



LOS ANGELES UNIFIED SCHOOL DISTRICT

Office of the Inspector General



Annual Report to the Board of Education

Fiscal Year 2017

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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Superintendent of Schools

Ken Bramlett, MPA, CIG
Inspector General

July 31, 2017

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 summarizes our activities and accomplishments for the period from July 1, 2016 through June 30, 2017.

The OIG conducts audits, investigations, and special reviews of the Los Angeles Unified School District's (District) programs and operations to support effective decision making and to detect and deter waste, fraud and abuse. 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 by fostering integrity in its personnel. This report highlights some of our most significant work performed during fiscal year 2017.

The OIG remains committed to its mission to promote a culture of accountability, transparency, collaboration and integrity. On behalf of all OIG staff, I would like to thank the Board of Education 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

AUDIT ACTIVITIES

During FY 2017, the OIG conducted audits of various programs, processes and contracts. As a result, the OIG issued 62 reports that provided District management with information to help improve program operations, facilitate decision-making and improve public accountability. Our activities this year identified just under \$1 million in questioned costs. Also, as a result of our audit activities from prior years, the District received approximately \$7.8 million in settlements and negotiated questioned costs.

The OIG continues to focus its efforts in deterring inefficient, fraudulent and wasteful practices which, if not detected and corrected, will lead to degradation and deficiencies in the District's system of internal controls and possible excessive losses and liabilities.

Supporting District Programs and Operations

The OIG performed an audit of ***Fuel Rebates and Tax Credits for CNG Fuel Usage***. Based on our audit, we found that the District did not realize up to \$362,916 in tax credits that were available for the Sun Valley fueling station. During the course of our audit, we also found that the District was not credited the appropriate rebates for the San Julian fueling station. After the OIG questioned the vendor Trillium about the missing rebates, Trillium credited the District lump sum rebates totaling \$27,519. The OIG is working with District management to determine whether any of the fuel tax credits are still available to the District.

An audit of the ***Management of Insurance Requirements for Civic Center Permits and Special Events*** was performed. Based on our audit, we found that controls over requests to use District facilities were not adequate to ensure that the District accounted for and approved all applications. Further, the insurance approval and recordkeeping processes used by the District did not provide adequate assurance that the risks inherent in permitted activities were effectively assessed. The review of insurance requirements for applications was not properly monitored to ensure that adequate insurance existed for each event. We provided several recommendations to District management including a formal process and system to ensure the proper documentation of all requests received for the use of District facilities as well as random reviews of approved applications to ensure that all insurance requirements were met.

Another audit looked at the District's ***Random Metal Detector Searches at School Sites***. Based on our audit, we found that the District has established policies and procedures in compliance with laws regarding student safety and violence. However, we found that, although improvements were noted over these functions from our prior audit in 2014, some of the school sites we visited were not in full compliance with the established guidelines. To ensure that random metal detector searches are consistently and accurately conducted, District management needs to closely monitor schools and take corrective actions as needed. We made recommendations to strengthen controls over the random metal detector searches.

Our audit of ***Food Safety and Maintenance of Food Services Equipment*** found that in spite of the District's detailed guidelines relating to food safety activities, some of the school cafeterias we visited did not fully comply with the required food safety procedures necessary where food is stored, prepared, or served as part of the school nutrition program. We also noted that the school cafeterias we visited did not have a preventive maintenance plan for their equipment and some of the cafeteria equipment was not operational and was in need of repair. In addition, some cafeteria facilities were not in good repair to avoid pest entry and insect infestation and some non-cafeteria employees had unauthorized access to cafeteria premises.

The OIG performed agreed-upon procedures to determine whether (i) the ***Office of the Independent Monitor*** (OIM) had effective internal controls in place, (ii) the costs billed by the OIM under the District's contracts were allowable, and (iii) the OIM complied with specified provisions of the OIM contracts. Our review noted that the OIM lacked internal controls to accurately report costs, safeguard assets and to comply with the terms of the OIM contracts. The duties of maintaining custody of assets/funds, authorizing and approving transactions and recording transactions were all performed by one individual without oversight. Also, there was a lack of proper review and approval of consultants' invoices and a lack of bank reconciliations resulting in differences between the OIM bank account transactions and the OIM costs submitted to the District for reimbursement. Further, there was a lack of accountability for equipment provided by the District or purchased by the OIM with District funds. We questioned \$8,709 in costs incurred by the OIM.

