



Los Angeles Unified School District
Office of the Inspector General

Annual Report
to the
Board of Education

Fiscal Year 2003

Board of Education

July 31, 2003

I am forwarding to you the Office of the Inspector General's ("OIG") Annual Report to the Board of Education ("School Board"). This report is required by the OIG's Charter and contains our accomplishments from July 1, 2002 through June 30, 2003.

The OIG conducts audits, investigations, and reviews of the Los Angeles Unified School District's ("District") programs and operations to detect and prevent waste, fraud, and abuse. We also work with District managers to identify improved measures for managing the District, ones that impose a common-sense, businesslike approach to fulfilling the public trust. While we work cooperatively with District officials, we are careful to maintain our independence.

Our office continued to refine itself through minor restructuring and by implementing best practices from the private sector and other government entities. These actions allowed our office to: (i) better model established standards, (ii) redistribute workload to improve organizational efficiency and responsiveness, (iii) make more effective use of senior staff knowledge, skills and abilities, and (iv) ensure better integration of plans, programs and procedures. We also continued to be a resource and model for Inspector General offices and other oversight entities across the country. For example, several national organizations requested that I share some of our best practices and lessons learned by speaking at a variety of their functions. These organizations included the Institute of Internal Auditors, Association of Certified Fraud Examiners, Association of Government Accountants, Association of Certified Fraud Specialists, and Western Intergovernmental Audit Forum.

We experienced a substantial increase in workload this reporting period. Specifically, the OIG issued 52 audit products, including 33 formal audit reports containing 68 findings and 309 recommendations. The OIG also opened 56 investigations, closed 70 investigations, issued 50 reports of investigations, received 337 calls to its Fraud Hotline Center, conducted 6 Fraud Awareness Seminars, issued 2 Fraud Alerts, and completed 6 Special Reviews. Our audits, investigations, and special reviews identified approximately \$12.6 million in potential monetary benefits, as well as improved District practices and operations.

Accomplishments such as these reflect the OIG's continuing commitment to objective, fair, and important work that contributes to honest, efficient management, and greater accountability throughout the District. We are also committed to assisting the District in advancing its mission of educating all students to their maximum potential, as well as helping to enhance the public's confidence in our school system. On behalf of the OIG staff, I would like to thank the School Board for its continued support.

Don Mullinax
Inspector General

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GENERAL ACTIVITIES

GENERAL ACTIVITIES

MISSION, VISION AND VALUES

Mission

The Office of the Inspector General (“OIG”):

Promotes integrity and credibility in the Los Angeles Unified School District by conducting audits, investigations, and reviews to detect and prevent waste, fraud, and abuse and to identify opportunities for improving efficiency and effectiveness.

Vision

While we work toward accomplishing our Mission, we must remember that our goal is to attain our Vision – where we want to be in the future.

We are agents of positive change striving for continuous improvement in the District’s management and program operations, and in our office.

Values

How we accomplish our Mission and move toward our Vision tells a lot about us as an organization and as individuals. Our Values express our beliefs and the ideals we want to use to succeed. Our Values directly relate to how we want to treat each other and our customers. The OIG emphasizes these Values:

Quality Service

We will provide the highest quality services that are useful, timely, and responsive to District managers, through effective employee-customer relations, consistent with professional standards.

Ethics

The OIG is recognized for its integrity, credibility, and commitment to accountability.

Personal Growth and Security

The OIG cares about and provides for the well-being, job security, and morale of its employees. It provides fair, equal, and stimulating opportunities for all employees to take risks, express themselves, and grow professionally.

Progress

The OIG is an organization that adapts quickly to change, exploits new technologies, and looks for and institutes innovative approaches and techniques.

Teamwork

OIG employees at all levels work together as a team to accomplish the OIG's Mission and goals.

Independence

The OIG maintains its freedom to perform its Mission.

Professionalism

The OIG's workforce is professional in both appearance and practice. The workforce is committed to continuous professional advancement through education and active participation in professional organizations. It is highly dedicated, ethical, and equipped with the latest technological advancements.

ORGANIZATION

The OIG is comprised of auditors and investigators who have authority to examine any and all functions within the Los Angeles Unified School District ("District") as well as those private entities that do business with the District. The OIG is headed by an Inspector General who is appointed by the Board of Education ("School Board") for a 3-year term. The appointment may be renewed at the School Board's discretion at 3-year intervals. The current Inspector General's term of office expires in January 2005.

Evolution of the OIG

In August 1998, the School Board began efforts to establish a credible and effective organization within the District that had the primary mission of detecting and preventing waste, fraud, abuse, and mismanagement. The School Board implemented a concept of combining auditors with investigators to form the Internal Audit and Special Investigations Unit. In January 1999, the School Board appointed the Unit's first Director. In February 2000, the School Board voted unanimously to change the name of the Unit to the Office of the Inspector General and to change the Director's title to Inspector General. In making these changes, the School Board highlighted that in his first year's work, the Inspector General restored integrity and professionalism to the processes of audit and investigation within the District. The School Board also emphasized that they wished to instill a culture of excellence and professionalism in all aspects of the District and that an Inspector General's presence enhanced this culture.

Reporting and Functional Relationships

The OIG reports directly to the School Board. This reporting structure gives the OIG significant independence from District managers and staff. This independence is extremely important because there is a natural tendency for managers and supervisors to be protective of the programs that they administer. In some cases, the discovery of waste, mismanagement or wrongdoing may reflect on

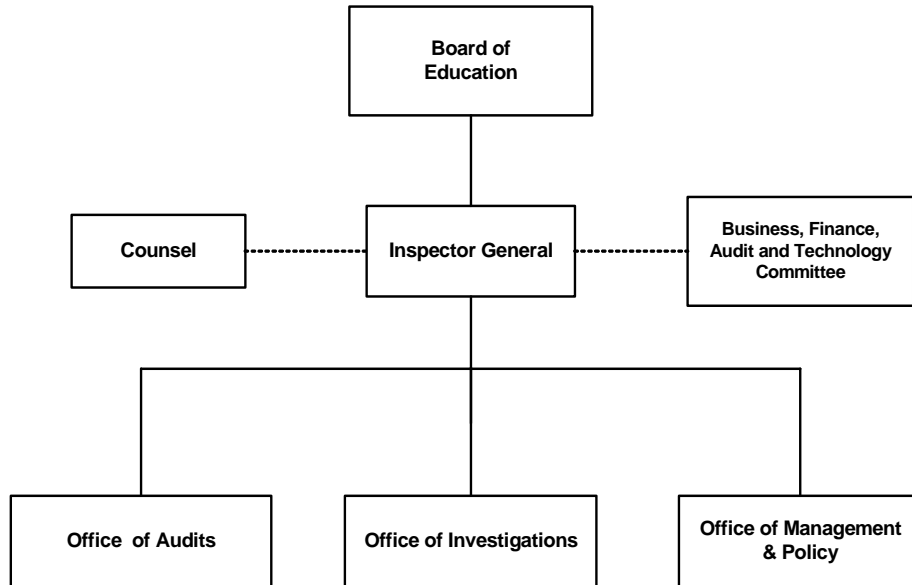
the manager personally. Even if the manager is not implicated, revelations of waste or wrongdoing may reflect adversely on the program involved by undercutting the support of the School Board, Superintendent and public. Under these circumstances, managers and supervisors do not always identify or come forward with evidence of failings in the programs they administer. For that reason, the responsibility for auditing and investigating must be assigned to individuals with clear and unrestricted independence from District managers.

The OIG consists of three offices – Office of Audits, Office of Investigations, and Office of Management and Policy. The Office of Audits conducts audits of programs and systems to evaluate the economy, efficiency and effectiveness of its operations, and to determine if they are operating in accordance with applicable laws and regulations.

The Office of Investigations conducts investigations of alleged waste, fraud, and abuse or other illegal activities by District employees, contractors or related businesses. Most of the investigative workload is reactive in nature because the work results from the receipt of complaints or allegations. The remaining workload consists of proactive projects designed to prevent waste, fraud and abuse.

The Office of Management and Policy assists the Inspector General with managing the OIG's administrative infrastructure, including budgeting, payroll, human resources, and procurement. The Office of Management and Policy also conducts a limited number of special reviews, which provide a mechanism for the OIG to perform an initial, quick review of a question or an issue, and assists in collaborating with District management on selected issues or to determine whether in-depth audit or investigative work should be planned. Further, the Office conducts audits of District information technology issues, and performs follow-up reviews on prior audits and investigations.

The OIG also has a Legal Counsel that serves as its senior legal and policy advisor. The Counsel has responsibility for all legal work in the OIG. The Counsel promotes the OIG mission through timely, accurate and persuasive legal advice. The work of the Counsel touches on nearly every aspect of the work performed by the OIG.



Authority and Responsibilities

The OIG has a Charter (see Annex C) that outlines its authority and responsibilities. Some of the key provisions of the Charter authorize the Inspector General to:

- ❑ Audit and investigate any and all functions within the District as well as 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 audio/video/computer tape/disk, or other materials of the District.
- ❑ Hire staff or employ contract services within the scope of the budget authorized by the School Board.

The Charter also provides that the School Board expects and encourages the OIG to be an independent voice that expresses its views without censorship by District management. The organizational structure and Charter creates independence for the OIG both in fact and appearance.

OPERATIONAL PROCESSES

The following paragraphs detail the approaches used to carry out OIG audits and investigations.

Audits

The Office of Audits conducts financial-related and performance audits of District programs and operations. These audits determine whether program objectives are being achieved and which program features need to be performed in a more efficient and effective manner.

The purpose of internal auditing is to add value and improve an organization's operations. Value can be added to an organization through reducing control risk, by increasing efficiency of operations, or by recommending more effective techniques to accomplish a task. As such, the primary purpose of internal auditing is, or should be, to mitigate business risk through the conduct of audits as a service to the organization.

Some District administrators and staff have a view that the OIG's only mission is to detect waste, fraud and abuse, when in fact; the largest part of our workload is internal auditing. The nature of the audit function is to evaluate and contribute to the improvement of risk management, control and governance systems. Specifically, internal auditing should evaluate risk exposures relating to:

- ❑ Reliability and integrity of financial and operational information
- ❑ Effectiveness and efficiency of operations
- ❑ Safeguarding of assets
- ❑ Compliance with laws, regulations, and contracts

The audit process represents the steps taken by the OIG to conduct audits. This process involves several steps, ranging from annual audit planning to performing audit follow-up. The underlying goal of the audit process is to maintain an open channel of communication between the auditors and District management officials to ensure that audit findings are accurate and fairly presented in the audit report.

The OIG performs primarily two types of audits:

Financial -- These audits include financial-related audits. These audits, which are compliance oriented, include examining internal control systems, transaction processing, computer-based systems, and contracts.

Performance -- These audits are objective and systematic examinations of evidence to evaluate the effectiveness and efficiency with which managerial responsibilities are carried out. They focus on whether management controls, practices, processes, and procedures are adequate and effective. Performance audits also include reviews of selected programs and activities to evaluate their overall effectiveness in achieving anticipated results.

The audit process includes:

Audit Planning. Each year an annual work plan is developed and distributed to interested parties. It contains a listing and general focus of the audits to be initiated during the year.

Audit Notification. The OIG notifies District personnel in writing that an audit is scheduled to start. A point of contact and a date for an entrance conference are established.

Entrance Conference. After written notification, a meeting is held to inform District personnel

of the purpose, objectives, and scope of the audit and the methodology to be followed.

Audit Field Work. A detailed evaluation is conducted of the program, activity, or function using an audit program developed specifically to address the audit objectives.

Tentative Findings and Recommendations. During the fieldwork phase, auditors submit tentative findings and recommendations to the administrator for review and comment. The administrator is allowed 15 calendar days to provide a written response on the facts, conclusions, recommendations, and reasonableness of any potential monetary benefits.

Draft Report. After receiving the administrator's response to the tentative findings and recommendations, the OIG paraphrases those comments and includes them in the draft report. The administrator's verbatim comments also are included as an annex to the report. The OIG provides the administrator with the draft report for a final review and comment.

