



LOS ANGELES UNIFIED SCHOOL DISTRICT

Office of the Inspector General



Annual Report to the Board of Education

Fiscal Year 2018



Los Angeles Unified School District

Office of the Inspector General

Mónica García, President
Nick Melvoin
Kelly Gonez
Dr. George J. McKenna III
Scott M. Schmerelson
Richard A. Vladovic, Ed.D.
Members of the Board

Austin Beutner
Superintendent of Schools

Austin Onwualu, CPA, CIG
Interim Inspector General

August 7, 2018

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, 2017 through June 30, 2018.

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 the most significant work we performed during Fiscal Year 2018. Through this work, we identified approximately \$8.2 million in monetary benefits.

The OIG is proud to support the District's goal of achieving 100% graduation by identifying opportunities for achieving greater economy, efficiency, and effectiveness. On behalf of all OIG staff, I would like to thank the Board of Education for its continued support.

Austin Onwualu
Interim Inspector General

LOS ANGELES UNIFIED SCHOOL DISTRICT

Office of the Inspector General

VISION

To be a proactive office 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



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.

TABLE OF CONTENTS

A.	HIGHLIGHTS OF WORK PERFORMED	3
B.	BACKGROUND OF THE OIG	8
C.	SUMMARY OF WORK PRODUCTION	15
D.	ECONOMIC IMPACT	17
E.	CONCLUSION	18
	APPENDIX 1: SUMMARIES OF SIGNIFICANT REPORTS	19
	APPENDIX 2: INDEX OF REPORTS ISSUED	21
	APPENDIX 3: DISTRIBUTION LIST	23
	OIG HOTLINE	24

A. HIGHLIGHTS OF WORK PERFORMED

AUDIT ACTIVITIES

During Fiscal Year (FY) 2018, the OIG conducted audits of various programs, processes and contracts. As a result, the OIG issued **53** reports that provided District management with information to help improve program operations, facilitate decision-making and improve public accountability. Our audit activities this year identified approximately **\$6.2 million** in questioned costs and potential monetary benefits. In addition, as a result of our audit activities from prior years, the District received **\$348,000** in settlements and negotiated questioned costs.

The OIG continues to focus its efforts in deterring inefficient, fraudulent and wasteful practices that, 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 on the ***Financial Oversight of Schools***. Since 2010, the number of financial managers at middle schools has been reduced as part of the District's budget reduction plan. Currently, each financial manager serves two middle schools and each senior financial manager serves one high school. Our audit found that this reduction did not have a negative impact on the effectiveness of Financial Managers. For the most part, they were in compliance with District policies and guidelines. However, we noted minor non-compliances with cash donations deposited without the completion of *Request for Authorization* forms and missing parent permission slips that allowed students to participate in fundraising activities.

We made appropriate recommendations related to these minor non-compliances. The Controller agreed with our findings and recommendations and plans to take corrective actions.

The OIG performed an audit of ***Procurement Cards (P-Card)***. Our audit found that purchases were not in compliance with District policies on spending limits, pre-approval requirements, split purchases, and supporting documentation. We found that about 40% of the 77,000 P-Card transactions reviewed did not include original sales invoices, receipts, and pre-authorization forms as required in SAP. We also found that prohibited items were purchased with P-Cards including payments for airline and hotels, laptops, iPads, desktop computers, Amazon Prime membership fees, microwaves, freezers, and various gift cards. Further, we noted that cardholders and approving officials did not attend all mandatory and refresher trainings nor were they notified of questionable transactions.

We made recommendations related to updating policies and procedures, recordkeeping, use of data analytics, and working with the Information Technology Division (ITD) to add functionalities to the P-Card Program. The Procurement Services Division (PSD) agreed with all of our recommendations and plans to take corrective actions.

The OIG performed an audit of the ***School Athletics Program - Injury Prevention, Treatment and Monitoring***. The District provides written guidelines to school administrators on the rules, regulations, policies and procedures governing Interscholastic Athletics Programs. The objective of the audit was to review the process by which the District prevents, treats and monitors injuries to students who participate in District sponsored athletic activities. Our audit found that in spite of the detailed written guidelines provided to school administrators, the schools we visited were not fully compliant with the established policies and procedures specifically relating to student eligibility verification, coach eligibility verification, return-to-play protocol, and completion of the *Confidential Athletic Injury Tracking Form* and the *Incident System Tracking Accountability Report* (iSTAR).

