



LOS ANGELES UNIFIED SCHOOL DISTRICT

Office of the Inspector General



Annual Report to the Board of Education

Fiscal Year 2019

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





Los Angeles Unified School District

Office of the Inspector General

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Jackie Goldberg
Dr. George J. McKenna III
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Members of the Board

Austin Beutner
Superintendent of Schools

William Stern
Inspector General

July 31, 2019

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, 2018 through June 30, 2019.

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 2019. Through this work, we identified approximately **\$5.5 million** in direct and indirect monetary benefits.

The OIG is proud to support the District's goals and vision 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.

William Stern
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 OIG WORK PERFORMED

AUDIT ACTIVITIES

During Fiscal Year (FY) 2019, the OIG conducted audits of various programs, processes and contracts. As a result, the OIG issued **56** reports that provided District management with information to help improve operations, facilitate decision-making and promote public accountability. Our audit activities this year identified approximately **\$1.1 million** in questioned costs and monetary benefits. As a result of our audit activities from prior years, the District received an additional **\$13,314** in settlements and negotiated questioned costs. Additionally, our audits produced savings in the amount of **\$4.4 million**.

The OIG continued 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 create corresponding liabilities.

Supporting District Programs and Operations

This year, the OIG performed an audit of the District's **Fuel Inventory** (FY 2017 cost of \$1.6 million). The District operates fueling garages to provide fuel to approximately 2,800 school buses, trucks, cars, and vans. Each District vehicle is assigned an individual fuel key to access the gas pumps at fueling garages and the Transportation Services Division (TSD) uses an automated fuel management system for fuel inventory control and to track fuel consumption.

Our audit found that although the equipment and material required to make the individual fuel keys was physically secured by TSD, the access user IDs and passwords were shared by multiple employees resulting in a lack of accountability as to who made keys and the purpose. We also established that the listings of assigned fuel keys were incomplete or outdated and that 28% of District vehicles did not have an assigned fuel key. We found that master key transactions were not properly supported and that master key logs did not provide adequate details for proper recording and auditing purposes. Further, we were unable to verify 72% of unusual and irregular fuel transactions through supporting documentation such as master key logs, route sheets, or daily logs. Several user departments did not maintain route sheets or daily logs to document the use of District vehicles. Based on our audit findings, we provided 21 recommendations to TSD to help the Fleet Maintenance Section improve its monitoring of the District's fuel inventory and infrastructure.

TSD submitted a partial response agreeing to only six of the 21 recommendations and some planned corrective actions. Repeated attempts by the OIG to obtain responses for the remaining 15 recommendations were unsuccessful. Consequently, the District accepts a higher risk for the fuel asset.

The OIG also performed an audit of the District's **Student Records**. A student's cumulative record is a vital student record and a permanent legal document that is to be maintained in perpetuity as mandated by the California Education Code, Title 5, Section 430. As the District moves from paper to an electronic cumulative record, schools must continue to maintain the

paper cumulative record card while creating a corresponding electronic cumulative record. Our audit objectives were to determine whether the existing controls were adequate and operating as intended over the recording, collection and maintenance of the students' cumulative records.

We noted that the Division of Instruction (DOI) and the Office of Data and Accountability (ODA) had internal controls in place to ensure that the District met its statutory responsibility of maintaining student records in perpetuity as well as maintaining the storage and safety of records for future retrieval. However, in spite of the detailed guidelines for maintaining student cumulative records, we noted schools did not fully implement the guidelines and procedures at the school sites. Many of the Principals or certificated designees blamed a lack of funds, shortage of qualified staff, and storage space challenges related to maintaining student records.

Based on our findings, we made 11 recommendations to the DOI and the ODA in order to enhance controls over the recording, collection and maintenance of student cumulative records. The DOI and ODA agreed with our recommendations and advised they are taking constructive steps towards improving the areas reviewed in this audit.