Exit Conference. After the draft report is issued, a formal conference is held with key activity personnel to discuss and resolve outstanding issues, such as to correct any misinterpretations or misunderstanding of the facts.

Final Audit Report. The final report is issued after the exit conference. If an administrator and the Inspector General are unable to resolve disagreements regarding any audit findings and recommendations, the OIG will request that the Superintendent hold a mediation meeting to resolve the disagreements.

Audit Follow-Up. This process is used to ensure that recommendations made to management are implemented.

Investigations

The Office of Investigations conducts investigations of waste, fraud, and abuse to safeguard District programs and operations. These investigations are designed to detect and prevent fraud and abuse by identifying systemic weaknesses in areas of program vulnerability that can be eliminated through corrective management actions, regulation, legislation, or by pursuing criminal convictions and monetary recoveries through the judicial and administrative processes.

The investigative process usually begins with the receipt of an allegation of waste, fraud, abuse, or mismanagement. Investigations are opened and conducted in accordance with the Principles and Standards for Offices of Inspector General issued by the Association of Inspectors General, as well as the guidelines established by the U.S. Department of Justice and the Los Angeles County District Attorney's Office. The Inspector General and Deputy Inspector General for Investigations are authorized to open an investigation. Every allegation received by the OIG is given a unique identification number and entered into a database. Some allegations are retained as the basis for audits, referred to District management, or if appropriate, referred to another investigative agency.

After an investigation is opened, it is assigned to an investigator who prepares a plan of

investigation. This planning process includes a review of the criminal and civil statutes, program evaluations, and District policies that may be involved. The investigator then conducts the investigation, which may require interviewing witnesses and subjects, reviewing and analyzing records, and obtaining physical evidence. If the investigator determines that a crime may have been committed, the investigator will discuss the investigation with a local and/or federal prosecutor to determine if prosecution will be pursued. Upon completion of the investigation, the investigator prepares an investigative report summarizing the facts disclosed during the investigation.

The investigative report is distributed to prosecuting attorneys and to District officials who may have an official interest in the results of the investigation. In those cases where a prosecuting attorney decides to proceed with a criminal or civil prosecution, the investigator assists the attorney in any preparation for court proceedings that may be required. This assistance may include locating witnesses, preparing exhibits, and testifying before a grand jury or a trial. At the conclusion of any court actions, the OIG advises the District of the court results and monitors any corrective or disciplinary actions that may be taken by the District.

The OIG is also charged with fraud prevention and fraud detection. Toward this objective, the OIG conducts a limited number of proactive reviews that focus on District programs and operations that may be vulnerable to fraud. Proactive investigations are broad-based and systemic in nature. Further, the OIG issues Fraud Alerts to managers and employees when investigations identify a systemic weakness that has an impact on District programs and operations. In addition, the OIG conducts Fraud Awareness Seminars to strengthen the awareness of employees in areas vulnerable to fraud and abuse.

Special Reviews

As a supplement to the audit and investigative functions, the Office of Management and Policy performs special reviews. These reviews are short-term management and program reviews that focus on specific issues or concerns to the School Board and senior staff, and also include analyses to determine whether a more in-depth, independent audit or investigation should be conducted.

STATUTORY RESPONSIBILITIES

During the 2000 session of the California State Legislature, then-Senator Tom Hayden introduced Senate Bill 1360. This legislation authorized the Los Angeles Unified School District's Inspector General to, until January 1, 2005, conduct investigations, subpoena witnesses, administer oaths or affirmations, take testimony, and compel the production of all information deemed material and relevant to any inquiry or investigation undertaken by the director in the performance of his or her duties. The Legislature passed the bill and Governor Gray Davis signed the legislation on September 26, 2000 (California Education Code Sections 35400 and 35401). During the 2002 legislative session, Assembly Member Keith Richman introduced Assembly Bill 2425 to make some technical revisions to California Education Code Sections 35400 and 35401. Specifically, the amendments authorized the Inspector General to also conduct audits, required that every investigation, including investigative files and work-product, be kept confidential, and extended the sunset provision to January 1, 2015.

ORDER OF LOS ANGELES SUPERIOR COURT JUDGE

On March 28, 2000, a company doing business with the School District filed an injunction with the Los Angeles County Superior Court to prevent the publication of an OIG report – the report included comments on the company’s performance. On March 29, 2000, a Superior Court Judge denied the injunction. The following comments were made by the Superior Court Judge and were taken from the transcript of the court proceedings:

“I think the Inspector General has a very specific and well defined role in the governmental system . . . and if he must look at these things in order to do his job, I think that he has the right to do it. And I think he has a right to publish it and people have a right to know what the results are.”

MANAGEMENT CHALLENGES

Over the past 3 years, the District leadership has made some meaningful reforms, such as issuing a strategic plan, raising test scores at the elementary school level, improving classroom technology, increasing teacher and principal professional development, and building a team of skilled facilities professionals. While these reforms should be commended, more effort is needed to produce tangible and lasting improvements within the District’s business-related functions, as well as instill a sharper focus on performance and accountability. The OIG recognizes that improving student achievement and increasing the number of classroom seats will be the District’s top priorities for many years to come. However, managers must not neglect those areas that could have an adverse effect on the District’s primary mission of instruction if not given sufficient priority.

The following paragraphs highlight some challenges that the OIG has been tracking, but has seen only limited improvement. If not effectively addressed, these challenges could expose District programs and operations to unnecessary risk, excessive costs, and chronic performance shortfalls. Resolving these challenges offers the potential to save millions of dollars and dramatically improve the delivery of services to schools and students.

Ethics

Management needs to place a greater priority on setting and maintaining an ethical tone for the District. This includes providing guidance for proper behavior and removing temptations for unethical behavior. The success of any organization rests on a solid foundation of ethical principles and values. As District employees, each of us must place loyalty to high ethical standards above private gain. We must recognize that the ends are not more important than the means. The true public servant combines personal integrity with service in the public interest and, among other attributes, is eager to accept responsibility, has the courage of his or her conviction, and is willing to tell the boss what the boss needs to hear.

Most District employees are honest, loyal and hardworking men and women who are eager to meet the high standards the public expects of its public servants. So, why does the District need an Ethics

Program, including a Code of Ethics? An Ethics Program can boost employee morale, create a positive image for the District, and encourage ethical behavior by employees. It also has the potential to provide long-term financial benefits for the District. Unethical conduct can adversely affect the District, as well as the individual employee engaged in the conduct. Property theft, embezzlement, misuse of equipment, payroll fraud, misappropriation of funds, conflicts of interest, bribery, and contract fraud are just some of the consequences of unethical conduct within the District. Further, an Ethics Code sets the minimum standards. The hallmark of true public service is the willingness to go beyond what is legally required to honor the public's trust.

On December 12, 2000, the Board unanimously adopted a revised Employee Code of Ethics. In February 2001, the District hired its first Ethics Officer to implement the Code and to begin an ethics training program. Rather than implement the Board-approved Code, the Ethics Officer informed the Board that the Code needed to be rewritten. As a result, little progress was made in implementing an effective ethics program for almost 2 years. For example, only about 1,100 of the District's 80,000 employees have received ethics training.

All District employees are part of one of the nation's most important public educational institutions. As such, they have special legal and ethical obligations arising from two distinct disciplines – government service and education. The governmental dimension of these responsibilities imposes duties inherent in public service, including the promotion and protection of public trust and confidence, and avoidance of conflicts of interest and appearances of impropriety. Each District employee should be expected to accept and encourage ethical responsibility and work toward creating an ethical environment that fosters public and collegial trust, personal and institutional integrity, and high levels of competence and accountability. A fully and effectively implemented Ethics Program and Code of Ethics would greatly enhance these expectations.

Information Technology

During fiscal year 2001, under the direction and leadership of the Superintendent, the District began tackling the broad scope of problems involving information technology. The Superintendent took an important first step towards resolving a long-standing problem by implementing an OIG recommendation – recruit and hire a Chief Information Officer. The District still has a long way to go to meet the challenges of managing its vast and complex information technology operations with the business-like efficiency demanded by the public. It is now critical that the District take the next steps in transforming its known deficiencies into comprehensive, realistic corrective actions. At a minimum, the Chief Information Officer needs to develop an integrated District-wide technology architecture, manage and measure the performance of technology investments, and assist in work-process improvements. It will take a focused, sustained effort if the District is to fully resolve its information technology challenges.

Payroll System

Within the past decade, the public has grown accustomed to the benefits of using information technology to improve the cost, quality, and timeliness of product and service delivery. Americans now solve a problem with one telephone call, obtain customer service 24 hours a day, withdraw cash

from automated teller machines around the country, and get products delivered almost anywhere overnight. Yet, the District uses pencils, pens, and “white-out” to record payroll information and a 30-year old computer system to process that information.

Rather than continuing to analyze the causes of failures with the District’s payroll system, in April 2001, the OIG commissioned a review by an outside accounting firm. This firm documented how leading organizations consistently apply information technology to perform their payroll functions. The firm documented the “best practices” for payroll operations used across the nation by both public and private organizations. In fact, the firm also identified those “best practices” that would be feasible for implementing within the District. Although these options were presented to District management over 2 years ago, aggressive actions have not been taken to implement the payroll reforms. As a result, the District is continuing to waste millions of dollars a year on its outdated, cumbersome and inefficient payroll process. These inefficiencies deplete valuable labor and financial resources from the District that could otherwise be used to meet its strategic goals.

Accounts Payable

The District has not aggressively pursued improvement of its accounts payable process, even though various independent audits and studies have indicated a strong need for reform in this area. Almost 10 years ago, a consultant reported that historical resistance to change was one of the most significant obstacles to implementing any improvements in the District’s accounts payable process. Approximately 6 years later, another consultant reported that District staff members were unable to meet their financial accounting performance requirements because of antiquated financial information systems. Specifically, the consultant reported that: (i) there was not a clear trail of accountability that could be followed through the entire accounts payable process, (ii) there was no continuity in the content of accounts payable files, (iii) payment for vendor invoices was slow and inconsistent, and (iv) certain invoices were paid that lacked adequate explanation of services rendered. Yet, another 2 years passed with still little improvement in the accounts payable process.

This lack of action resulted in the District losing a minimum of \$400,000 in cash discounts during a 6-month period, 108 warrants totaling \$3.8 million remaining on hold from 2 days to more than 1 year, and approximately 10,000 open purchase orders and unpaid invoices (totaling approximately \$33.5 million) remaining on file as long as 3 years. With the accounts payable workload expected to increase significantly in the coming months due to the District’s \$5 billion school construction and modernization program, it is imperative that a state-of-the-art accounts payable process be designed and implemented.

Risk Management

The District needs to develop a formal risk management program, including a designated position of Chief Risk Officer. Every organization, no matter how large or small, inherently possesses exposures to risk. A risk exposure is the possibility of loss, injury, or failure to achieve an objective because of some peril or cause of a loss. In other words, what could potentially go wrong?

Risk management is the process of planning, organizing, staffing, leading, and controlling an

organization's resources to minimize the possibility of losses, injuries, or failures. Simply stated, risk management is the process of identifying and controlling an organization's losses. Reducing the cost of risk is the primary objective of a risk management program.¹

Quite often, risk management is too narrowly defined. The term is often thought to simply mean a safety program. Or, it is thought of as being the arm of the organization that deals only with insurance matters. Safety and insurance are both components of a risk management program.² However, because risk exposures exist in all areas of the organization, a comprehensive risk management program within the District should involve accounting and finance, budget, legal, human resources, facilities, environment, special education, school police, transportation, food services, as well as all other major programs and operations.