We provided the Division of Instruction with several recommendations to ensure that the policies and guidelines issued to protect students from possible injury are strictly enforced by all District personnel.

The OIG performed an audit of the ***Cafeteria Management System (CMS)***. The District operates the nation's largest school breakfast program and the second largest school lunch program. In FY 2013, the District implemented the Cafeteria Management System (CMS), a software program designed to improve productivity, increase reporting accuracy, and decrease and eliminate manual cafeteria processes. The objective of the audit was to determine whether meal reimbursement claims were adequately supported and accurately processed within CMS. Our audit found that most schools' meal reimbursement claims were accurately processed within CMS. However, we found that (i) some schools had variances between their production records and the Meal Counts report and (ii) a few schools' CMS Meal Counts reports did not match what was claimed for reimbursement from federal and state agencies. We also found that schools had excess of allowable leftovers in various breakfast, lunch and supper meals.

We made specific recommendations to address the issues found and the Food Services Division is taking constructive steps towards improving the related processes.

The OIG conducted an audit of the ***Aspiring Principals Program***. The Aspiring Principals Program is a leadership development program aligned to the District's School Leadership Framework. The objectives of the audit were to determine whether (i) the program was achieving the District's goal of providing a professional development opportunity for District employees aspiring to assume the role of principal, and (ii) the program was effectively used as the primary promotional process to hire new principals for FY 2018. Our audit noted that the Aspiring Principals Program achieved the District's goal of providing a professional development opportunity for employees who aspire to assume the role of principal. However, we also noted that the program was not fully utilized by the Human Resources Division (HRD) as the primary promotional process for principal assignments in FY 2018.

We made specific recommendations to the HRD to maximize implementation of the program as the primary promotional process for principal assignments. The HRD agreed with our recommendations and plans to take immediate corrective actions.

The OIG performed an audit on the ***Effectiveness of Tracking Devices Installed in District School Buses***. The objectives of the audit were to determine whether (i) the Global Positioning System (GPS) and Mobile Data Terminals (MDT) installed in school buses were operating effectively, and (ii) the tracking devices and their system capabilities were fully integrated into District operations and utilized by staff. Based on our audit, we found that the GPS was operational and was working as intended. However, the MDT devices were not functioning as intended and were not fully integrated into the GPS operation, therefore, they were not fully utilized by Transportation Services Division (TSD) staff. As a result, the Student Ridership Information Module was not implemented and thus not producing the automated student ridership information the District needed. We also found that the TSD did not have a complete inventory of all the GPS and MDT devices installed in school buses nor did the TSD provide adequate training to bus operations staff. Overall, the GPS/MDT initiative did not result in full automation of the daily bus reports processing which was one of the expected outcomes for this program. In addition, since the MDT devices were not integrated with District's databases, TSD could not provide the documentation required for the District to file reimbursement claims for transporting students with special needs. As a result, the District missed the opportunity to collect a yearly reimbursement amount of approximately \$1.5 million since 2014 from state and federal agencies.

We made several recommendations to improve the effectiveness of the GPS and MDT terminals and to successfully integrate the GPS/MDT initiative with District operations. The TSD agreed with our recommendations and is taking actions to address the issues found. In addition, TSD is collaborating with ITD and the contractor Synovia Solutions to help ensure the successful roll out of this program.

The OIG reviewed the District's process for taking ***Early Payment Discounts*** offered by the District's vendors. The District maximizes cost savings by negotiating early payment discounts for select contracts and purchase orders. The objectives of our review were to determine (i) the extent to which the District was taking the early payment discounts when eligible, and (ii) opportunities for improvements in the District's processes to maximize cost savings from early payment discounts. We analyzed invoices with early payment discount terms and found that the District (i) paid 29% of the invoices after the discount period expired and (ii) did not take discounts on 25% of the invoices that were paid within the discount period. Overall, the District failed to take discounts from 46% of the invoices that we reviewed, forfeiting and/or forgoing a total of \$738,820 in discounts.