The OIG conducted a review of the contract with ***Early Behavior Intervention, LLC*** to provide behavior intervention development and behavior intervention implementation services to students with exceptional needs. Our review found fraudulent and questionable billing practices as well as noncompliance with the contracts' requirements for tuberculosis and criminal history clearances, notification of staff changes, and service record documentation.

A special review was also conducted of the District's ***Procurement of Non-competitively Bid Contracts*** to determine whether the policies and procedures for non-competitive procurement were followed. The sample of non-competitively bid contracts we reviewed met the District's conditions for non-competitive contract procurement. However, we found that Procurement Services Division (PSD) staff awarded single source contracts even though the justification memoranda showed that the contract sponsors did not perform the required fair price analysis. For some of the contracts we reviewed, supporting documentation of the contract sponsors' fair price determination was not available. PSD staff also incorrectly processed sole source contracts as single source contracts and identified them as such in the PSD's contract approval/ratification request to the Board. Our recommendations included revising the Procurement Manual and the Facilities Contracts Desktop Procedures Manual to reflect current/accurate procedures.

We conducted a technical evaluation of the implementation of ***Proposition 39 – The California Clean Energy Jobs Act***. In 2012, California voters approved Proposition 39,

the California Clean Energy Jobs Act (Prop 39). The revenue from Prop 39 was to be used to fund the creation of clean energy jobs through projects that increase energy efficiency or generate clean energy for Local Educational Agencies (LEAs). Our evaluation found that the District has been very successful in acquiring the eligible allocations of Proposition 39 grants which will help the District achieve its energy conservation goals of reducing energy consumption, reducing the District's carbon footprint and raising awareness about climate change. This success can be attributed to the efficiency of the Sustainability Initiative Unit (SIU under Maintenance & Operations (M&O)) working in tandem with the four Energy Services Companies (ESCOs) currently under contract. However, we found shortcomings in the ESCOs' performance during the design and construction phases of implementation. Our recommendations included, that for future procurements, SIU/M&O should obtain more assurance that prospective ESCOs have both the capability and willingness to perform District work. We also recommended that the SIU/M&O require that ESCOs institute quality assurance/quality control measures for design phases to help ESCOs comply with the specifications and design standards.

Supporting School Construction, Repair & Modernization Programs

The OIG conducted an audit of the contract with ***Community Playgrounds, Inc.*** to install playground mats using Play Matta playground safety tile matting at various District locations. Our audit found that Community Playgrounds overbilled the District \$211,640 as a result of overstated square footage for installed playground mats, incorrect unit rates, an incorrect bond rate, and other unallowable costs. Our audit also found that Community Playgrounds did not have the required third party impact attenuation tests performed for the installed playground mats at two sites. Procurement Services Division sent a demand letter for a refund of the questioned costs.

An audit was also conducted of the contract with ***Swinerton Builders*** for the design and construction of Jordan High School's Redevelopment Project. We questioned \$201,368 billed by Swinerton Builders due to lack of supporting documentation, a mathematical error, duplicate costs and subcontractor credits received by Swinerton Builders that were not credited back to the District. Of the total questioned costs, \$123,678 was related to the construction cost and \$77,690 was related to the allowance and alternate disbursements.

Two ***market rate studies*** were performed of fully burdened labor rates for 57 ***construction management*** positions and 57 ***architectural and engineering positions*** in support of the Facilities Services Division (FSD). Through the studies, we determined the fully burdened labor rates that public sector entities in the Los Angeles and neighboring counties are paying for similar positions. The results of our studies will be used as a baseline by FSD in negotiating fully burdened hourly rates for those positions.

INVESTIGATIVE ACTIVITIES

As outlined in its charter, the OIG manages the District's Fraud Hotline also referred to as the OIG Hotline. The OIG 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. During FY 2017, the OIG received **693** complaints/allegations through the OIG Hotline, most of which required some level of investigative follow-up.

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 **78 due diligence and background investigation reports** related to charter schools, executive level employment, and facilities 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. In addition to the due diligence and background investigations, the OIG issued **5 Reports of Investigation and 4 Case Memorandums**.

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 can be disclosed publicly. Summarized in Appendix A of this report are some of the cases that can be discussed in a public forum. Unfortunately, these cases represent only a limited portion of the investigations conducted by this office.