A well-conceived, comprehensive risk management program will require a commitment of time and resources by the District. The cost of this commitment, however, will be mitigated by the realization of reductions in: (i) misuse, theft, and/or losses to equipment and property; (ii) the frequency and severity of accidents; (iii) the expenditures of claims; and (iv) legal expenditures. An effective risk management program will also result in increased productivity and improved employee morale.³ The District's commitment to risk management should be a long-term commitment. This commitment should reflect the philosophy that, in each and every program area, the physical, financial and human resources of the District will be managed in a manner that will reasonably eliminate and/or control risks, thereby minimizing the total cost of risk to the District. Toward this end, the District should develop a risk management policy that reflects this philosophy and appoint a Chief Risk Officer to develop and implement a risk management program. By providing a written risk management policy, an effective tool is created that can be used to communicate the importance of risk management to the District staff. The policy can also be used as the mechanism to establish risk management goals and objectives, and define the relationship that risk management personnel will have with other personnel within the District.⁴

In February 2002, the OIG offered to assist the District's senior staff with implementing a risk management program by retaining a team of risk management experts to identify and document the critical risks associated with the senior staffs' respective operations. The team would also provide recommendations to assist in managing, monitoring, and controlling these risks. This information would help District senior staff: (i) proactively manage issues, (ii) identify opportunities to reduce cost, (iii) reduce liability exposures, and (iv) provide more reliable management reports. In addition, the District would have meaningful information to assist with developing a more effective strategic plan and to make future budget decisions. The senior staff, however, rejected the OIG's offer because, in most instances, the staff felt that risk management was not a priority.

Recent OIG findings, conversely, have shown that District management should place a greater priority on risk management to proactively address weaknesses in programs and operations.

¹ <http://www.sorm.state.tx.us/VolumeOne/121.htm>.

² Id.

³ Id.

⁴ Id.

Specifically, the OIG has identified management and control weaknesses associated with a variety of areas, including payroll operations, accounts payable, injury and illness prevention, asbestos, food safety, hazardous materials, construction claims, change orders, school traffic and safety, psychological services, progress payments, equipment inventory procedures, library plans, and school financial operations.

Budget Process

The District's budget is not tied to performance to ensure that funds are spent in the most efficient and cost-effective manner. Budgets of government organizations have traditionally been based on history – with increases or cuts applied across the board – rather than on customer needs or outcomes. In fact, organizations that save money during the year are often penalized for their efficiency, receiving a smaller “piece of the pie” in the following year. Now innovative governments are transforming that balance through performance-based budgeting, which shifts the focus from what the organization spends to what it accomplishes, and helps align the existing budget structure with program goals.

Performance budgeting is an ongoing process that involves every manager within an organization, from department heads to individual managers of programs. This includes a “feedback cycle,” which provides senior managers at all levels with improved information to manage their activities. As a result, managers are able to deploy resources more effectively so that anticipated budget outcomes may be achieved.⁵ Further, when given more flexibility to manage their operations, managers are willing to be more accountable for the results.

Using well-defined, fully costed activity measures (what it cost to perform a specific District function or task), a performance budget provides a valuable tool for assessing how spending changes affect results.⁶ Performance budgeting can further enhance the District's capacity to assess competing claims in the budget by providing the Board with better information on the results of both individual programs, as well as cross-functional programs addressing common performance outcomes.

With the District's current budget shortfall, it is imperative that the District gets the most from every dollar spent. Each dollar that is spent inefficiently is a dollar that is unavailable to meet other priorities, such as the reading and math programs. Using performance budgeting would enhance the ability of the Board and District management to effectively measure performance, reduce costs, and maintain funds control.

Contract Management

The District needs a sustained commitment to contract management. Reports have identified long-standing, District-wide deficiencies in contract management, administration, and oversight. At the core of contracting problems is a lack of infrastructure (staffing, funding, and training), little respect by District staff for the procurement process, and no enforcement of procurement policies. As a result, the District continues to display a pattern of careless management in its use and oversight of

⁵ Performance Budgeting for Federal Agencies: A Framework, John Mercer in partnership with AMS, March 18, 2002.

⁶ Id.

professional services contracts.

The District uses “time-and-materials” contracting for most of its professional services contracts. These contracts are a form of cost-reimbursable contracts. A time-and-materials contract provides for acquiring goods or services on the basis of direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expense, and profit. Travel and material costs are included, if appropriate, at actual cost.

A time-and-materials contract provides no positive incentive to the contractor for cost control or labor efficiency, and exposes the District to the risk of overcharges and cost overruns by contractors. This places special responsibilities on the District to control costs by using good contract management and administration practices. These good practices do not begin, however, after the contract is awarded – it encompasses all activities associated with the performance of a contract, from the decision to issue a contract through contract closeout. As such, effective planning for contracting is as important as oversight of contractors’ costs and performance.

Effective contracting begins with District staff (often referred to as “contract sponsors”) conducting a needs assessment to determine whether using contract services is the best and most effective solution, and justifying why in-house staff cannot perform a specific service or task. Once this assessment and justification have been done, the District staff needs to prepare a clear description of the services needed. This is important in order for the District to obtain what it needs at a fair price, and the contractor is to be able to determine whether it is qualified to fulfill the contract obligations and at what cost. Contracts that include deficient and vague statements of work can lead to mistakes, delays and increased costs.

When the District chooses to contract for work, it needs a clear sense of what each service should cost. Independent District cost estimates provide a foundation for evaluating, negotiating, and controlling contractors’ costs. Since cost-reimbursable contracts promise to pay all the contractor’s allowable costs, the District and contractor must agree in advance on the limits for a project’s budget. Otherwise, the District will be too dependent on the contractor for determining what a project should cost. After the District receives the contractor’s bid or price proposal, the District should hold aggressive price negotiations to ensure that contract services are both cost-effective and in the District’s best interest. Effective “give-and-take” with contractors will maximize the District’s ability to obtain the best value for the services. Once a contract is awarded, the District has another important opportunity to control costs by monitoring the contractor’s performance, as well as verifying the legitimacy of costs charged directly to projects. These reviews position the District to identify poor performance or overcharges by contractors.

The OIG has found that needs assessments are not performed or, if performed, not fully documented, and contracts contain deficient and vague statements of work. Also, independent cost estimates are not used and District staff rarely negotiates costs associated with its professional services contracts. In instances, where negotiations have been held, the District has realized substantial savings. Further, the District staff often does not consistently review contract invoices, and contracting officials do not enforce the requirements for these reviews. Instead, the District has focused primarily on timeliness and quality, rather than on costs. Even if reviews were conducted, contractor invoices often are not detailed enough to permit meaningful review. In addition, the District has not

taken steps to ensure that individuals responsible for managing and monitoring contracts have the appropriate skills and training that would enable them to effectively perform their jobs.

The sustained drive to improved contract management must result from a cultural change within the District that places high-level emphasis on the resolution of contracting problems and long-term commitment to any corrective actions that are implemented. Simply put, it is time to stop studying the problem and to take corrective actions. Widespread contracting deficiencies result in part from an environment within the District that too often stresses accomplishing the mission at the expense of cost-effective contract management. The cost to the District and taxpayer of such practices is enormous. With the budget crisis facing the District, it cannot afford to ignore the potential cost of poor contractor oversight. For many years the District has increasingly relied on contractors to carryout needed activities. Unfortunately, in all too many instances, the District has abdicated to its contractors the responsibility for ensuring that they perform quality work cost-effectively.

While the District has implemented the OIG's recommendation to hire a Chief Procurement Officer, it still faces significant challenges in managing and administering contracts. With only two trained and experienced contract administrators in the Procurement Services Group, coupled with a decentralized procurement environment, it is unrealistic to expect effective contract management and administration of at least \$400 million in services procured annually by the District. In the absence of adequate staffing, funding, and training for contract sponsors, as well as enforcement of procurement policies, the District will continue to waste millions of dollars due to poorly planned, administered, and monitored contracts.

Restitution Process

In November 2000, the OIG completed a Special Review of the Restitution Process. The OIG concluded that the District experiences losses each year due to fraud, theft, vandalism, and other criminal misconduct. However, the system is so disjointed, an estimate of the total dollar amount lost each year could not be calculated. Specific recommendations included that the District should:

- ❑ Consolidate and update restitution guidance into one restitution and collection bulletin.
- ❑ Designate a single office to direct the restitution and collection program to reduce duplication of duties and responsibilities.
- ❑ Appoint an attorney in the Office of the General Counsel to handle all restitution, civil recoveries, and collection agreements.
- ❑ Create a case management database to track payments, telephone calls, and correspondence sent to individuals.

Over 2 years have passed and District staff have not adequately addressed the recommendations contained in the report. As a result, the District is failing to recover thousands, and possibly millions, of dollars a year.

Personnel Management

Good personnel management policies and practices are critical to the success of the District. Only when the right employees are on board and are provided the training, tools, structure, incentives, and responsibilities is organizational success possible.

During fiscal year 2002, the District placed significant priority on making reforms in the management of certificated personnel. Specifically, the District issued a Teacher Quality Strategic Plan, which places emphasis: (i) on the ways in which the District develops, engages, and enlists new teachers; (ii) inducts teachers and advances their careers; (iii) uses teacher talent, and (iv) rewards excellence among veteran teachers.

This same energy, enthusiasm, and passion are also needed for classified personnel. A useful first step for the District would be to adopt a human capital strategy – to put the spotlight on all personnel, its most important asset in light of its mission, vision for the future, and core values. Specifically, the District should:

- ❑ Ensure that skill needs are continually assessed and that the District is able to obtain a workforce that has the required skills that match those necessary to achieve organizational goals.
- ❑ Focus training on developing and retaining employee skill levels to meet changing District needs.
- ❑ Provide qualified and continuous supervision to ensure that internal control objectives are achieved.
- ❑ Design performance evaluation and feedback, supplemented by an effective reward system, to help employees understand the connection between their performance and the District's success.

As a part of its human capital planning, the District should also consider how best to retain valuable employees, plan for their eventual succession, and ensure continuity of needed skills and abilities.

School Financial Operations

The District has not placed sufficient priority on managing school financial operations. As a result, school funds are vulnerable to waste, fraud, abuse, and mismanagement.

During fiscal years 2000 and 2001, the OIG issued approximately 300 findings at 37 schools. These findings addressed a variety of financial weaknesses related to imprest funds, cafeteria funds, equipment, student body funds, attendance accounting, payroll, and budget operations. More than half of the findings related to weaknesses in providing or maintaining required documentation (25 percent), preparing accounting records and reports (19 percent), and obtaining required approvals for

documents or transactions (10 percent).

Other frequently noted weaknesses included: missing or inadequate bank reconciliations; excessive delay in collecting funds, making deposits, and preparing reports; improper payments or failure to collect funds due; and non-cancellation of documents to prevent duplicate payments. It is important to note that these conditions existed despite District policies and procedures intended to prevent them. Reasons for departures from established policy and procedural requirements ranged from not being aware of their existence to inadequate training and supervision.

We found the frequency of our findings so significant that, in January 2002, we issued a Trend Report to the Superintendent, outlining our findings. The report included control evaluation questionnaires intended to help the school site staff in carrying out their fiscal responsibilities by identifying potential weaknesses in the school's financial operations. We also encouraged the use of the report at each school and suggested that school principals be made aware of its availability for download from the OIG's website. In addition, we provided hardcopies of the report to all Local District Superintendents and Local Business Managers.

Our most recent audits of school financial operations, however, disclosed some of the most serious management lapses in the past 4 years. For example, we found a middle school's imprest fund that was not reconciled for over 2 years (monthly reconciliations are required), and the financial operations at a high school were unauditible due to almost no available records for transactions related to student body funds, imprest funds, payroll, equipment, and attendance.

School site personnel manage the majority of the District's multi-billion dollar budget. As such, the District leadership must be totally committed, in both words and actions, to making school financial management a District-wide priority. This commitment includes building a foundation of control and accountability that supports accurate reporting and performance management, providing clear and strong executive leadership, and using training to change the organizational culture and engage school site managers. Failure to do so will continue to breed an environment susceptible to waste, fraud, and abuse.

Internal Control Structure

Based on the challenges presented above, management and employees should establish and maintain an environment throughout the District that sets a positive and supportive attitude toward internal control. Specifically, management needs to establish and maintain effective controls to ensure that: (i) appropriate goals and objectives are met; (ii) resources are safeguarded; (iii) laws, regulations, and policies are followed; and (iv) reliable data are obtained, maintained, and fairly disclosed. Management also needs to establish policies and systems of internal control that discourage fraudulent or unethical behavior.