As a result of our review, PSD will be seeking \$297,832 in refunds from vendors for the eligible early payment discounts that the District failed to take. Additionally, the Accounts Payable Branch will be working with ITD and PSD to implement processes to improve and prioritize the payment of invoices that offer early payment discounts.

Supporting School Construction, Repair and Modernization Programs

In FY 2018, the OIG completed four technical evaluations and one special review in support of school modernization projects. Technical Evaluations are carried out to ascertain whether construction and architectural best practices were followed in the execution of projects or contracts. To add value to our technical evaluations, we also review key evaluation criteria for construction projects including (i) schedules, (ii) budgets, (iii) quality of work, (iv) performance of contractors, District staff and consultants.

The OIG conducted a technical evaluation of ***Telenet VoIP, Inc.*** for an audiovisual public address intercommunication (A/V PA-Intercom) system at Marlton School. Marlton School is the only school in the District servicing preK-12 Deaf and Hard of Hearing students in American Sign Language. The school had an immediate need for a robust A/V PA-Intercom system that allows voice announcements to be displayed on classroom monitors for those who read lips and/or use sign language to understand and communicate.

Our evaluation indicated that in several areas, Telenet VoIP did not comply with the construction agreement and the design and construction documents. The project was adversely affected by many issues with Telenet VoIP including lack of qualification, unsatisfactory project management, and an inability to resolve functional issues with programming and implementation technologies. We also found issues with District Management. The District did not clearly define a major scope of work, the project was managed by staff who did not have construction background, and ITD's Project Management Office went through several restructurings and leadership changes. This confluence of problems had a significant negative effect on the project that resulted in cost overruns and significant delays.

We provided several recommendations to address the issues found in our evaluation. FSD agreed with most of our recommendations and implemented some of them during the course of the evaluation. FSD will focus on process improvements and lessons learned that may be applied going forward with future projects.

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 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 2018, the OIG received **341** 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 **127 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 Case Memorandums**.

During FY 2018, 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. The OIG works with various law enforcement agencies in support of criminal investigations related to 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 2018, the OIG issued **8 subpoenas** for business or financial records.

At the end of the fiscal year, 95 investigative matters remained in progress. These matters include investigations involving violations of District policies, civil and criminal acts of waste, fraud and abuse. These investigations are actively being pursued and once completed will be presented for consideration of civil/criminal prosecution or administrative actions.

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 that 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 granted the OIG statutory authority to perform some of its most critical functions. The OIG's statute:

- Established 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.
- Granted 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.
- Provided 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.
- Imposed 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 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:

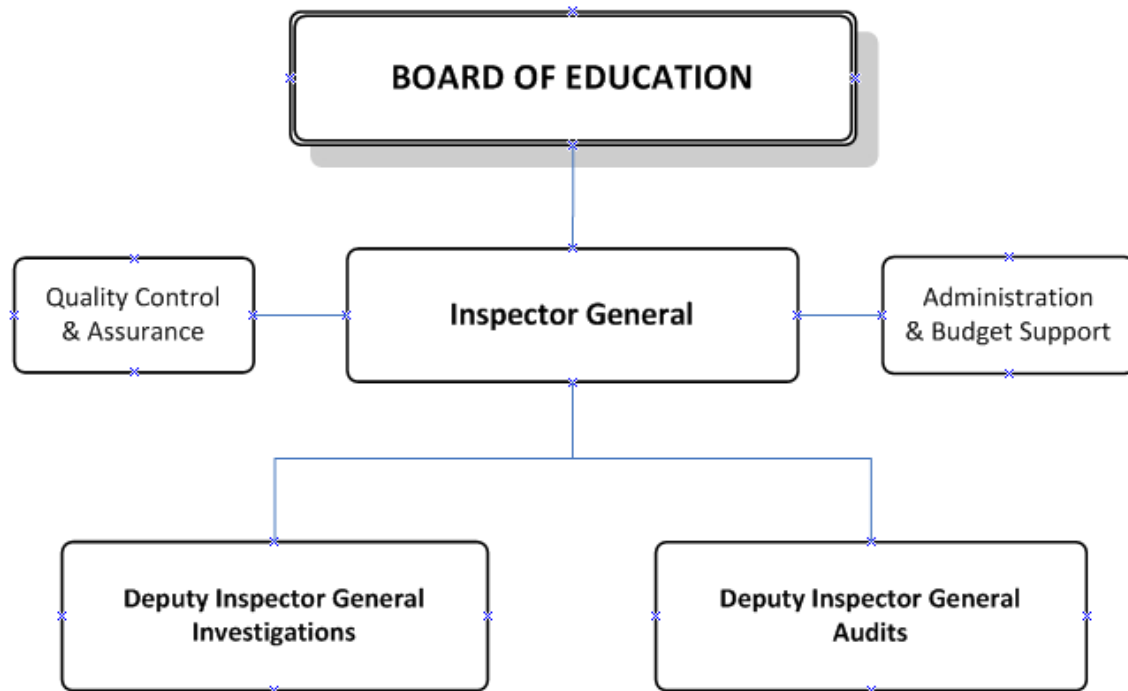
- ❑ Audit and investigate any and all functions within the District as well as charter schools, charter school management organizations, and private entities that do business with the District.
- ❑ Have full, free and unrestricted access to all District records, reports, audits, reviews, plans, projections, 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, engineers, architects 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, which includes the Technical Evaluation Team, conduct audits and evaluations that cover a wide range of programs, processes, functions, areas and topics. The Investigation Unit conducts due diligence reviews and investigations of malfeasance by individuals. Due diligence reviews 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 2018, the OIG had 61 authorized positions and a budget of \$5.2 million in general funds, \$4 million in bond funds, and approximately \$189,000 in workers compensation funds. Two Deputy Inspectors General who oversee audit and investigative activities assist the Inspector General in managing the OIG. The OIG is also supported by administrative and internal quality control staff tasked with ensuring that all work performed adheres to professional standards.

The OIG has a highly educated professional staff where 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 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. In addition, the Technical Evaluation team within the Audit Unit conducts evaluations to ascertain whether construction and architectural best practices were followed in the execution of projects or contracts.

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 audit and project 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 District wide risk assessment which generates a universe of auditable areas that serve as the foundation for the Work Plan. The risk assessment develops an inventory of all auditable areas and considers the risk factors relevant to these auditable areas. The auditable areas are then prioritized in terms of risks from high risk to low risk.. 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 2018, 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 that 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 with 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. Various District offices and divisions request these reports. 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 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 60 planned projects that were authorized by the Board for the FY 2018 Annual Work Plan. In addition, several projects were carried over into FY 2018 from the prior fiscal year.

The following is a summary of the Audit Unit's fiscal year activity ending June 30, 2018:

Type of Activity	Completed
Incurring Cost Audits	26
Performance Audits	16
Special Reviews	7
Technical Evaluations	4
TOTAL	53

During the year, we prioritized completing the audits that we received special requests for as well as completing the ongoing audits from the prior year. As a result, we issued 53 reports.

INVESTIGATIVE ACTIVITIES

The following is a summary of the Investigations Unit's fiscal year activity ending June 30, 2018:

Type of Activity	Completed
Report of Investigation	0
Case Memorandum	5
Charter School Due Diligence	58
Contractor/Vendor Due Diligence	29
Executive Level Pre-Employment Due Diligence	40
Special Review	1
Reports Issued	133
Subpoenas	8
TOTAL	141

As of June 30, 2018, **95** investigative and due diligence matters remained in progress.

FY 2018 Hotline Calls Summary	
Disposition	# of Calls
Referred to District Management or other agency ²	304
Referred to Audit Unit	5
No Action Taken ³	11
Preliminary Investigation	16
Investigation	5
Total Hotline Calls	341

² Complaints referred to (i) District administrators for review and/or appropriate action or (ii) to an outside agency better suited to handle the matter.

³ Complaints that were determined to be (i) too broad or general in their content and could not be processed.

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 2018, the OIG identified **\$8.2 million** in monetary benefits through its audits, investigations, and special reviews.