The OIG performed an audit of the ***District's Art Collection***. Since the District's founding in 1850, it has amassed a sizable and valuable collection of artworks, referred to as the Art & Artifact Collection. According to a District-wide inventory conducted in 2008, the District is in possession of a total of 810 paintings, drawings, and prints located mostly at 107 sites. In terms of monetary value, 70% of this collection was appraised in 2008 for a total value of \$12.2 million. The objectives of our audit were to account for the District's artwork and to analyze the current internal controls in place for the acquisition, proper inventory, conservation, storage, access, display and protection of the collection. We were able to account for 82% of the artwork. However, we noted that internal controls over the acquisition, inventory and protection of the artwork were inadequate. The District did not clearly assign responsibility for maintaining the artwork and the District Inventory Management System did not adequately account for this asset class. Based on our review, we provided the Arts Education Branch with seven recommendations to enhance controls over the proper maintenance of the District's Art & Artifact Collection.

The Arts Education Branch appreciated our report and District management advised they are taking action to address the inadequacies identified in our audit.

The OIG performed an audit of ***Advanced Chemical Transport, Inc. (ACT)*** under Contract No. 4400003295 (Contract) to transport and dispose of hazardous materials and provide waste management services to various schools and facilities. The objective of our audit was to determine whether the billed amounts and services provided were in accordance with the terms and conditions of the Contract. During our testing, we found that ACT did not consistently submit supporting documentation such as time sheets, work order forms, hazardous waste reports, subcontractor invoices, etc., with their invoices. Once we reviewed the supporting documentation for the billings, we found discrepancies between ACT's billing rates and the Contract. We found the most significant discrepancies in ACT's billings for polychlorinated biphenyls (PCB) ballast and debris incineration. ACT's management

asserted that although the rates were not within the Contract's pricing schedule, that the Office of Environmental Health & Safety (OEHS) had received the quotations for the PCB ballast and debris incineration and requested ACT to proceed with the work.

As a result of our examination, we found that ACT overbilled the District a total of **\$578,898**. OEHS agreed with our recommendation to seek reimbursement from ACT for the overbilled amount.

The District allocates ***Title I Funds to Private Schools*** based on the number of funding eligible students reported by the schools. During FY 2019, the OIG conducted reviews of the numbers reported by 54 private schools and found that proper documentation was not maintained for approximately 60% of the reported students. These funding eligibility reviews by the OIG identified approximately **\$1.4 million** in potential recoveries of previously allocated Title I funds to private schools. These funds, once re-allocated or recovered from private schools, will become additional Title I funds available for the District's highest need students. Additionally, the OIG noted that total claims fell from \$12.3 million before our audits to \$7.9 million after our audits, constituting indirect savings of **\$4.4 million** in potential ineligible claims.

Supporting School Construction, Repair and Modernization Programs

During FY 2019, the OIG conducted a technical evaluation of portable buildings (portables) located on District property, or owned by the District. According to the California Field Act and the California Building Code, certification of compliance by the Division of State Architect (DSA) is required for all public school building projects to ensure safety.

Our review indicated that a significant number of District portables remained uncertified by the DSA, which put an extra burden (money and time) on the District for new construction projects associated with existing uncertified portables. Further, the District had incomplete and inaccurate data on District portables especially related to DSA approval and certification status. The incomplete and inaccurate data made it difficult for FSD management to carry out new construction projects because they had to spend extra effort to go through several different databases in order to get accurate information about District portables. We also found instances where the District was still using non-conforming Department of Housing (DOH) portables for school buildings. According to Education Code 17292, DOH portables should not be used as school buildings after September 30, 2015.

We provided several recommendations to address the issues found in our evaluation. FSD agreed with most of our recommendations and implemented some of our recommendations during the course of the evaluation. FSD advised they will continue to make a collective effort to increase the number of certified portables and take the necessary measures to prevent the use of non-conforming DOH portables and ***Non-DSA Certified Portables*** as school buildings.

INVESTIGATIVE ACTIVITIES

In most recent years, the OIG has reported its investigative activities by summarizing the number of Reports of Investigation and Case Memorandums issued. Going forward, the OIG will instead focus on presenting data that better reflects the impact of its investigative work via common investigative metrics. The OIG will report the results of investigative activities by summarizing the number of criminal, civil, or personnel actions resulting from the investigative work completed during the fiscal year as well as the number of investigations opened and closed. These reporting measures will be more consistent with those of other OIG investigative components.

The following table summarizes the accomplishments from the investigative work completed this fiscal year.