As District managers strive to achieve their department's missions and goals and provide accountability for their operations, they also need to continually assess and evaluate their internal control structure to assure it is well designed and operated, appropriately updated to meet changing conditions, and provides reasonable assurance that the objectives of the department are being

achieved. Specifically, managers need to examine internal control to determine how well it is performing, how it may be improved, and the degree to which it helps identify and address waste, fraud, abuse, and mismanagement.

Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, supports performance-based management. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps managers achieve desired results through effective stewardship of public resources.

People are what make internal control work. The responsibility for good internal control rests with all managers. Management sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control. However, all personnel in the organization play important roles in making it happen.

A well-designed internal control structure will reduce improper activity. The responsibility of designing and implementing internal controls is a continuous process. As conditions change, control procedures may become outdated and inadequate. Management must anticipate that certain procedures will become obsolete and modify internal control systems in response to these changes.

It is important to realize that no matter how well designed, internal controls provide reasonable but not absolute assurance for detecting or preventing fraud and achieving organizational objectives. Well-designed internal controls can fail for several reasons, including management override, deception, fraud, collusion, lack of training, and human error. Accordingly, an effective internal control system is one that strikes a proper balance between the cost of the internal procedures and the risks involved. Excessive internal controls are costly and can reduce an organization's efficiency and adversely affect employee morale. On the other hand, a lack of internal control subjects an organization to undue risk.

Management's philosophy and operating style also affects an organization's internal control structure. Specifically, management (i) determines the degree of risk the organization is willing to take, (ii) creates an organizational structure so that it clearly defines key areas of authority and responsibility, (iii) establishes appropriate lines of reporting, and (iv) delegates authority and responsibility throughout the organization. In addition, the attitude and philosophy of management toward information systems, accounting, personnel functions, monitoring, and audits can have a profound effect on internal control.

Summary

A "Big Four" accounting firm recently reported that it is often difficult for public leaders to get beyond the crisis of the moment to focus on how much government must change to meet the requirements of today and tomorrow. Perhaps the single most important element of successful management improvement initiatives is the demonstrated commitment of top leaders to change. This commitment is most prominently shown through the personal involvement of top leaders in

developing and directing reform efforts.⁷

Top leadership involvement and clear lines of accountability for making management improvements are critical to overcoming an organization's natural resistance to change, marshalling the resources needed in many cases to improve management, and building and maintaining the organization-wide commitment to new ways to doing business.⁸ Sustaining top leadership commitment to improvement has been particularly challenging in the District because of the frequent turnover of senior staff. For example, in just the past 6 years, the District has had six Chief Operating Officers.

Parents and taxpayers in general are increasingly demanding improved educational services and better stewardship of public resources. Responding effectively to these demands will require innovative management approaches and the use of new types of information to guide decisions. As such, District management should develop a strategy to address the challenges presented in this section. At a minimum, the strategy should include naming a senior staff member to take the lead in addressing each challenge, setting estimated timelines for completing corrective actions, and developing performance measures to track progress. The status of addressing these challenges should be presented to the appropriate Board Committees at least quarterly.

OIG PROACTIVE INITIATIVES

The OIG's role within the District is a daily challenge as, rightly or wrongly, many staff members view the OIG as focusing almost exclusively on enforcement, with an eye toward prosecution or recovery of misspent funds. The OIG, however, has no enforcement authority. The OIG's Charter highlights that District management and the OIG are parts of a single organization with a common purpose of improving education and using the District's resources wisely. The School Board expects the OIG and District management to develop and maintain a relationship that is designed to further their common purpose. The School Board also expects the OIG and District management to meet regularly, discuss priorities, share information and ideas, and seek agreement where possible so that the OIG's work can contribute most effectively to the District's primary objectives.

During the past year, the OIG continued its commitment to proactively assist District management on a number of issues. Most of these efforts, described briefly below, are based on the realization that the District staff is responsible for the day-to-day management of programs, including establishing policies and systems of internal control that discourage fraudulent or unethical behavior. District staff alone, however, cannot solve the problems of fraud and inefficient operations. Instead, the OIG must inform, educate and work with District employees, contractors, and the public to ensure fiscal integrity in the school system. Some examples of the OIG's proactive initiatives were:

- ❑ Relocation Program – At the request of the Facilities Services Division, performed two follow-up audits of the imprest fund for the Relocation Program.
- ❑ Contract Audit Unit – Secured School Board approval and established a “bench” of accounting firms to audit contractors who participate, or may participate, in school

⁷ Management Reform: Elements of Successful Improvement Initiatives (GAO/T-GGD-00-26, October 15,1999).

⁸ Id.

construction and modernization projects funded by Proposition BB and Measure K funds.

- ❑ Teambuilding Project – Conducted a successful staff development exercise by dedicating a team of auditors, authorized to deploy their resources as they saw fit, to complete nine school-based audits and reduced the OIG’s backlog of audit requests.
- ❑ Fraud Awareness Seminars – At the request of District staff, conducted six seminars on how to identify, report, and reduce waste, fraud, and abuse in school operations.
- ❑ Facilities Briefings – Initiated regular briefings for executives of the Facilities Services Division on related OIG activities.
- ❑ Professional Services Contracts – Provided concerns, questions, and suggestions on the District’s draft report on improving the process for professional services contracts.
- ❑ Soda Sales – At the request of the Business Manager, audited the carbonated beverage sales reported by secondary schools.
- ❑ Local District Audits – Began the first OIG audits of school processes throughout an individual local district.
- ❑ Fraud Hotline – With the assistance of the Office of Communications, posted a message on the District’s website highlighting how to report allegations of waste, fraud, and abuse.
- ❑ District Independent Audit – Undertook the responsibility to solicit proposals, and to evaluate, recommend, and contract with an independent audit firm for the financial audit of the District for the next 5 years.
- ❑ Belmont Learning Complex – Briefed key District staff on selected aspects of the District Attorney’s investigation of the Belmont Learning Complex construction project. This information should be beneficial as the District works toward completing other school construction and modernization projects.
- ❑ Fraud Alert – With the assistance of the Procurement Services Group, sent a Fraud Alert to over 1,600 District vendors notifying them of a recent fraud scheme.
- ❑ School Construction Projects – At the request of the Facilities Services Division, monitored various processes associated with school construction projects.
- ❑ E-Mail – Achieved considerable savings of effort and supplies by distributing most OIG audit reports, on a “read only” basis, by e-mail.

As shown by the above activities, the OIG is committed to assisting District managers and staff in addressing their daily challenges.

EXTERNAL IMPAIRMENTS

The Inspector General and OIG staff involved in performing or supervising any assignment should be free from external impairments to independence, and should constantly maintain an independent attitude and appearance. Factors external to the OIG can often restrict the efforts or interfere with the OIG's ability to form independent and objective opinions and conclusions. For example, under the following conditions work could be adversely affected and the OIG would not have complete freedom to make an independent and objective judgment:

- ❑ Interference or undue influence in the selection, appointment, and employment of OIG staff.
- ❑ Restrictions on funds or other resources dedicated to the OIG, such as timely, independent legal counsel, that could prevent the OIG from performing essential work.
- ❑ Interference or undue influence in the OIG's selection of what is to be examined, determination of scope and timing of work or approach to be used, the appropriate content of any resulting report, or resolution of audit findings.
- ❑ Influences that jeopardize continued employment of the inspector general or individual OIG staff for reasons other than competency or the need for OIG services.
- ❑ Interference with OIG access to documents or individuals necessary to perform OIG work.
- ❑ Improper political pressures that affect the selection of areas for review, the performance of those reviews, and the objective reporting of conclusions without fear of censure.

In August 2002, the Board of Education adopted a motion that provided "that the Office of the Inspector General include in its Quarterly Report to the Business, Finance, Audit and Technology ("BFAT") Committee and its Annual Report to the Board of Education any instances where management, staff and contractors (or their representatives) have interfered with the OIG's ability to perform its mission." In addition, the OIG's Charter requires that District employees cooperate with the OIG and the BFAT Committee's Charter requires that the Inspector General notify Committee Members if there is any interference with the OIG's ability to do its job. During this reporting period, the OIG experienced four instances of external impairments to performing its mission.

Ethics Program

As part of the OIG's Special Review of the Ethics Program, we interviewed 94 District employees, including Board Members, the Superintendent, senior staff, and school-site employees. This was not a survey but included face-to-face interviews to document feedback on the current state of the ethics program and collect expectations, concerns and views of those interviewed. The leadership of one collective bargaining unit advised its members not to participate in the interviews because the interviews were a waste of time and money when the unit's employees had not seen the Code of Ethics. In fact, the unit's leadership wrote a letter to the Superintendent's Chief of Staff, which highlighted "The District's Code of Ethics has yet to be approved by the Board of Education and

distributed to schools. . . We have told our members not to comply with this survey.”

Interview Request

A District employee refused to cooperate with an ongoing investigation. Specifically, the OIG repeatedly requested the employee to appear for an interview regarding allegations made against the employee. The employee, however, refused to be interviewed. The OIG informed the employee’s immediate supervisor and the Superintendent’s Chief of Staff of this matter. Subsequently, the OIG made several unsuccessful attempts to subpoena the employee. The employee resigned from the District in an apparent attempt to avoid being interviewed.

OIG budget

The OIG’s Charter specifies that, “The Inspector General is authorized to 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.” The Charter further specifies that, “The Superintendent and his or her staff have no authority to reduce the budget of the Office of the Inspector General without an express vote of the Board of Education.” Although the Charter speaks very clearly about the OIG’s independence, in January 2003, the Office of the Chief Financial Officer instituted a freeze on all expenditures. District staff interpreted this freeze to include the OIG. This action was taken without an express vote of the School Board. As a result, the OIG was not able to effectively and efficiently accomplish its mission. For example, while the Facilities Services Division was spending millions of dollars a week, the OIG could not spend any funds without first getting approval from District staff – the same staff that the OIG was responsible for auditing and investigating. In fact, the District staff disapproved several OIG funding requests.

Document Request

During an ongoing investigation, the OIG learned that an attorney within the Office of the General Counsel had also conducted an “investigation” into the same allegations. The OIG initially asked the Local District Superintendent for a copy of the investigation report, but the Local Superintendent informed us that the report was protected under attorney-client privilege and that the OIG would have to speak with the investigating attorney in the Office of the General Counsel. The investigating attorney informed us that we would receive a copy of the report, but that all notes and backup materials were protected under attorney-client privilege. As of the date of this report, the OIG has not received a copy of the report.

BUDGET AND PERSONNEL

For fiscal year 2003, the OIG’s budget authority was reduced by 10 percent to about \$6.2 million, but its full-time positions remained at 70. For fiscal year 2004, the OIG has requested \$6.4 million in

budget authority. The OIG’s senior staff members are:

Inspector General

01/20/99 – present: Don Mullinax

Deputy Inspector General for Management and Policy

01/04/00 – present: Samuel Stanton

Deputy Inspector General for Audits

11/02/00 – present Robert Kasper

Deputy Inspector General for Investigations

04/09/01 – present Jerry Thornton

11/13/00 – 4/06/01 Al Dovetko

Legal Counsel

09/20/01 – present Stephanie Bowick

TRAINING

The training courses received by OIG personnel during fiscal year 2003 are summarized below:

<u>Type of Training</u>	<u>Number of Courses Taken</u>
Audit	8
Investigative	4
Information Technology	7
General Management/Administrative	<u>16</u>
Total Training Courses	<u>35</u>

FISCAL YEAR 2004 ANNUAL WORK PLAN

The OIG’s Annual Work Plan is prepared pursuant to its Charter and is reviewed and approved by the School Board’s Business, Finance, Audit and Technology Committee. The OIG’s Annual Work Plan uses a strategic approach to planning. As such, it identifies strategic or multi-year issues as well as specific areas to be covered during the upcoming fiscal year. Although it is published annually, the Work Plan is recognized as a “working” document and is modified throughout the year as circumstances, priorities, and/or resource availability dictate.

Effective planning requires extensive knowledge about the District’s mission and the programs and activities used to carry out that mission. Accordingly, we have instituted issue area monitoring to strengthen our internal coordination and overall planning process. Through designated Issue Area Managers [“Audit Managers”], we have an enhanced capability to keep abreast of major District programs and activities. These Managers are a key component to our planning process.