<u>Report Type</u>	<u>Monetary Benefits</u>
Audits	\$6,229,862
Investigation	*\$2,005,425
<hr/>	
TOTAL	\$8,235,287

**During FY 2018, 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 intends to inform the reader about the OIG, who we are, how we are organized, what we accomplished in FY 2018, and what benefits we brought to the District. FY 2018 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

The OIG audited ***Landscape Structures, Inc.'s*** \$3 million contract with the District to install playground safety mats at various District locations. We found that the vendor overbilled the District \$137,872 for the period we audited by charging the District excessive surface area of installed playground mats, incorrect unit rates, incorrect bond rates, freight and sales tax. PSD will be seeking a refund of \$137,872 from the vendor.

The OIG conducted an audit of the contract with ***Synovia Solutions, LLC*** to provide GPS hardware and software for the District's school buses and other vehicles. Our audit questioned \$21,664 billed by Synovia due to duplicate charges on several GPS units, installation fees, and hardware maintenance plans, overbilled monthly tracking fees, and a nonfunctional Electronic Vehicle Condition Report (EVCR) system. In addition, we found repair costs for GPS units that were paid while still under warranty at the time of repair. We also noted that outstanding repair cases remained unresolved for over 200 days. Both Synovia and the District did not have a system in place to efficiently monitor and track the status of GPS units sent out for repair or replacement.

The OIG conducted an audit of the contract with ***The Gordian Group, Inc.*** (Gordian) for providing the internet based automated Job Order Contracting (JOC) system to the District. The results of our audit disclosed that the District has over-awarded several JOC contracts in the amount of \$75,865 due to errors Gordian made in applying the JOC rates. In addition, we found that Gordian overbilled the District for \$3,119. As a result of our audit, the District issued change orders and recovered the overbilled amount.

The OIG conducted an audit of the contract with ***AssetWorks, LLC*** for providing an upgrade to the TSD's Maintenance Control and Management System (MCMS) to Fleet Focus M5. The objectives of our examination were to determine whether the billed amounts complied with the contract's rate schedule and that the contractor provided the specified deliverables to ITD in compliance with the contract's terms. Our audit found that the billed amounts were adequately supported in all material respects and that the contractor provided the specified deliverables to ITD in compliance with the contract's terms and conditions. Our audit disclosed questioned costs totaling \$47,337 for overpayment of software maintenance costs.

The OIG conducted an audit of the contract with ***Microsoft Corporation*** to support and assist with the continued implementation and support of new and existing software development projects with the District. Our audit found total questioned costs of \$188,301 due to errors in billing rates and hours. The District recovered the total questioned costs by deducting the amount from future payments.

The OIG conducted an audit of the contract with **Virco, Inc.** to provide school and administrative furniture. We found that Virco did not comply with the Volume Rebate Program and failed to pay the District the stipulated volume rebate amount. As a result, Virco has an underpayment of volume rebate due to the District in the amount of \$37,882.

The OIG conducted an audit of the contract with **Group Delta Consultants, Inc.** to provide material testing and inspection services for various schools. Our audit found that Group Delta Consultants overbilled the District for \$86,950. The overbilled amount resulted from overbilled hours and rates. We recommended the District recover the total questioned costs from Group Delta Consultants.

Investigations

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

Sexual Harassment and Improper Promotions – Senior AALA management reported an ongoing pattern of sexual harassment and improper promotions by two District Administrators.

The OIG investigation substantiated that the two Administrators engaged in a pattern of improper sexual innuendo and unwanted touching toward female subordinates over a period of several years. One of the Administrators also unfairly promoted a favored female employee five times in four years increasing the employee’s salary over 123%. The Administrator also coached and assisted the favored employee with resumes that contained patently false work experience. The false work experience was used by the favored employee on six job applications, which resulted in six promotions. The administrators have been separated from the District.

