepancy in the name of the check's payee and the account holder. Based on the facts of the investigation, U.S. Postal and OIG investigators were unable to substantiate the party or parties involved in attempting to negotiate the check. The District did not incur a financial loss.

Falsified Documents – An allegation was received regarding falsified documents on a loan application completed by a Special Education Assistant. A review of the documents submitted to the OIG showed that the Employee Statement of Earnings, provided by the Special Education Assistant to the loan creditor, was falsified. The investigation substantiated that the employee altered the gross earning and hourly wage sections of the Employee Statement of Earnings in order to secure a loan from the creditor. The OIG referred the matter for administrative action.

Misappropriation of Funds – An allegation was received regarding policy violations and financial irregularities at a Middle School. It was discovered that a teacher was selling miscellaneous items and holding fundraisers that were not within District policy. The teacher continued to sell items after being told by District administrators to cease the activity as it violated District policies. The OIG investigation substantiated the allegations that the teacher failed to follow Student Body Accounting Procedures including inappropriately storing over \$900 in cash in his desk area. The teacher also conducted unapproved fundraisers including the sale of T-shirts and yearbooks. The investigation did not substantiate that the teacher benefited financially from the fundraising activities therefore the OIG referred that matter for administrative action.

APPENDIX 2

REPORTS ISSUED INDEX

<u>Report Date</u>	<u>Report Number</u>	<u>Report Title</u>
<i>Internal Audit Reports</i>		
07/07/15	OA 15-533	M&O Inventory Controls
07/08/15	OA 15-534	Los Feliz Charter School for the Arts
07/29/15	OA 15-536	Hazardous Waste Handling and Disposal Process
08/04/15	LSR 15-094	Canoga Park High School
08/14/15	OA 15-537	Emergency Preparedness of Schools
08/17/15	LSR 15-095	Boyle Heights High School
08/27/15	OA 15-538	Attendance Reporting for Teachers
09/30/15	OA 15-539	Third Party Payroll Deductions
09/30/15	OA 15-540	Charles Maclay Middle School
10/14/15	OA 15-541	Duties Performed by Site-Assigned Maintenance Workers
10/19/15	OA 15-542	Charter High School for the Arts – Multimedia and Performing
10/21/15	OA 15-543	Calahan Community Charter School
10/29/15	FR 15-01	Follow-Up Review – Integrated Pest Management
11/05/15	OA 15-544	Labor Compliance Program – Resource Utilization
12/08/15	OA 16-NATAR2	Trend Analysis - OIG Charter School Audits FY 2006-2015
12/15/15	Confidential	High School
12/19/15	Confidential	High School
01/25/16	SSR 16-096	Walnut Park Middle School - STEM
02/04/16	OA 16-545	Venice High School
02/17/16	OA 16-546	Internal Controls over Super Imprest Funds - Facilities Services Division
02/26/16	OA 16-547	Early Education Centers – Eligibility Compliance
03/25/16	Confidential	Charter Elementary School
04/13/16	OA 16-548	Follow-Up Audit of LAUSD’s DSA Closeout Certification Process
04/20/16	FR 16-02	Follow-Up Review – School Athletics and Physical Education
04/15/16	OA 16-550	Sherman Oaks Center for Enriched Studies
04/28/16	OA 16-549	City of Los Angeles Election Invoice
05/09/16	LSR 16-097	Independence Elementary School
05/31/16	FR 16-03	Follow-Up Review – School Crisis Teams
06/06/16	LSR 16-098	Mid-City Elementary School
06/24/16	OA 16-551	Student Safety on School Buses Using Technology
06/30/16	OA 16.552	Special Review – Legacy High School Complex
<i>Contract Audit Reports</i>		
07/06/15	CA 15-1027	Pinner Construction Co., Inc., Contract No. 1110042
07/21/15	TE 15-049	Facilities Services Division - School Greening Initiatives
07/28/15	CA 15-1029	Educare, Contract No. 1000052
08/03/15	CA 15-1028	Robertson’s Ready Mix, Contract No. 1250081
08/04/15	MEM 16-1031	Sedgwick, RFP No. 2000000786
08/05/15	MEM 16-1032	Tristar, RFP No. 2000000786