As part of establishing plans to carry out the OIG's responsibilities, audit standards require that we conduct an assessment of the risks confronting the District. The term "risk," as referred to in this process, is the probability that an event or action may adversely affect the District. The effects of risk can involve:

- ❑ An erroneous decision from using incorrect, untimely, incomplete, or otherwise unreliable information;
- ❑ Erroneous record keeping, inappropriate accounting, fraudulent financial reporting, financial loss and exposure;
- ❑ Failure to adequately safeguard assets;
- ❑ Negative publicity and damage to the District's reputation;
- ❑ Failure to adhere to District policies, plans, and procedures, or not complying with relevant laws and regulations;
- ❑ Acquiring resources uneconomically or using them inefficiently or ineffectively; and
- ❑ Failure to accomplish established objectives and goals for District programs or operations.

In performing the risk assessment, we identify auditable activities and risk factors that are relevant to the activities. Therefore, a risk assessment includes both the identification of the auditable activities or "Audit Universe," and the identification of the risk factors relative to the universe. To identify the auditable activities, we reviewed the Superintendent's Strategic Plan, organizational information, and financial metrics, interviewed key members of the District's management team, and analyzed reports completed by non-District entities. We then assessed the risk of each activity using a set of factors, which included human resources considerations and issues, School Board and senior management concerns, asset management and exposure to loss, public interest and third party intervention, operational complexity and existing management controls, and reliability and integrity of information systems.

We weighted the risk factors based on our assessment of the relative importance of those factors to the District's operations. We then assessed the level of risk using two perspectives – the likelihood of that risk factor occurring in the area being considered and the impact to the organization or area under review if the risk were to be realized. The level of risk under each view was assigned a numeric value from zero (or no risk in that factor) to three (a high amount of risk in that factor). The activities were then ranked from highest to lowest risk, and audit resources were allocated accordingly.

Other considerations may result in the deferral of reviewing some risk areas in the current year. Such considerations may include, but are not limited to, budget or resource constraints, management personnel are currently implementing corrective actions, management turnover or new management personnel in the area, and area is undergoing significant change or realignment of processes.

Prior to January 1999, the then-Internal Audit Branch had identified only five auditable activities (student body, imprest and cafeteria funds; payroll; and attendance). During fiscal year 2003, the OIG identified over 300 auditable activities. The Annual Work Plan for fiscal year 2004 contains 36 new projects, as well as several proactive investigations and special reviews. The OIG's Work Plan can be accessed via our website.

The Work Plan contains eight sections. The first section provides background on the OIG and attempts to provide a greater understanding of who we are, what we do, and how we do it. The next four sections contain our planned audits, segregated by major District functions – Business and Finance, Facilities, School Operations, and Information Technology. There are also two sections that highlight planned efforts using Investigations and Special Reviews. The final section focuses on Follow-Up and Technical Support.

In preparing the Work Plan, the OIG provides a brief description of the focus for the work items that we perceive as critical to the mission of the District. However, as the work planning process tends to be ongoing and dynamic, the focus and timing of many of these projects can evolve in response to new information, new issues, and shifting priorities of the School Board, Superintendent, and senior staff, and may be altered over time. Given these variables, the OIG objective still remains the targeting of available resources on those projects that best identify vulnerabilities in District activities that have been designed to support the education of students and promote the economy, efficiency, and effectiveness of programs and operations.

WEBSITE

The OIG website (www.laoig.org) contains general information about the OIG, including the organizational structure and the biographies of key personnel. The full text of all formal audit reports and a generic summary of investigations are placed on-line when issued. The site also describes how to contact the OIG's Fraud Hotline by mail or e-mail.

AUDIT ACTIVITIES

AUDIT ACTIVITIES

ORGANIZATION

The OIG’s Office of Audits is headed by the Deputy Inspector General for Audits (“DIGA”) and three Audit Managers. The Audit Managers are segregated by major school functions – business, facilities, and school operations. The DIGA reports to the Inspector General. The Office of Audits is comprised of 45 auditors.

Audit Managers are the key “strategic thinkers” and “subject matter experts” within the OIG. They

serve as “Issue Area Managers” or “Program Managers.” During the development of the Annual Work Plan, they provide key information, such as those areas that are highly susceptible to waste, fraud or abuse, as well as opportunities for improving efficiency and effectiveness. They are also the focal points with District staff. In addition, Audit Managers track recommendations and ensure that follow-up audits are conducted when needed.

The Office of Audits is also comprised of Audit Supervisors who are the day-to-day monitors of ongoing audits. They serve as the “Team Leader,” “Project Manager,” or “Auditor-in-Charge.” Audit Supervisors are the most knowledgeable about the audits under their supervision. They are management’s “eyes and ears” at the audit sites.

The Office of Audits conducts audits of District programs and systems to evaluate the economy, efficiency, and effectiveness of its operations and to determine if they are operating in accordance with applicable laws and regulations. The Office of Audits conducts planned and requested audits. It also works with the Office of Investigations, as appropriate, in response to allegations of waste, fraud and abuse.

AUDITING STANDARDS

The Office of Audits conducts its audits primarily in accordance with the Government Auditing Standards, which are issued by the Comptroller General of the United States. We also use the Standards for the Professional Practice of Internal Auditing, which are issued by the Institute of Internal Auditors, and the auditing and attestation standards that apply in financial audits, which are issued by the American Institute of Certified Public Accountants.

PERFORMANCE MEASURES

While accomplishing our mission and working toward attaining our vision, we must establish goals that will assist us in this journey. We also must establish strategies on how we will achieve those goals and criteria to measure accomplishments. The OIG’s Office of Audits has adopted performance measures similar to those used by the Federal inspector general organizations. The following paragraphs contain the Office of Audits’ goals, performance measures, and accomplishments.

GOAL: Exceed customer expectations through timely, valued services.

Performance Measures:

- ❑ Customer overall rating on satisfaction surveys.

The assigned overall rating on satisfaction surveys by the OIG’s customers averaged 4.5 out of a possible score of 5.0 (the range was 3.0 to 5.0). The rating elements included knowledge of subject matter, timeliness of audit, delivery of information, and team effectiveness.

- ❑ Percent of audit recommendations accepted.

The District generally agreed with 97 percent (300 of 309) of audit recommendations made by the OIG. This was a significant improvement from just 3 years ago when the District agreed with only 84 percent of audit recommendations.

- ❑ Percent of audit recommendations implemented.

Audit findings and recommendations do not produce the desired outcomes unless they are implemented. Of the 393 audit recommendations reviewed, 332 (or 85 percent) were implemented, 10 were no longer applicable or not resolved, and 51 had new target dates. Recommendations with new target dates indicate that District staff is continuing to work on correcting the identified weaknesses or deficiencies.

- ❑ Average time required to complete projects.

The OIG averaged 137 days to complete its 47 audit reports (33 formal and 14 memorandum reports). This is a 45-percent improvement from fiscal year 2001 (average was 199 days).

- ❑ Percent of Annual Work Plan projects initiated.

The OIG initiated 68 percent of the projects identified in its annual work plan. The OIG's goal for fiscal year 2004 is to initiate at least 75 percent of its projects.

- ❑ Return on investment.

Measuring return on investment in any one year is difficult because the work of the OIG often involves multiyear efforts and the results recorded for a single year are heavily dependent on work initiated in prior years. As a result, the OIG established a goal to maintain a \$5 to \$1 rolling average return on investment over a 5-year period. The OIG's rolling average for the 4-year period ended June 30, 2003 was \$15.4 to \$1 (\$401 million potential benefits/\$26 million OIG budgets).

GOAL: Develop a world-class workforce.

Performance Measure:

- ❑ Percent of OIG staff who have advanced degrees, certifications, and participate in professional organizations.

87 percent of OIG staff have advanced degrees, certifications and/or participate in professional organizations.

GOAL: Provide leading-edge technology that exceeds customer and employee expectations and

significantly increases overall OIG productivity.

Performance Measures:

- Percent of identified automation needs obtained.

100 percent of identified automation needs were obtained during the year. Specifically, the OIG continued its conversion from a manual to an automated working paper system, purchased and regularly used data research software, and updated the OIG website.

- Percent of projects that used advanced technologies, methodologies, and applications.

The OIG developed 39 percent of its formal audit reports using advanced technologies, methodologies, and applications.

GOAL: Improve the economy, efficiency, and effectiveness of District programs and operations through recommendations resulting from OIG oversight activities.

Performance Measures:

- Dollar value of funds put to better use, questioned costs, and monetary recoveries.

As shown at Annex B, the OIG reported total potential monetary benefits of approximately \$12.6 million.

- Number of reports or products containing recommendations that improve the economy, efficiency, or effectiveness of District programs or operations.

Of the OIG's 33 formal audit reports, 29 (or 88 percent) contained recommendations that improved the economy, efficiency, or effectiveness of District programs or operations.

- Percent of products issued that contained innovative analytical techniques or reporting formats.

91 percent of the OIG's audit products contained innovative analytical techniques or reporting formats. These techniques and formats included use of data analysis software, photographs, and color charts.

We will continue to work towards process improvements in measuring our productivity and performance.

CREDENTIALS AND QUALIFICATIONS

Auditors have 4-year degrees from an accredited college or university and many of our auditors hold advanced degrees and certifications, such as:

- ❑ Masters in Business Administration
- ❑ Certified Public Accountant
- ❑ Certified Internal Auditor
- ❑ Certified Fraud Examiner
- ❑ Certified Government Financial Manager
- ❑ Certified Government Auditing Professional

Members of our staff 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, National Association of Local Government Auditors, Association of Certified Fraud Examiners, and Information Systems Audit and Control Association.

EXTERNAL ASSISTANCE

Government Auditing Standards require that the staff assigned to conduct audits should collectively possess adequate professional proficiency for the tasks required. The standards also provide that an organization may need to employ personnel or hire outside consultants knowledgeable in such areas as accounting, statistics, law, engineering, audit design and methodology, information technology, public administration, economics, and social sciences.

The OIG's annual work plan for fiscal year 2003 contained numerous projects that previously had little or no audit coverage. This contributed to the audit staff not having sufficient knowledge and skills to develop an adequate audit plan and, in some cases, conduct the audit. As a result, using competitive bidding procedures, the OIG retained two accounting firms – Thompson, Cobb, Bazilio & Associates, PC (“Thompson Cobb”) and Protiviti to assist the audit staff with:

- ❑ Developing audit objectives;
- ❑ Determining audit scope;
- ❑ Designing audit methodology;

- ❑ Documenting the legal authority for the audited program or function, its history, and other background that could help auditors understand and carry out the audit plan;
- ❑ Providing a systematic basis for assigning work to staff;
- ❑ Identifying the various analytical techniques that should be used to complete the audit, such as statistical sampling; and
- ❑ Establishing an estimated budget (work hours and calendar days).

Thompson Cobb also assisted the OIG by conducting an audit of the Title I Program.

SIGNIFICANT AUDITS

The Office of Audits issued 33 formal audit reports during fiscal year 2003. Audits performed were conducted as part of our Work Plan or because of emerging issues requiring our immediate attention. Our audit reports recommended to District staff corrective actions, which were necessary to improve operations, address noted deficiencies, and ensure that programs or operations were in compliance with prescribed laws, regulations, policies, procedures, and standards. Most of the formal reports can be accessed via our website at www.laoig.org. The following paragraphs contain summaries of our more significant audits.