During FY 2017, the OIG continued to work with the United States Attorney's Office, the Los Angeles County District Attorney's Office, and other federal and local law enforcement agencies which resulted in criminal investigations being initiated against District employees, contractors, and other parties affiliated with the District who have committed benefits fraud, misappropriated District funds, or committed other violations of federal and state law.

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 2017, the OIG issued **9 subpoenas** for business or financial records.

At the end of the fiscal year, there were **144 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.

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.

Some of the key Charter provisions authorize the Inspector General to:

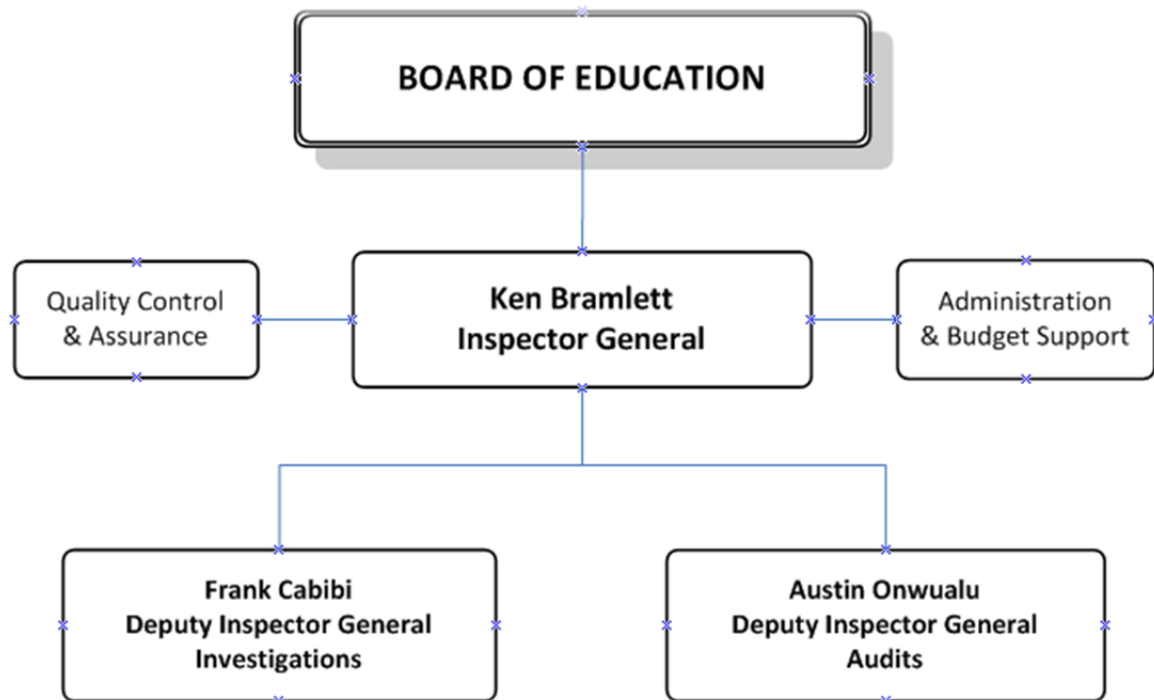
- ❑ Audit and investigate any and all functions within the District as well as charter schools, charter school management organizations, and private entities that do business with the District.
- ❑ Have full, free and unrestricted access to all District records, reports, audits, reviews, plans, projections, 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 Audit Unit conducts 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 is appointed by the Board of Education. The Inspector General manages the OIG with the assistance of two Deputy Inspectors General. The basic organizational structure is set forth below.



BUDGET AND STAFF

During FY 2017, the OIG had 57 authorized positions and a budget of \$4.6 million in general funds, \$4 million in bond funds, and approximately \$172,000 in workers compensation funds. The Inspector General is assisted in managing the OIG by two 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

One of the primary functions of the Audit Unit is auditing the District's procurement system including procurement contracts for goods and services as well as contracts for the construction and modernization program. The Audit Unit is responsible for conducting pre-award and post-award audits of contracts and also provides support to District procurement officials in areas such as conducting rate surveys, claims and litigation support. The Audit 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. These audit activities also help to ensure that all District programs and units using or managing bond funds have adequate internal controls in place.