Performance Indicators	
Cases Opened	36
Cases Closed	64
Criminal Actions	29
Restitution, Forfeiture, Awards	\$436,900
Personnel Action - Termination	2
Personnel Action - Separations ¹	36

This fiscal year, we closed a significant number of cases involving several employees who submitted ***False Disability Claims to AFLAC*** while employed by the District. These employees included mostly Special Education Assistants who have since separated from the District. The OIG received allegations that a Special Education Assistant was filing fraudulent disability claims for himself, as well as recruiting other District employees to file false disability claims, for benefits.

As a result of our investigative efforts, (24) former employees were prosecuted by the Los Angeles County District Attorney for a series of crimes involving misdemeanor Larceny and felony Crimes Against Insured Property and Insurers. Collectively, the former employees were sentenced to nearly 60 years of formal probation, over 4,200 hours of community service and ordered to pay over **\$431,000** in restitution to AFLAC.

The OIG continues to work closely with prosecutors and federal and local law enforcement agencies. The OIG works closely with law enforcement agencies through an education fraud working group in support of criminal investigations related to District employees, contractors, and other parties affiliated with the District. Investigations involving allegations related to fraud, bid rigging, money laundering, theft, false statements, misappropriation of funds, bribery, kickbacks, and other federal, state and local offenses.

¹ In many cases, it was determined to be in the best financial interest of the District to allow employees that were subject of an OIG investigation to voluntarily separate from the District prior to or in lieu of administrative action. These determinations were made by District management usually in consultation with Human Resources and/or the Office of the General Counsel.

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 2019, the OIG issued **11** subpoenas for business or financial records relevant to ongoing investigations.

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 investigated by the OIG, deferred to District administrators for investigation and disposition, or referred to an appropriate outside agency.

During FY 2019, the OIG received **221** complaints/allegations through the OIG Hotline, most of which required some level of investigative follow-up. The OIG initiated and continued investigating a myriad of allegations involving waste, fraud and abuse ranging from minor policy deviations to criminal conduct. The OIG closed out 64 cases and issued **2** Reports of Investigation and **62** Case Memorandums, accordingly.

The OIG also received a significant amount of 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 **126** due diligence and background investigation reports to District administrators related to charter schools, executive level employment, and facilities contract and procurement matters.

At the end of the fiscal year, **130** 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 closed, presented to a prosecutor for criminal violation consideration, presented to the Office of the General Counsel (OGC) for civil recovery consideration, or presented to Human Resources (HR) for personnel action consideration.

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 (iv) 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:

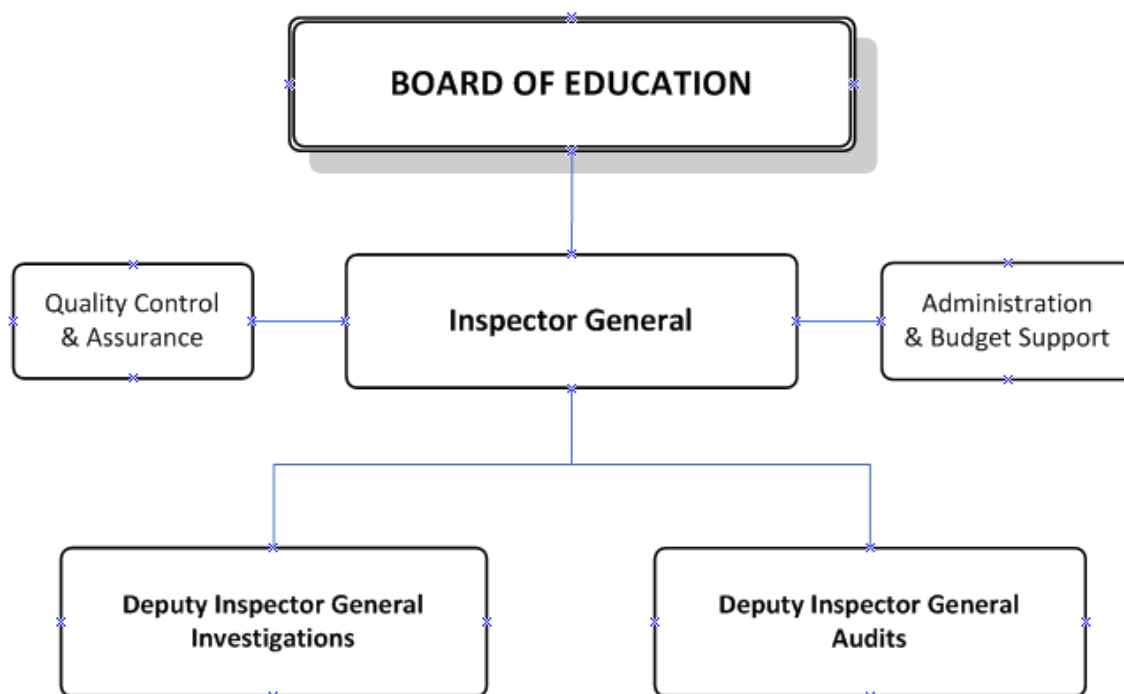
- ❑ Audit and investigate any and all functions within the District as well as charter schools, charter school management organizations, and private entities that do business with the District.
- ❑ Have full, free and unrestricted access to all District records, reports, audits, reviews, plans, projections, 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, conducts audits and evaluations that cover a wide range of programs, processes, function areas and topics. The Investigations Unit conducts due diligence reviews and investigations of crimes and/or misconduct by individuals. Due diligence reviews are conducted in support of the District's ongoing efforts to minimize risk through competent review of information related to senior managers, charter school petitioners, and District vendors 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 as follows.