Library Plans

This audit found that the implementation of the District-wide Library Plan and the District-wide Classroom Library Plan needed improvement. Specifically, some schools did not adequately spend their library funds to increase their library book collections, many school libraries were not automated and connected to the Internet and Digital Library Services, and student and staff access to the school library was limited at some schools. Also, library books were not properly inventoried, catalogued and controlled, most of the schools visited did not meet the District's average for library books per student, and several schools visited had no written lending policies and procedures for library books. Further, several schools did not enforce the collection of fines for lost and/or damaged library books, and some book detection machines were not being used or not installed in school libraries. As a result, students and staff did not receive optimum benefits of the school library. (Report OA 02-130)

Equipment Inventory Procedures

This audit found that the District needed to significantly improve its control of equipment. Specifically, the central offices did not follow equipment reporting requirements, the Accounting and Disbursements Division did not monitor equipment inventory activities or follow-up with offices that did not submit certifications or summary reports, schools and offices did not follow required equipment control procedures, and the equipment inventory system did not effectively account for receiving, monitoring and safeguarding equipment. As a result, the District did not have assurance that sites conducted an annual equipment inventory, and that District-owned equipment was accounted for and safeguarded. (Report OA 02-132)

Mentor Teacher Program

This audit found that the Mentor Teacher Program was generally well managed. The personnel overseeing this program at the central office were knowledgeable and provided adequate support and guidance to school site personnel. However, oversight at school sites needed strengthening to help ensure program compliance. Specifically, supporting documentation confirming the qualifications and proper selection of mentor teachers was not kept at several of the school sites visited and several school sites did not maintain activity logs. As a result, there was reduced assurance that the mandated selection and review requirements related to the program were consistently followed.

Also, there was reduced assurance that all mentor teachers were properly documenting those activities required of them to support payment of their stipends. (Report OA 02-133)

Sylmar High School Athletics Program

This audit found that purchases of goods and services were adequately justified and supported, however, the school needed to better monitor and control selected aspects of its athletics program. Specifically, collections for a fundraising event were not properly controlled, athletic equipment was not properly maintained and labeled, applications were not on file for volunteer coaches, the payroll process was circumvented to pay a coach who was ineligible to receive payment, and coaches did not have signed contracts on file for supplemental assignments. As a result, there was no assurance that all income was properly accounted for. The District also was exposed to potential risks associated with the loss of equipment, accidents from poorly maintained equipment, and the failure to follow record retention and payroll requirements. (Report OA 02-134)

Budget Adjustments

This audit found that budget adjustments were generally well managed by the Budget Services and Financial Planning Division. However, oversight of this area could be further enhanced. Specifically, the Division did not update its written guidelines to reflect the definitions of the various types of non-routine budget adjustments adopted by the Board of Education and budget adjustment requests sometimes were not filled out completely. As a result, there was a lack of uniform guidance related to non-routine budget adjustments and this could cause funds not to be used for their intended purpose. (Report OA 02-135)

Title 1 Program

The OIG retained accounting firm Thompson, Cobb, Bazilio & Associates, P.C. (“Thompson Cobb”) to review the District’s Title I Program (“Title I”). The objective of the Title I Program is to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families. Title I is the single largest Federal program in California schools, with the District having the largest program. Thompson Cobb found that the District’s central office administration had some very notable areas of strengths including knowledge and understanding of compliance requirements and the incorporation of those requirements in program guidelines and procedures. Thompson Cobb, however, found weaknesses with budgetary controls and reviews of school site plans. Specifically, (i) local district budgets were not always supported by plans that identified the supplemental support services and programs to be provided along with the required resources, (ii) budget transfers were not always prepared by school sites or processed timely by local districts, resulting in budget overrides for various object codes, and (iii) school site plans contained numerous discrepancies. In addition, Thompson Cobb identified some costs that were inappropriately charged to Title I.

Individualized Education Program Process

This audit found that the Division of Special Education did not: (i) bill the State for about \$250,000

in mileage reimbursements for fiscal year 2002, (ii) complete all required documentation for Individualized Education Programs, (iii) adequately record and document services delivered to students, and (iv) effectively ensure that services were provided. As a result, the District lost revenues and there was no assurance that all required services was provided. (Report OA 02-139)

Drug and Alcohol Testing Program

This audit found that the implementation of the Drug and Alcohol Testing Programs needed improvement. For covered employees, functional responsibilities were not clearly defined, pre-employment testing was not adequately controlled and monitored, and some supervisors were not provided training. For non-covered employees, there was no specific office or individual responsible for administering, coordinating, and monitoring the implementation of the Zero-Tolerance Policy, and school and office administrators did not comply with the notification requirement of the policy. As a result, there was no assurance that the District complied with legal requirements and maintained a drug and alcohol free work environment. (Report OA 02-141)

Design Unit – New Facilities

This audit found that the Design Unit’s (“Unit”) process for selecting in-house consultants was in accordance with District policies and the Unit incorporated industry best practices in the design process. We found, however, that the Unit did not (i) have comprehensive policies and procedures defining the specific roles and responsibilities of the Unit, (ii) require that both the Project Manager and the Director of Design sign the Notices to Proceed, and (iii) have a review process for ensuring that all members of the Design Advisory Council and the Unit’s in-house consultants were screened for conflicts of interest in their work assignments. As a result, there was increased risk that the design process may not operate effectively and efficiently. (Report OA 02-142)

Progress Payments, Facilities Services Division

This audit found that the District needed to take immediate action to (i) implement procedures that would allow the processing and approval of contractors’ invoices for payment in a timely manner, (ii) develop written policies and procedures to provide guidelines for determining the percentage of completion for construction contracts, (iii) provide adequate training and development to staff relating to their job responsibilities, and (iv) establish standards and measurements for evaluating employees’ performance. As a result, there was duplication of effort in processing contractor invoices, many invoices were not processed in a timely manner, inspectors used different standards to determine percentage of completion, and there was a risk of paying contractors for unallowable costs. (Report OA 02-143)

Tobacco Use Prevention Education Program

This audit found that the Tobacco Use Prevention Education Program (“Prevention Program”) was generally well managed by central office staff. The internal controls, however, needed strengthening to ensure that laws, regulations, and grant terms and conditions were complied with, and to ensure all funds were fully accounted for. Specifically, school principals and Prevention Program coordinators did not monitor grant budgets and expenditures to prevent deficits or the potential under-usage of

funds at school sites. In addition, some schools did not maintain all required supporting documentation. As a result, there was reduced accountability over grant funds at schools and less assurance that these funds were expended as planned. The District was also exposed to the risks of incurring penalties or potentially losing funds for not following all grant terms and conditions. (Report OA 02-147)

Warrant Distribution Process

This audit found that the Business Accounting Branch needed to enhance internal controls and procedures for the distribution of warrants. Specifically, the Branch did not: (i) have standards or benchmarks for the warrant distribution process, (ii) maintain proper physical security over the signature machine and hand stamp, (iii) adequately document accounting reconciliations, (iv) maintain a perpetual log or register of warrants that had been placed on hold, and (v) have adequate procedures for handling returned warrants. These conditions occurred because the Branch had not made the development of authoritative and detailed policies and procedures a high priority, and believed that the existing controls and procedures were adequate. As a result, there was an increased risk for inefficiency occurring in the warrant distribution process, which could lead to delays in payment to vendors and suppliers. (Report OA 03-152)

Transportation Wet Line Fueling

This audit found that the Transportation Branch needed to more carefully oversee the wet line fueling process used to service some of its vehicles. Specifically, the Branch did not: (i) adequately monitor the fueling service contract, (ii) exercise certain contract rights granted to it that would have helped ensure quality control, and (iii) maintain adequate documentation of wet line fuel delivery transactions. These conditions occurred because Branch personnel were not aware of all of the contract provisions or believed it was impractical to follow certain provisions. As a result, the wet line fueling process was not performed according to all of the agreed upon terms and conditions, which reduced the assurance that the contracted services were done properly and reported accurately. (OA 03-153)

Earthquake Recovery Program

This audit found that, overall, the Earthquake Recovery Program (“ERP”) Office properly managed disaster assistance funds. However, our review disclosed that the oversight of the ERP could be further enhanced. Specifically, (i) written policies and procedures were not in place for providing guidance in carrying out management’s objectives, (ii) required reports were not always filed in a timely manner, and (iii) public assistance funds were not properly reconciled. These conditions existed because the ERP Office, after the 1994 Northridge earthquake, focused immediately on organizing an office to expediently maximize funding and reimbursement from the Federal Emergency Management Agency for damages suffered from the earthquake. This process did not allow time for the documentation of office roles and responsibilities as they were established. As a result, sufficient priority was not placed on building and maintaining a sound internal control structure, and public assistance funds were not properly accounted for. (OA 03-154)

Proposition BB Bond Change Order Process

This audit found that management of the Proposition BB Bond change order process needed improvement. Specifically, the delegated management approval authority was not followed, no progress has been made in reducing the causes or ameliorating consequences of change orders, roles and functions of all parties involved in the process were not clearly defined, change orders were processed over an extended periods of time, and did not properly maintain construction project diaries. These conditions occurred because the Facilities Services Division did not: (i) adequately implement established policies and procedures, (ii) establish clear lines of responsibility for all parties involved in the change order process, and (iii) provide adequate supervision and oversight of the change order process. As a result, the District had little assurance that change orders were managed in the most efficient and cost effective manner. (OA 03-158)

Individualized Education Program Due Process

This audit found that the due process for the Individualized Education Program (“IEP”) was un-auditable because case management data was incomplete and due process costs could not be accurately identified. However, procedural errors committed by the IEP teams and failure to include language that appropriately limit the District’s liability may have contributed to increases in the costs of due process. These conditions occurred because: (i) the automated systems did not address the unique needs of the Special Education Division and the Division lacked the resources to develop appropriate systems, (ii) the IEP teams failed to include key information or included inaccurate information on student’s IEPs, and (iii) personnel involved in drafting settlement agreements did not adequately consider the need to limit the District’s liability. (OA 03-160)

Labor Compliance Program

This audit found that the Labor Compliance Program (“Program”) was generally well informed about the Federal and State Labor Laws. The Program Office had also started to develop comprehensive policies and procedures to address many of the most important aspects related to these areas. However, the Program Office had not vigorously enforced the provisions of the Labor Code. Specifically, (i) payment of prevailing wages by contractors on public works with the District were not enforced, (ii) some contactors did not comply with the requirement to submit Certified Payroll Records, (iii) the program conducted audits and investigations only when complaints were filed against contractors, and (iv) written policies and procedures did not exist for Program functions and responsibilities. These deficiencies existed because the staff could not handle the volume of work required of the Program. As a result, the District may not be in compliance with the requirements of the Labor Laws. (OA 03-161)

Food Production and Inventory Management

This audit found that the District’s food production and inventory management process was generally well administered. However, oversight of this area could be strengthened. Specifically, the school cafeteria staff did not consistently follow established food ordering guidelines and receiving

procedures. Also, effective inventory management procedures needed to be followed more consistently, and food production documentation and planning procedures needed improvement. These conditions occurred because Area Food Services Supervisors needed to more closely monitor the food ordering process and cafeteria personnel needed to be more diligent about following established guidelines. As a result, there was a greater likelihood that the quantity of food ordered may have been excessive, and there was reduced control over the receiving process. In addition, there was an increased likelihood for excess stock on hand and higher levels of leftover meals at schools. (OA 03-163)

Procurement Card Pilot Program

This audit found that the Procurement Card (“P-Card”) Pilot Program was generally well administered. Also, capable implementation team members had been identified, and technology needs were assessed during the pilot. However, administration of the pilot program could have been strengthened. Specifically: (i) there was no performance measurement system for the pilot, (ii) P-Card pilot program use and approval guidelines were inconsistent with other similar transaction guidelines, (iii) pilot program participants did not actively use P-Cards for high-volume, low-dollar value purchases, and (iv) there was limited use of electronic data transfer technology. These conditions occurred because no specific and measurable goals and objectives had been established for the program, and the Procurement Services Group needed to encourage greater use of the P-Card among users. As a result, the District may not have gained the maximum benefit from the use of P-Cards as a tool to help reduce purchasing processing costs during the pilot program. (OA 03-165)

Environmental Site Assessment

This audit found that, overall, the District was in compliance with the environmental laws and regulations regarding environmental reviews and assessments of school sites. However, some procedural enhancements could be made to improve the effectiveness of operations. Specifically, (i) the Procedures and Process Manual did not specify the roles and responsibilities of the staff and how it would ensure that functions were performed in a uniform and efficient manner, (ii) Project Managers did not document their reviews of reports prepared by environmental consultants, and in some cases, records supporting the environmental test and review process were either missing or not prepared, and (iii) daily sign-in and sign-out records for consultants were not maintained on file. These conditions existed because the District management did not establish clear and concise policies, procedures and guidelines for managing and conducting environmental assessments of District sites. However, the District’s senior management indicated that it had a strong commitment to improving the current conditions. (OA 03-170)