The Audit Unit also conducts performance audits of various 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.

The Deputy Inspector General, Audits heads the Audit Unit and serves as a principal advisor to the Inspector General on audit matters. The Deputy manages the Audit Unit with the assistance of professional audit staff including well-experienced managers.

Auditing Standards

The Audit Unit does its work primarily in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The 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 and the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

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 Audit Unit performs its 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 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 to perform contract audits have a minimum of three years of contract audit experience as Senior Auditors. Many of our auditors hold advanced degrees, licenses and certifications.¹

Additionally, members of the Audit Unit 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, Information Systems Audit and Control Association, and 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 2017, the OIG did not retain any the outside firms to provide audit or consulting services.

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.

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 Audit Unit. The remaining workload consists of proactive projects designed to prevent waste, fraud, and abuse.

The Deputy Inspector General, Investigations manages the staff and work of the Investigations Unit and serves as the principal advisor to the Inspector General on investigative matters.

OIG 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 OIG Hotline. The OIG Charter mandates that the Investigations Unit manage the OIG Hotline. All reports received by the OIG Hotline are reviewed and matters that warrant action are opened as investigations or referred to the proper District department for appropriate remediation. The OIG 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.

Background Investigation Reports - The OIG assists the District in its efforts to recruit the finest candidates applying for executive positions. Investigative staff performs public record searches, contacts applicants for clarifying information and investigates information revealed that is contrary to that provided by the applicants.

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. SUMMARY OF WORK PRODUCTION

AUDIT ACTIVITIES

The Audit Unit began the fiscal year with 70 planned projects that were authorized by the FY 2017 Annual Work Plan. In addition, there were several projects that carried over into FY 2017 from prior fiscal years.

The following is a summary of the Audit Unit's fiscal year activity ending June 30, 2017:

Type of Activity	Completed
Follow-Up Review	1
Incurred Cost Audits	23
Limited School Reviews	14
Performance Audits	15
Rate Reviews	2
Special Reviews	4
Technical Evaluations	3
TOTAL	62

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 62 reports.

INVESTIGATIVE ACTIVITIES

The following is a summary of the Investigations Unit's fiscal year activity ending June 30, 2017:

Type of Activity	Completed
Report of Investigation	5
Case Memorandum	4
Charter School Due Diligence	35
Contractor/Vendor Due Diligence	33
Executive Level Pre-Employment Due Diligence	10
Reports Issued	87
Subpoenas	9
TOTAL	96

FY 2017 Hotline Calls Summary	
Disposition	# of Calls
Referred	543
Referred to Audit Unit	1
Not Referred	65
Preliminary Investigation	27
Investigation	57
Total Hotline Calls	693

As of June 30, 2017, there were **144** 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, and questioned costs.

Restitution is the voluntary or court-ordered repayment of District funds 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. 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 2017, the OIG identified **\$2.1 million** in monetary benefits through its audits, investigations, and special reviews.

<u>Report Type</u>	<u>Monetary Benefits</u>
Audits	\$965,083
Investigation	*\$1,173,428
<hr/>	
TOTAL	\$2,138,511

**During FY 2017, 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 cases have 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 2017, and what benefits we brought to the District. FY 2017 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 our 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.

Audits

Nelson Adams NACO – The OIG conducted an audit of the contract with Nelson Adams for wall fold tables and benches. The objectives of the examination were to determine whether the amounts billed were adequately supported and in accordance with the contract's terms and conditions including any discounts and rebates and that the wall fold tables and benches provided and installed were in accordance with the contract's terms and conditions. The results of our audit disclosed that Nelson Adams under paid the District for the cash discounts and volume rebates plus related interest in the amount of \$269,607.

P&R Paper Supply Company, Inc. - The OIG conducted an audit of the contract with P&R Paper Supply Company, Inc. to provide food-related paper and plastic products for use in school cafeterias. The objectives of the audit were to determine whether the billed amounts were adequately supported and in accordance with the contract terms and conditions and that the billed items were received by the District and the applicable early payment discount was taken by the District. Our audit found \$147,015 in questioned costs related to early payment discounts the District did not take. Procurement sent a demand letter for a refund of the questioned costs.