BUDGET AND STAFF

During FY 2019, the OIG had 60 authorized positions with a total budget of \$9.3 million (made up of \$5.2 million in general funds, \$3.9 million in bond funds, and approximately \$206,000 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 District rules, regulations and governing 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 OIG benefits from a diverse workforce reflective of the District it oversees.

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, 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 is submitted to the

Board for approval. 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. 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.²

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.

The OIG maintains a “bench” of complementary firms such that specific expertise not available in-house can be made available to the office. During FY 2019, the OIG did not retain any outside firms to provide audit or consulting services.

² Certified Internal Auditor; Certified Fraud Examiner; Certified Public Accountant; Certified Government Financial Manager; Certified Government Auditing Professional; Certified Financial Services Auditor; Certified Information Security 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 formal summaries which may be issued upon completion of an investigation and detail the evidence obtained during the investigation. Most investigations are concluded with a Case Memorandum which is an internal document used to summarize or communicate investigative matters. The Education Code requires that every investigation, including all investigative files and work product, be kept Confidential. The OIG investigates white-collar crime and misconduct that is non-violent and often economically motivated violations of rules, procedures, and or law.

Due Diligence Reports - The OIG supports the District's ongoing efforts to minimize risk by conducting public record investigations related to senior managers, charter school petitioners, and District vendors and contractors.

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. Many investigators 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, Department of Homeland Security, and private and corporate firms performing Private Investigations, Loss Prevention Fraud Investigations, and Public Accountancy functions.

C. SUMMARY OF OIG PRODUCTS

AUDIT ACTIVITIES

The Audit Unit began the fiscal year with 50 planned projects that were authorized by the Board for the FY 2019 Annual Work Plan. In addition, several projects were carried over into FY 2019 from the prior fiscal year.

The following is a summary of the Audit Unit's fiscal year activity ending June 30, 2019:

Type of Activity	Completed
Incurring Cost Audits	9
Performance Audits	11
Special Reviews	29
Rate Reviews/Study	6
Technical Evaluations	1
TOTAL	56

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 **56** reports.

INVESTIGATIVE ACTIVITIES

The following is a summary of the Investigations Unit's fiscal year activity ending June 30, 2019:

Type of Activity	Completed
Report of Investigation	2
Case Memorandum	62
Charter School Due Diligence	39
Contractor/Vendor Due Diligence	15
Senior Manager Due Diligence	72
Reports Completed	190
Subpoenas	11

At the end of the fiscal year, **130** investigative and due diligence matters remained in progress.

FY 2019 Hotline Calls Summary	
Disposition	# of Calls
Referred to District Management or other agency ³	134
No Action Taken ⁴	54
Investigation	33
Total Hotline Calls	221

³ Complaints deferred to (i) District administrators for review and/or appropriate action or (ii) to an outside agency based on the nature of the allegations.

⁴ Complaints that were determined to be (i) too broad or general in their content such that reasonable suspicion of an offense was deemed lacking.

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 2019, the OIG identified **\$5.5 million** in potential monetary benefits through its audits, investigations, and special reviews.