North Valley Occupational Center

This audit found that the controls and operation of the student body funds needed improvement. Specifically, (i) auto shop repair operations, access, and tools were not controlled, (ii) the contract with the catering company generated an inadequate level of commissions, and (iii) the approval

process and documentation of expenditures were inadequate. As a result, three of the four auto shops operated at a loss, potential additional catering commissions were lost, and expenditures were vulnerable to waste, fraud and abuse. (Report OA 03-171)

Expenses of the Chanda Smith Consent Decree Office and the Administrators' Office

This audit found that expenses were not adequately managed and controlled. Specifically, some expenses paid by one of the Chanda Smith Consent Decree Administrators were not appropriate, such as (i) stipends paid to non-eligible committee members, (ii) payments to a consultant in excess of the contract rate, and (iii) payment for services not received. This occurred because (i) the Administrator decided to pay the ineligible members when they complained that that they were doing the same work as the eligible members, (ii) the Administrator stated a belief that the services rendered by the consultant was worth \$100 per hour, and (iii) the District did not effectively review the expenses billed by the Administrator. As a result, the District (i) paid stipends totaling \$3,300 to ineligible committee members, (ii) overpaid the consultant \$3,362 for services rendered, and (iii) paid \$1,440 for services not performed. (OA 03-172)

Follow-up Audit of Psychological Services

This audit found that the District needed to continue improving its delivery of psychological services to students, and oversight at the local districts needed improvement to address trends of poor performance. Specifically, psychological reports were not completed within the specified time frame in accordance with laws and regulations, some students did not receive all their scheduled counseling sessions as required by their Individualized Education Program ("IEP"), and not all psychologists were submitting monthly reports to their local district office for review. As a result, continued delays in completing psychological reports prevented IEP meetings from being held within prescribed timelines, and some students did not receive needed special services according to their IEP. (OA 03-175)

Bank Account Management

This audit found that the Office of the Controller needed to enhance its oversight of corporate bank accounts. Specifically, we noted that (i) internal control over corporate bank accounts needed improvement, (ii) Controller staff needed to monitor bank account activity more closely to ensure bank accounts operated as intended, and (iii) District bank account policies and procedures, and contractual agreements needed to be followed consistently. These conditions occurred because the Controller's role in the development of specific internal control measures, as well as policies and procedures related to the management of corporate bank accounts, had not been formally defined. As a result, errors and irregularities related to corporate bank accounts could occur and not be prevented or detected in the normal course of operations. (Report OA 03-176)

Special Project

During the fiscal year, nine OIG employees participated in a teambuilding project. The objectives of the project were to allow the team members to experience:

- ❑ The variety of roles leaders and team members play;
- ❑ Setting team goals and the characteristics of effective teams;
- ❑ How to reach consensus while dealing with individual differences and competencies;
- ❑ The practice of active listening;
- ❑ Techniques for conflict resolution and effective meeting management; and
- ❑ How teamwork can lead to higher quality work products.

The team selected a team leader from its members, selected nine projects from an approved listing of audits requested by school principals, and generally worked under procedures and protocols established by the team leader and team members.

Contract Audit Unit

The District is currently engaged in the largest building program in its history. Over the next 6 to 10 years, the District plans to complete new schools and modernize existing facilities at a cost of approximately \$8.2 billion. To further support the construction and modernization program, the District expends millions of dollars annually on professional services contracts.

The OIG's Contract Audit Unit is responsible for assisting District procurement officials with achieving sound contract pricing. The Unit provides assistance by evaluating contractor price proposals, providing contracting officials with accounting and financial advisory services useful to conduct "could cost" and "should cost" assessments and negotiations, verifying the propriety and acceptability of costs charged by contractors, and deterring contractors' inefficient practices which, if not detected and corrected, could lead to excessive costs and contract prices.

On March 25, 2003, the School Board authorized the Inspector General to retain several accounting firms and spent up to \$15 million over a 3-year period to provide audit services of school construction and modernization projects.

INVESTIGATION ACTIVITIES

INVESTIGATION ACTIVITIES

ORGANIZATION

The OIG's Office of Investigations is headed by the Deputy Inspector General for Investigations ("DIGI") and two Supervising Investigators. The DIGI reports to the Inspector General. The Office of Investigations is comprised of 8 senior investigators and 5 investigators. The Office also has one investigative assistant whose primary responsibility is the Fraud Hotline. The Office of Investigations conducts investigations of alleged waste, fraud, and abuse or other illegal activities by District employees or contractors. Most of the investigative workload is reactive in nature because the work results from the receipt of allegations of illegal activity. The remaining workload consists of proactive projects designed to prevent waste, fraud, and abuse.

INVESTIGATION STANDARDS

The Office of Investigations conducts its investigations in accordance with the Principles and Standards for Offices of Inspector 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 Association also circulated the draft principles and standards to the federal, state, and local inspector community for review and comment. The principles and standards represent generally accepted principles, quality standards, and best practices applicable to federal, state, and local offices of inspector general.

PERFORMANCE MEASURES

Similar to the OIG's Office of Audits, the Office of Investigations has adopted performance measures similar to those used by the Federal inspector general organizations. The following paragraphs contain the Office of Investigations' goals and performance measures.

GOAL: Reduce waste, fraud, and abuse in District programs and operations, and foster integrity in District personnel.

Performance Measures:

- ❑ Number of cases opened and closed.

56 (opened) and 70 (closed)

- ❑ Number of cases referred for criminal prosecution or administrative actions.

6 (criminal) and 44 (administrative)

- ❑ Cases presented but declined for prosecution.

- Defendants convicted.

4

- Suspensions, debarments, sanctions, or some other similar administrative action.

9

- Amount of fines, restitutions, recoveries, and funds put to better use.

\$7,987,094

FRAUD HOTLINE

The OIG's Charter authorizes the Office of Investigations to manage a Fraud Hotline and to investigate or refer allegations made via the Hotline. The OIG Hotline numbers are (213) 241-7778 and 1-866-LAUDS-OIG. A total of 337 calls were received on the Hotline during fiscal year 2003. While hotline calls represent just one of the ways in which employees and concerned citizens provide information to the OIG, it is important to note that some of the most significant cases the OIG investigates result from calls placed to the OIG Fraud Hotline. The OIG also receives reports of waste, fraud and abuse by mail, in person, and by referral from other departments and agencies. The OIG Hotline is used to report a wide range of matters. However, not all calls result in the opening of an investigation by the OIG. In some cases, the callers (many of whom elect to remain anonymous) fail to provide enough information to enable the OIG to initiate an investigation. Other calls concern matters that are not within the OIG's jurisdiction for investigation. Still other matters cannot be pursued because the OIG lacks the personnel and resources to handle the investigation.

CREDENTIALS AND QUALIFICATIONS

The Office of Investigations is authorized 17 investigators. All investigators are required to have a 4-year degree from an accredited college or university. Many of our investigators hold advanced degrees as well as professional certifications, such as:

- Masters of Business Administration
- Masters of Arts in Sociology & Criminology
- Masters of Forensic Science
- Masters of Public Administration
- Juris Doctorate
- Certified Fraud Examiner
- Certified Fraud Specialist
- Private Investigator
- Advanced Peace Officer Standards and Training

Our investigative staff also includes managers and investigators formerly employed by agencies such as the Federal Bureau of Investigation, the Los Angeles County District Attorney's Office, the

Internal Revenue Service, the Los Angeles Police Department, the U.S. Customs Service, the former Resolution Trust Corporation, and the State Bar Association.

SUBPOENAS ISSUED

The OIG issued 10 subpoenas during the past year. The subpoenas were issued only after an investigation into a matter caused a reasonable suspicion that a law, regulation, rule, or district policy had been violated or was being violated. The following is a description of the subpoenas issued, effectiveness of subpoena authority, and declinations by prosecutorial agencies.

During the past year, the OIG issued one subpoena in connection with its investigation of possible fraudulent invoicing by Premio Computers, Inc. The Inspector General had a reasonable cause to believe that selected documents in Premio's files were relevant to an ongoing investigation being conducted by the OIG. Premio failed to fully cooperate with the OIG in providing documents that were subpoenaed and the Federal Bureau of Investigation joined the investigation.

The OIG issued four subpoenas for student transcripts, testimony, and travel records relevant to investigations of payroll fraud and falsification of official records: two subpoenas to California State University Northridge, one subpoena to National University, and one subpoena to Northwest Airlines. The OIG also issued two subpoenas to Costco Warehouse and Kinko's Legal Department for records of alleged embezzlement by a District employee; one subpoena to Emerald Development Company, Inc. for records of ethics violations by District employees; one subpoena to the Bank of America for bank records of alleged misappropriation of funds; and one subpoena to a District employee for testimony of alleged sexual abuse of minor students. No attempts were made to quash any of the 10 subpoenas.

If the District's Inspector General determines that there is reasonable cause to believe that an employee or outside agency has engaged in any illegal activity, Education Code Section 35401 requires that the Inspector General report the nature and details of the activity on a timely basis to the local district attorney or the Attorney General. Currently, there are three cases pending prosecution with the Los Angeles County District Attorney. During fiscal year 2003, three cases were prosecuted, resulting in four convictions. As a result of OIG investigations involving possible improper activities, the District also took several administrative actions – three suspensions, two demotions, one resignation, two unpaid time, and one unsatisfactory performance.

The local district attorney's office exercised its prosecutorial discretion by declining to prosecute four cases that involved allegations of Grand Theft and Public Corruption. Specifically, the OIG had a reasonable cause to believe that:

- ❑ A middle school Cafeteria Manager embezzled over \$21,000 in cafeteria funds during the 2000-2001 school year. The employee retired and the local district attorney declined to prosecute this case because of insufficient evidence and the manager's poor health.
- ❑ Several adult school employees submitted documents indicating they had worked at alternate work locations and were paid for their work. Investigation disclosed the employees did not

work at the locations and were submitting the records to increase their salaries. Several of the employees subsequently retired and the local district attorney declined to prosecute this case because of insufficient evidence.

- ❑ An assistant principal, with the knowledge and consent of the principal, routinely changed grades to reward or punish students. The principal, assistant principal, and a counselor administered an unsanctioned proficiency test to seniors who needed to pass the test for graduation. These three then entered false passing results in the students' cumulative records. The principal and assistant principal resigned and the local district attorney declined to prosecute this case because of insufficient evidence and the perceived lack of credibility of witnesses.
- ❑ An elementary school cafeteria manager embezzled \$7,473.63 from cafeteria funds. The investigation revealed a pattern of late deposits and 50 missing deposits. When confronted with the missing deposits, the manager resigned and the local district attorney declined to prosecute this case because of insufficient evidence.

SIGNIFICANT INVESTIGATIONS

The OIG issued 50 reports of investigation during fiscal year 2003. All reports of investigation are **confidential**. If the OIG has reasonable cause to believe that illegal activities may have occurred, the report of investigation is referred to a prosecutive agency. Otherwise, the OIG forwards the report of investigation to District officials who may decide, based on the facts presented, to take administrative action against employee(s) or contractor(s). The Office of Investigations also performs a limited number of special reviews. The following paragraphs contain generic summaries of our more significant investigations.

Improper Internet Use

The OIG received information that an elementary school librarian was using District e-mail for political and personal purposes. The investigation determined that the librarian had sent e-mails and had posted Internet newsgroup messages relating to political activities. It was found that employees at the school had not received the District Internet Policy. Investigators gave the librarian a copy of the Internet Policy and pointed out the sections relating to proper use of an Internet account. The librarian agreed to abide by the policy. Several weeks later, the OIG discovered that the librarian was continuing to use the Internet for unauthorized purposes. The OIG referred the case to District executive staff for possible administrative action.