APPENDIX 2

REPORTS ISSUED INDEX

<u>Report Date</u>	<u>Report Number</u>	<u>Report Title</u>
<i>Audit Reports</i>		
07/24/17	OA 17-1086	Risk Management and Insurance Services
07/24/17	OA 17-1100	YPI Charter
08/07/17	OA 17-1096	Facilities Services Division's Use of Informally Bid Contracts
08/10/17	CA 17-1101	A/P Recovery, Inc., Contract No. 1100381
08/10/17	CA 17-1102	OpTerra Energy Services, Inc., Contract No. 1580006
08/11/17	TE 17-057	Jam Fire Protection, Inc., Contract No. 1510071
08/15/17	CA 17-1103	After School All-Stars, Contract No. 4400002783
08/30/17	OA 17-1104	Follow-Up Review of Job Order Contracting Program
08/30/17	OA 17-1105	Facilities Rapid Access Program
08/30/17	TE 17-058	C&P Construction Development, Inc.
09/21/17	CA 17-1106	Virco Inc., Contract No. 4400001853
09/21/17	OA 17-1107	Tracking Devices Installed in District Buses
09/27/17	OA 17-1108	Facilities Revolving Accounts
09/29/17	MEM 16-1110	Confidential
10/03/17	CA 18-1109	Masters Contracting Corporation, Contract No. 4400005038
10/03/17	OA 18-1111	Consolidated County Municipal & Special Elections, Invoice #17-2123
10/25/17	TE 18-059	Enterprise Construction, Contract No. 1610028
10/26/17	CA 18-1113	Landscape Structures, Contract No. 4400001248
10/26/17	OA 17-1114	Facilities P-Card Expenditures
10/31/17	CA 18-1115	Jam Corp., Contract No. 4400002178
11/16/17	CA 18-1116	Ian Thomas Group, Inc., Contract No. 1610005
11/30/17	OA 17-1117	Buyer Cards
11/30/17	CA 18-1118	Associated of LA, Contract No. 4400001391
11/30/17	CA 18-1119	AAA Solar Electric, Inc. Contract No. 4400003540
12/18/17	CA 18-1120	HP, Contracts No. 4400002733/4400004577
12/19/17	CA 18-1121	Beta Investments & Contracts, Inc., Contract No. 4400003190
01/08/18	CA 18-1122	The Gordian Group, Contract No. 4400003096
01/10/18	CA 17-1123	Reyes Electrical Contractor, Inc., Contract No. 1610013
01/22/18	CA 18-1124	Geronimo Concrete, Contract No. 4400003328
01/22/18	OA 17-1112R	School Athletics - Injury Prevention, Treatment and Monitoring
01/29/18	OA 17-1125	Cafeteria Management System
02/01/18	CA 17-1130	Microsoft Corporation
02/13/18	MEM 18-1126	Confidential
02/14/18	OA 18-1127	City of L.A. Election, Invoice No. 18-03
02/28/18	OA 18-1128	Group Delta Consultants, Inc., Contract No. 4400000312
02/28/18	OA 18-1129	Aspiring Principals Program

2018 OIG Annual Report to the Board of Education

02/28/18	CA 17-1131	AssetWorks, LLC, Contract No. 4400003487
03/19/18	OA 18-1132	Trapeze Software Ohio, Inc., Software License & Maintenance Agreements
03/28/18	CA 18-1133	GA Design, Inc. Contract No. 4400000920
04/20/18	TE 18-060	Telenet VOIP, Contract No. 4400003544
04/25/18	CA 18-1134	McGrath Rent Corp DBA Mobile Modular Mgmt Corp., Contract No. 4400003919
05/08/18	CA 18-1136	Parsons Environment & Infrastructure Group, Inc., Contract No. 4400001052
05/15/18	OA 18-1135	Synovia Solutions, LLC., Contract No. 4400001444
05/30/18	CA 18-1138	S.J. Amoroso Construction Co., Inc., Contract No. 1710075, CO T-540
06/04/18	OA 18-1139	Financial Oversight of Schools
06/08/18	OA 18-1137	Procurement Card
06/11/18	CA 18-1140	A&B Construction, Inc., Contract No. 4400005441
06/14/18	CA 18-1144	Ehrlick Yanai Rhee Chaney Architects, LLP
06/18/18	OA 18-1141	Clifford Street Math and Technology Magnet Elementary School
06/20/18	CA 18-1142	Early Payment Discount
06/20/18	CA 18-1143	Will Call Purchases
06/29/18	CA 18-1145	Let's Do Lunch dba Integrated Food Service, Contract No. 4400003970

Investigative Reports

11/06/17	07-268	Vendor; Theft
03/27/18	14-066	Primary Center SAA; Theft
03/27/18	15-015	School Safety Officer; Violation of Policy
04/03/18	17-508	Early Ed Center Teacher; Violation of Policy
04/03/18	14-181	Construction Inspector; Violation of Policy

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:

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

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