TMP Services, Inc. - An audit was conducted of the contract with TMP Services, Inc. to provide DSA approved building ramps. The objectives of the audit were to determine whether (i) the billed amounts were adequately supported and in accordance with the contract terms and conditions, (ii) the billed items were delivered timely as required by the contract, and (iii) the applicable early payment discount was taken by the District. Our audit found that TMP billed higher unit prices for various items and the overbilling amounted to \$11,837. Our audit also found that the District did not take the early payment discount on 48 invoices, resulting in an overpayment of \$4,547.

ePlus Technology, Inc. - An audit was conducted of the contract with ePlus Technology, Inc. to provide network equipment and related services. The objectives of the audit were to determine whether the amount billed was adequately supported and allowable according to the contract terms and conditions. Our audit questioned \$12,466 for overbilling and ePlus refunded the District for the questioned amount.

Prime Axis General Builder, Inc. – The OIG conducted an audit of the contract with Prime Axis General Builder, Inc. (PAGBI) for converting an existing classroom to a Chemistry Lab at Sherman Oaks Center for Enriched Studies. The objectives of the audit were to determine whether (i) the amounts billed represented costs that were allowable and adequately supported, (ii) contract change orders were justifiable,

properly approved and adequately documented, and (iii) the scope of work was completed in compliance with the terms of the Development and Construction Agreement. The results of the audit disclosed \$7,432 in questioned costs due to errors in the subcontractor mark up.

Investigations

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

Violation of Policy - A complaint was received from employees at a local school alleging misuse of public funds, misappropriation of funds, and violations of policies and abuses of authority by the school’s principal. The complainants further alleged that the principal was responsible for unaccounted donations from school-sponsored clubs, prohibited fundraisers, and a lack of accountability for school equipment.

The investigation substantiated that donated money dedicated for the use of school-sponsored clubs was improperly administered. The administrator(s) failed to document and account for the school-sponsored clubs’ expenditures. It was also confirmed that the principal allowed for unauthorized fundraisers to be held in direct conflict with District policies.

Conflict of Interest - The OIG Hotline received a complaint regarding a conflict of interest involving a school principal who is the Chief Executive Officer of an educational consulting company and a registered vendor to the District.

The OIG investigation substantiated the allegations that the principal violated the District’s conflict of interest policy by failing to disclose a financial interest in an educational consulting company doing business with the District on the executed and signed Statement of Economic Interests “Form 700.” The principal also admitted to violating the District’s Employee Code of Ethics policy by posting District students’ personal information and photos on the consulting company’s social media pages.

Benefits Fraud - A complaint was received alleging that an elementary teacher committed disability/payroll fraud and perjury by actively working as a self-employed professional and teaching classes at a local college while on extended medical leave from the District.

The OIG investigation substantiated that the teacher committed benefits fraud when the teacher signed a fraudulent certification/request of absence for illness form with the District to be self-employed as a licensed professional with three separate office locations throughout the greater Los Angeles area.

The investigation also substantiated that the teacher took an egregious amount of extended illness leave while teaching at a local college. Specifically, the teacher worked a total of 416 hours out of 1,974 workable hours during 2 school years.