<u>Report Type</u>	<u>Monetary Benefits</u>
Audits	\$5,526,715
Investigation	*\$5,900
<hr/>	
TOTAL	\$5,532,615

**During FY 2019, 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 2019, and what benefits we brought to the District. FY 2019 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.

Other Noteworthy Audits

We performed an audit of Contract No. 4400002780 (Contract) with ***A World Fit for Kids!*** (WFIT) to provide after-school academic and educational enrichment programs at 14 District schools. The objectives of the audit were to determine whether the amounts billed and services provided were in accordance with the terms and conditions of the Contract. Our audit found that WFIT maintained the required student to staff ratio for its classes, submitted expenditure reports quarterly, allocated the required portion of grant funds for direct services provided at the school sites, employed instructional aides who meet the Contract's educational requirements, and obtained criminal record and health clearances for its staff. However, approximately 6% of the billed attendance that we tested was not supported by attendance records. We also found that WFIT did not maintain the student registration forms for some of its students. During our school visits, we also observed that not all school site staff was wearing identifying clothing as required by the Contract.

We provided the Procurement Services Division (PSD) and Beyond the Bell Branch (BTB) with recommendations to address the audit findings including for PSD to seek reimbursement from WFIT for the total overbilled amount of **\$166,932**. PSD and BTB agreed with our findings and will seek reimbursement from WFIT.

An audit of ***Inclusive Education Community Partnership, Inc.*** (IECP) was performed under Contract No. 1922101-18 (Contract) for providing behavioral intervention services for students with autism and other disabilities. The objectives of this audit were to determine whether the service fees billed by IECP were adequately supported and allowable in accordance with the Contract. Our audit found that IECP overbilled the District **\$44,308** for services that were not provided and that IECP did not always comply with service tracking documentation requirements and school sign in/out procedures. PSD and the Division of Special Education agreed with our recommendations and PSD will seek reimbursement of the overbilled amount.

A special review of a common form of procurement for purchases under \$25,000, known as ***Low Value Purchase Orders***, was performed. The objectives of the review were to determine whether FSD's use of Low Value Purchase Orders (LVPOs) were in accordance with FSD policies and procedures and whether Low Value Purchase Orders were created to circumvent the \$25,000 threshold. Based on our review, we found that FSD's use of LVPOs was not in accordance with FSD policies and procedures. Specifically, we found that Maintenance & Operations (M&O) staff did not comply with obtaining required approvals and authorizations on documentation. Several critical procurement documents were missing from project files. Finally, the Procurement Services Division (PSD) and M&O misused LVPOs when it authorized multiple LVPOs that, when combined, exceeded the

\$25,000 threshold for a purchase. In addition, PSD circumvented the contracting process by issuing a Limited Notice to Proceed (LNTP) which let a contractor perform work prior to Board approval. The use of LNTP was not governed by PSD's written policies and procedures.

We provided 15 recommendations to FSD and PSD. M&O agreed with eight of our recommendations, partially agreed with five recommendations, and disagreed with one recommendation. PSD agreed with our recommendation and stated that it will develop a standard operating procedure to describe the procurement process to be followed when purchase orders for goods or services are required for contracts pending Board approval.

Investigations

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

Public releases related to court actions pertaining to investigative matters can be found on our website at <https://achieve.lausd.net/oig>.