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<u>Report Date</u>	<u>Report Number</u>	<u>Report Title</u>
08/10/15	CA 15-1033	Hirsch Pipe and Supply, Co., Inc., Contract No.1050081
08/10/15	CA 16-1034	Youth Policy Institute, RFP No. 2000000823
08/11/15	CA 16-1035	Toshiba Business Solutions, Contract No. 1200187
08/11/15	CA 15-1036	Gale Supply Company, Contract No. 1250105
08/12/15	CA 16-1037	City Year Los Angeles, RFP No. 2000000823
08/13/15	MEM 16-1030	A/B Letter Contract Awarding Procedures and Practices
08/13/15	CA 16-1038	Living Advantage, Inc., RFP No. 2000000823
08/19/15	MEM 16-1039	Millikan Affiliated Charter School Access Points
09/15/15	CA 15-1041	Ferguson Enterprises, Inc., Contract No. 1150003
09/22/15	CA 16-1042	Atlantic Express/Mission School Transportation, Contract No. 0650127
09/24/15	CA 14-1040	Tilden-Coil Contractors, Contract No. 1010066
09/29/15	CA 15-1043	Avaya, Inc., Contract No. 0750094
10/07/15	TE 15-050	Quality Control & Quality Assurance of Design Submittals to FSD
10/28/15	TE 16-051	Ohno Construction Company, Contract No. 1410150
10/30/15	CA 15-1044	JOC Prequalification Process and Selection Process
11/12/15	CA 16-1046	Becnel/Uniwear Uniforms, Contract No. 1050146
11/18/15	CA 16-1045	Apollo Professional Solutions, Contract No. 1300221
12/11/15	CA 16-1047	Mike Brown Grandstands, Contract No. 1050092
12/21/15	CA 16-1048	Environmental Consulting Services
01/11/16	CA 16-1049	Gonzalez Goodale Architects, RFQ No. R-15037
01/11/16	CA 16-1050	CSDA Design Group, RFQ No. R-15037
01/11/16	CA 16-1051	GA Design Architectural and Planning, Inc., RFQ No. R-15037
01/13/16	CA 16-1052	BOA Government Services, RFQ No. R-15037
01/20/16	CA 16-1053	tBP Architecture, Inc., RFQ No. R-15037
01/26/16	TE 16-052	Trillium USA Company, LLC, Contract No. 4400003464
01/28/16	CA 16-1054	gkkworks, RFQ No. R-15037
02/03/16	CA 16-1055	Vector Resources, Inc., RFP No. 2000000924
02/25/16	CA 16-1056	BVCC, Contract No. 1480019
02/25/16	CA 15-1057	Gold Star Foods, Contract Nos. 1200017 & 1300011
03/03/16	CA 16-1058	I Color Printing & Mailing, Inc., Contract No. 1250101
04/20/16	TE 16-053	Pinner Construction Co., Contract No. 1310114
04/26/16	CA 16-1059	Gorian and Associates, Inc., Contract No. 1090018
06/07/16	CA 16-1060	Enterprise Construction, Contract No. 01030023
06/16/16	CA 16-1061	Beta Investments & Contracts, Inc., Contract No. 4400003215

Investigative Reports

07/21/15	15-077	Retired School Teacher; Payroll Fraud and Violation of Ethics Code
08/31/15	14-213	Special Education Assistant; Falsified Documents
08/31/15	15-236	Special Education Assistant; Falsified Documents
08/31/15	15-217	Office Manager; Theft
08/31/15	14-294	Program Director; Violation of District Policy
09/21/15	14-199	Program Coord & Exec Director; Payroll Fraud and Abuse of Authority
10/20/15	15-109	Building and Grounds Worker; Workers' Compensation Fraud
10/26/15	15-277	District's Recall Implementation Procedures; Violation of District Policy

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<u>Report Date</u>	<u>Report Number</u>	<u>Report Title</u>
11/30/15	14-296	Athletics Assistant; Violation of District Policy
12/02/15	16-116	Special Education Assistant; Workers' Compensation Fraud
12/07/15	16-109	Program Coordinator; Ethics Code Violation
12/30/15	16-044	District Administrator; Improper Promoting Practices
01/05/16	16-130	Campus Aide; Workers' Compensation Fraud
02/16/16	14-262	School Teacher; Misappropriation of Funds
06/29/16	15-249	Program Coordinator; Falsified Documents

APPENDIX 3

DISTRIBUTION LIST

Board of Education
Bond Oversight Committee
Executive Officer of the Board
Superintendent
General Counsel

Know about fraud, waste or abuse?

Tell us about it.

Maybe you are a School District Employee, or maybe you are a private citizen. Either way, you are a taxpayer.

Maybe you know something about fraud, or 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 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.

Call the hotline:

**(213) 241-7778
or
(866) LAUSD-OIG**

Write to us:

**Fraud Hotline Center
333 S. Beaudry Ave., 12th Floor
Los Angeles, CA 90017**

<http://achieve.lausd.net/oig>