APPENDIX 2

REPORTS ISSUED INDEX

<u>Report Date</u>	<u>Report Number</u>	<u>Report Title</u>
<i>Audit Reports</i>		
07/05/16	CA 16-1062	Jennie-O Turkey Store Sales, LLC, Agreement No. 1100122
07/13/16	CA 16-1063	Cordoba Corporation, Contract No. 1590024
07/15/16	CA 16-1064	H.A. Lewis, Inc.
07/29/16	OA 16-553	Central City Value High School
07/29/16	CA 16-1065	Royal Construction & Builders, Inc., Agreement No. 1410121
07/29/16	CA 16-1066	D. John Roser, Inc., Agreement No. 1130034
08/09/16	LSR 16-099	Foshay Learning Center
08/22/16	LSR 16-101	Farmdale Elementary School
08/23/16	LSR 16-100	Reseda Senior High
08/31/16	OA 16-554	Norm Enrollment Process and the Use of Intent to Enroll Forms at Independent Charter Schools
08/31/16	CA 16-1068	Karish Industries, Inc., Agreement No. 4400001794
09/01/16	LSR 16-102	Hilda Solis Learning Academy
09/12/16	CA 16-1067	Construction Management Billing Rate Study
09/13/16	LSR 16-103	Lokrantz Special Education Center
09/20/16	TE 16-054	Methane Safety Program
09/23/16	CA 16-1069	Architecture/Engineering Market Rate Study
09/23/16	LSR 16-104	Olympic Elementary School
10/10/16	AUP 17-1073	Dr. David Rostetter, Independent Monitor, Contract No. 4400002923
10/12/16	CA 16-1070	Arrow Restaurant Equipment, Contract No. 1150100
10/12/16	CA 16-1071	TMP Services, Inc., Contract No. 1050082
10/12/16	LSR 16-105	Brockton Elementary School
10/19/16	LSR 16-106	The Incubator Middle School
10/21/16	LSR 16-108	Third Street Elementary School
10/25/16	CA 16-1072	Kemp Bros. Construction, Inc., Agreement No. 1310110
10/25/16	LSR 16-111	Holmes Middle School
10/26/16	LSR 16-109	Slawson Occupational Center
10/27/16	AUP 16-1080	Office of the Independent Monitor
10/31/16	LSR 16-107	Fourth Street Primary Center
11/02/16	LSR 16-110	Kester Avenue Elementary School
11/28/16	CA 17-1074	Digital Scepter, Agreement No. 4400003009
11/28/16	LSR 16-112	Leichman Career and Transition Center
11/30/16	OA 16-556	Mendez High School
11/30/16	CA 16-1076	Early Behavior Intervention, LLC, Contract Nos. 1920801-14, 1920801-15 and 1920801-16
12/08/16	OA 16-559	Owner Controlled Insurance Program (OCIP) III
12/12/16	OA 16-557	Vernon City Elementary School

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12/12/16	OA 16-560	Aldama Elementary School
12/15/16	TE 17-055	Proposition 39 – The California Clean Energy Jobs Act
12/15/16	CA 17-1077	Armond Baghranian, Contract No. 1510013
12/15/16	CA 17-1078	Davis/Reed Construction, Inc., Contract No. 1310103
12/22/16	CA 17-1079	Prime Axis General Builder, Inc., Contract No. 1510027
12/31/16	OA 16-561	Roy Romer Middle School
01/31/17	CA 17-1081	Procurement of Non-Competitively Bid Contracts
02/09/17	OA 16-558	Anti-bullying Initiatives and Efforts
02/24/17	OA 17-562	East Valley High School
02/24/17	CA 17-1082	McKinstry Essention, LLC (ESCO), Contract No. 4400003327
02/24/17	CA 17-1084	S. J. Amoroso Construction, Agreement No. 1410077
02/24/17	CA 17-1083	Community Playgrounds, Inc., Contract Nos. 1480018 and 1480015
04/06/17	OA 17-1085	Student Health - Nursing Services
04/27/17	OA 17-563	Random Metal Detector Searches at School Sites
05/22/17	CA 17-1087	ePlus Technology, Inc., Contract No. 4400002858
05/23/17	OA 17-1089	Fuel Rebates and Tax Credits for CNG Fuel Usage
05/25/17	OA 17-1090	Oversight of Booster Clubs at Schools
05/31/17	CA 17-1088	Nelson Adams NACO, Contract No. 4400001842
06/07/17	OA 17-1091	San Gabriel Ave Elementary School
06/07/17	OA 17-1094	Management of Insurance Requirements for Civic Center Permits and Special Events
06/08/17	TE 17-056	Best Contracting Services, Contract No. 4400004896
06/13/17	OA 17-1092	Food Safety and Maintenance of Food Services Equipment
06/15/17	CA 17-1093	P&R Paper Supply, Inc., Contract No. 1300010
06/20/17	CA 17-1095	Swinerton Builders, Contract No. 1110077
06/27/17	OA 17-1097	Mount Washington Elementary School
06/29/17	CA 17-1098	Cumming Construction Management, Inc. Contract No. 1590025
06/29/17	CA 17-1099	Amplify Education, Inc., Contract No. 4400002912

Investigative Reports

11/16/16	16-164	Elementary Teacher; Benefits Fraud
11/21/16	16-115	Secondary Teacher; Violation of District Policies
12/02/16	15-275	Principal; Violation of District Policies and Misapplication of Funds
03/29/17	17-042	Principal; Conflict of Interest and Ethics Policy Violations
05/23/17	17-374	Secondary Teacher; Ethics Policy Violations

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>