APPENDIX 2

REPORTS ISSUED INDEX

<u>Report Date</u>	<u>Report Number</u>	<u>Report Title</u>
<i>Audit Reports</i>		
07/10/18	CA 18-1147	Bais Chaya Mushka Title I Funding Eligibility
07/10/18	CA 18-1148	Bnos Esther High School Title I Funding Eligibility
07/10/18	CA 18-1149	Cheder Menachem Title I Funding Eligibility
07/10/18	CA 18-1150	Harkham Hillel Hebrew Academy Title I Funding Eligibility
07/10/18	CA 18-1151	Mesivtah Birkas Yitzchok Title I Funding Eligibility
07/10/18	CA 18-1152	Valley Torah High School Title I Funding Eligibility
07/10/18	CA 18-1153	Yeshiva Ketana of Los Angeles Title I Funding Eligibility
07/10/18	CA 18-1154	Yeshiva Ohr Elchonon Chabad Title I Funding Eligibility
07/10/18	CA 18-1155	Yeshiva Rav Isaacsohn/Torath Emeth Academy Title I Funding Eligibility
07/13/18	CA 18-1156	Jewish Educational Trade School (JETS) Title I Funding Eligibility
07/13/18	CA 18-1157	Cheder of Los Angeles Boys and Girl's Title I Funding Eligibility
07/13/18	CA 18-1158	Bais Yaakov School for Girls Title I Funding Eligibility
07/16/18	OA 18-1159	Pregnant Minor Schools and Opportunity Schools
07/16/18	CA 18-1160	Yeshiva Ohr Chanoch Title I Funding Eligibility
07/17/18	CA 18-1161	Bnos Devora High School
07/27/18	CA 18-1162	Vector Resources, Inc.
08/06/18	CA 18-1163	OHNO Construction Company, Contract No. 1710068 CO T-516
08/14/18	CA 18-1165	Tyson Foods, Inc., Contract No. 1100124/4400001451
08/15/18	CA 18-1166	Architecture for Education, Contract No. 1820013/4400006131
08/15/18	CA 18-1167	Ehrlich Yanae Rhee Chaney Architects
08/16/18	CA 18-1168	Webb Foodservice Design, Contract No. 1720015/4400005061
08/16/18	CA 18-1169	Mollerhauer Group Civil, Inc. (Johnson Fain) Contract No. 1720056/4400006036
08/16/18	CA 18-1170	Jensen Hughes, Contract No. 1720015/4400005061
08/21/18	CA 18-1174	BVCC, Inc. Contract No. 1480016/4400002519;1480019-4400002542
08/22/18	CA 18-1172	Bridgeport
08/22/18	CA 18-1173	Institute for the Redesign of Learning Almansor Academy
09/05/18	CA 18-1175	Goodman Food Products DBA Don Lee Farms, Contract No. 1100121/4400001435
09/10/18	CA 18-1176	Title I Part A School Funding Allocation
09/12/18	CA 18- 1171	Woodcraft Rangers, Contract No. 4400002811
09/18/18	CA 18-1177	Advanced Chemical Transport, Contract No. 4400003295
09/18/18	OA 18-1178	Area Stores Inventory Process
09/24/18	OA 18-1179	George K. Porter Middle School
09/25/18	OA 18-1180	Fuel Inventory

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09/27/18	OA 18-1182	Ann Street ES
10/19/18	OA 18-1183	Instructional Technology Initiative
10/23/18	OA 18-1185	Patrick Henry Middle School Student Body Fund
11/13/18	OA 18-1187	Robert Frost Middle School Financial Operations
11/26/18	CA 19-1189	Builders of Jewish Education Affiliated Schools Title I Funding Eligibility
11/26/18	OA 18-1189	Student Records
01/23/19	OA 18-1190	The Ethics Office
01/25/19	CA 18-1193	Excelsior Elevator Corp., Contract No. 1480024-4400002599
01/28/19	CA 19-1191	Archdiocese of Los Angeles Nonpublic Schools - Title I Funding Eligibility
01/28/19	TE 18-061	Non-DSA Certified Portables
02/12/19	OA 18-1192	Construction Management Services Labor Rate Study
03/11/19	CA 19-1194	Hensel Phelps, Change Order Report T-510
03/11/19	CA 19-1195	Archdiocese of Los Angeles Nonpublic Schools - Title I Funding Eligibility
03/28/19	CA 18-1196	A World Fit for Kids! Contract No. 4400002780
04/30/19	CA 19-1199	Prime Axis General Builders, Inc. Cost Proposal for Contract No. 1810161 CO T-502
05/06/19	CA 19-1201	Sinanian Development, Inc. Contract No. 1710047 Change Order No. T-509
05/17/19	OA 19-1200	District's Art Collection
05/24/19	CA 18-1198	Inclusive Education and Community Partnership Inc., Contract No. 1922101-18
06/25/19	OA 18-1197	Special Review of Low Value Purchase Orders

Investigative Reports

<u>Report Date</u>	<u>Report Number</u>	<u>Report Title</u>
9/13/2018	17-376	Employee; Violation of Policy
3/5/2019	16-164	Employee; Benefit Fraud

APPENDIX 3

DISTRIBUTION LIST

Board of Education
Bond Oversight Committee
Executive Officer of the Board
Superintendent
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FRAUD, WASTE AND ABUSE HOTLINE

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