Embezzlement

The OIG conducted an investigation regarding allegations that a former elementary school cafeteria manager embezzled cafeteria funds. The investigation revealed a pattern of late deposits and 50 missing deposits totaling \$7,473.63. The cafeteria manager's signature was on the daily service line report reflecting the amounts to be deposited and the cafeteria manager was responsible for making all of the missing deposits. The cafeteria manager's explanation was that she had made the deposits

and the bank must have lost them. When the cafeteria manager was confronted with the missing deposits, she resigned within a short period of time. The OIG referred the case to the Los Angeles County District Attorney's Office for possible prosecution.

Brown Act Violation

The OIG investigated an allegation that a California State Senator may have violated provisions of the Brown Act; a California State Statute that stipulates how specific bodies of government shall conduct meetings. The allegations specifically had to do with the Senator meeting with Board Members to lobby for a contract with a software vendor. The School Board voted to approve the contract, but a few days later rescinded its vote. The investigation determined that there was no evidence a violation of the Brown Act occurred regarding the School Board's vote, nor during the events leading up to the vote. Further, the investigation did not uncover any evidence of wrongdoing on the part of the Senator regarding his activities with the vote by the School Board. The investigation, however, did determine that the School Board appeared to violate District procurement policies by initially approving the contract without the District staff preparing a justification for not using a request for proposal in selecting the vendor. This case highlighted the need for District staff to ensure contracts are properly reviewed.

Textbook Theft

The OIG investigated a case of textbook theft at an elementary school. The vendor billed the school for duplicate orders of books. Two of the orders were sent to a person at the school who was unknown to school employees. The investigation also determined that all books were delivered and signed for by authorized school personnel. The whereabouts of the books was not established. Problems with school financial records and inventory control made it impossible to track books. District employees with the same name as the one unknown by the school employees never worked at that school. The OIG referred the case to District executive staff for possible administrative action.

Ethics Code Violation

The OIG investigated an allegation that a District employee violated the Acceptable Use Policy for the Internet. The investigation determined that the employee on several occasions accessed and viewed adult pornographic websites during business hours. The OIG referred the case to District executive staff for possible administrative action.

Testing Integrity

The OIG conducted an investigation to determine if the District maintained the integrity of the Stanford 9 Tests. The investigation did not disclose any apparent issues with the integrity of the tests or security of the test results. There were no indications of tampering or modification of any test scores. The schools usually delivered the test materials on time to the scoring centers; however, significant delays resulted because the schools did not follow the procedures in the District Reference Guides. The District failed to address, in a timely manner, the problems the scoring

centers were encountering. Also, the District failed to provide adequate resources to remedy the situation and did not elevate the situation to upper level management. This resulted in the Stanford 9 Tests being shipped too late to be scored in time for inclusion on the California Department of Education's Internet website. The OIG referred the case to District executive staff for possible administrative action.

Misuse of District Property

The OIG and the Los Angeles Police Department's Sexually Exploited Child Unit conducted an investigation to determine whether a District employee utilized a computer to access and view child pornography at a District work site. The investigation found that the employee on more than one occasion used a District computer to view child pornographic websites. The OIG referred the case to the Los Angeles County District Attorney's Office for possible prosecution.

Violation of Policy

The OIG received information from numerous sources concerning payments of inappropriate fees in connection with the rental of District facilities at six schools. The investigation determined that employees failed to follow District policy involving the lease/rental of school property for filming or other entertainment purposes. Further, policies and procedures were not followed concerning the receipt of monies received as a result of the rental of District facilities. Reportedly, other schools that were not included in this investigation are also disregarding the District's rental policy. The OIG referred the case to District executive staff for possible administrative action.

Overcharging on Year 1 E-Rate Projects

The OIG investigated concerns regarding the Education Rate Program ("E-Rate") that were referred by the OIG's Office of Audits. In 1997, the U.S. Department of Education created the E-Rate Program to provide Internet access to libraries, elementary schools, and secondary schools. The Federal Communications Commission created the Schools and Library Division ("SLD") within the Universal Services Administration to administer the Program. In 1998, the District applied for \$2.1 million in Year 1 E-Rate funding for the former Cluster 7 and \$2.9 million for the former Cluster 23. The District selected a telecommunication company to install computer data switches and cabling in both Clusters. Our investigation of District and company records disclosed that between July and November 1999, the company billed the District more than \$1 million for data switches in both Clusters that the company did not deliver. This over-billing went undetected due to improper contracting and billing procedures used by the District.

Payroll Fraud

The OIG investigated an allegation that an Office Assistant committed payroll fraud by working at a party supply business while on illness leave from the District. The investigation revealed that the employee opened and operated a business while claiming illness and received illness payments totaling \$1,288. The employee submitted a *Certification of Illness or Injury* claiming "severe job

stress.” The form also indicated the employee “was not employed elsewhere during the period of absence.” The OIG referred the case to District executive staff for possible administrative action.

Ethics Policy Violation

The OIG investigated an allegation that a company, currently under contract with the District for construction of a high school, offered gratuities to District employees and consultants. The investigation revealed that the contractor did invite the head of the division, and members of his staff to a Los Angeles Lakers basketball game; however, the invitation was declined. Nevertheless, one District consultant did attend the basketball game, but later reimbursed the company for the value of the ticket. The invitation appeared to be an isolated incident on the part of the company, and resulted in no wrongdoing on the part of any District employees or consultants.

Professional Services Contracts

The OIG investigated the use of professional services contracts by central offices. The investigation disclosed that professional services contracts account for about 8 percent of all District contract dollars, and less than 1 percent of the total District contract volume. However, these contracts account for the majority of the complaints about the District’s contract processes. The investigation did not identify any specific examples of fraud, but did document non-compliance with School Board rules and District policies and procedures, as well as possible violations of California and Federal statutes. The investigation also identified a lack of financial or procedural accountability, and found that District management consistently failed to properly oversee or administer the contracts or contracting process. There also was little or no commitment to effective contract management.

Payroll Fraud

The OIG investigated an allegation regarding payroll fraud by a Playground Supervisor. The investigation revealed that the employee attended school to obtain teaching and administrative credentials, while intentionally reporting that time as working hours. The OIG referred the case to District executive staff for possible administrative action.

District Policy and Ethics Code Violations

The OIG investigated an allegation that a high school teacher inappropriately touched a student in the classroom. The investigation corroborated the allegation. The OIG referred this case to the Los Angeles City Attorney’s Office, which filed two misdemeanor counts against the employee.

Payroll Fraud

The OIG investigated an allegation that an elementary school teacher traveled to the World Cup soccer tournament in Japan during the spring of 2002. The investigation determined that the teacher went to Japan during the World Cup while using illness and personal necessity time. The OIG referred the case to District executive staff for possible administrative action.

Theft

The OIG received information that two individuals identified themselves to local merchants as District employees and purchased equipment and supplies with fraudulent purchase orders. The individuals were located, identified, and arrested by the Los Angeles Police Department. The Los Angeles County District Attorney's Office filed two felony counts against the individuals. The individuals pled guilty and were sentenced to prison.

Workers' Compensation Insurance Fraud

In April 2002, the OIG began an investigation of the District's Workers' Compensation Program, and coordinated its investigation with the District's third party administrator. The investigation identified a suspected fraudulent claim submitted by an Educational Aide. Since November 1999, the employee had worked 15 hours a week and performed various clerical duties. The employee filed a claim for workers' compensation after allegedly slipping in February 2001, while walking down stairs at the school. The employee was sent for treatment, and two weeks later, the employee was released to return to work with lifting, walking, and standing restrictions. The school was unable to accommodate the restrictions, and the employee was placed on temporary total disability. In September and October 2001, investigators observed the employee working at a beauty salon as a licensed cosmetologist. During 2001 and 2002, the employee continued to receive benefits related to the injury claim and repeatedly denied being employed. The investigation disclosed that the employee was overpaid \$5,454 in workers' compensation benefits from April 2001 to February 2002. In September 2002, the District's first insurance fraud case was referred to the Los Angeles County District Attorney's Office. In January 2003, the employee was arrested, and charged with two counts of felony insurance fraud.

Payroll Fraud

The OIG investigated allegations of payroll fraud by a School Administrative Assistant ("SAA") at an elementary school. The investigation revealed that the SAA received pay for 40 hours worked, while on vacation status, and also for 1 day when the school was closed (non-school day). The OIG referred the case to District executive staff for possible administrative action.

Collusive Bidding

The OIG investigated an allegation of possible collusive bidding regarding the processing of donated chicken. The investigation revealed that the U.S. Department of Agriculture donated approximately 1.5 million pounds of unprocessed chicken to the District each year. The Procurement Group issued an Invitation For Bid for vendors to process the donated chicken into various products for school cafeterias. After receiving five bids, the Procurement Group awarded two companies contracts for processing the chicken products. The investigation determined that the Procurement Group miscalculated the amount of the contracts awarded to each company. Instead of awarding the contracts based upon the individual line items, the Group gave 25 percent of the chicken to one

company and 75 percent to the other company. If the Procurement Group awarded the contracts based upon the line items that were bid, the District could have had a potential savings of \$627,091. A review of the selection process was unable to substantiate that collusive bidding occurred.

Possible Contractor Fraud

The OIG investigated an allegation that the President and Chief Executive Officer of a construction firm associated with a District school construction project was a convicted felon. The construction firm was also alleged to be the Development Manager for the project and was in a position to influence and control the project schedule, contractor payments, and timing of the \$107 million project. The investigation determined that this individual was the construction manager, oversaw the project, and represented the Project Developer. The investigation confirmed that this individual was convicted of Grand Theft in 1997, and was sentenced to 180 days in jail, placed on 3 years probation, and was ordered to pay \$90,000 in restitution. The Project Developer removed this individual, as well as the related construction firm from the project.

Insurance Consultant: Conflict of Interest

The OIG investigated allegations that a District insurance consultant promoted unnecessary insurance coverage and advocated an insurance company as the sole insurance provider to the District. It was also alleged that the consultant had a conflict of interest with the insurance provider and overcharged the District for services that were provided. The investigation did not corroborate the conflict of interest allegation; however, it did determine that the consultant had been working for the District without a contract since December 31, 1999, and had received payments totaling \$1.7 million from June 1998 through March 2003.

Use of Senior Facilities Executive Real Estate Consultants

The OIG investigated the process used by the Facilities Services Division to engage, oversee and supervise the Senior Facilities Executives – Real Estate Consultants in the performance of their activities. It was determined that Executive oversight standards employed by the Division failed to assure an objective correlation between hours invoiced with performance and were not sufficient to effectively monitor and hold the consultants accountable for their work product. In addition, there was a failure to ensure that payments for services performed for specific projects were paid from the correct funding source. The OIG referred the case to District executive staff for possible administrative action.

Former Principal: Violations of Policies

The OIG investigated allegations that a principal abused his authority and failed to follow District policy when he used District materials and resources to build a fabricated patio and room addition for his personal use, and when he repeatedly directed automotive classes to service or repair his personal vehicles and pay incidental fees. The OIG referred the case to the Los Angeles County District Attorney's Office for possible prosecution.

Cafeteria Vendor: Contract Fraud

The OIG investigated an allegation that a cafeteria vendor at an adult school under-reported daily sales revenue for the purpose of short paying commissions to the school. The investigation determined that the vendor failed to maintain complete and accurate records of all income and receipts. In addition, the vendor failed to report \$18,336 in cafeteria sales, which resulted in unpaid commissions to the school of \$762. This represented a breach of the contract agreement and potentially a violation of law. The OIG referred the case to District executive staff for possible administrative action.

Violation of Policy

The OIG investigated an allegation that a District office held a Christmas party during working hours at an offsite location. The investigation determined that employees were allowed to attend during their regular work hours without taking vacation time and alcohol was served. The office management approved the hours of the party and subsidized the purchase of the alcohol. Consultants doing work for the office attended the party with some consultants billing the District for their time. A review of District rules and procedures found limited guidance in the early release of employees and consumption of alcohol at offsite events occurring during work hours. The companies providing the consultant services were made aware of the inappropriate billing for the party attendance and provided a credit to the District on their next invoice. The OIG referred the case to District executive staff for possible administrative action.



MANAGEMENT AND POLICY ACTIVITIES

MANAGEMENT AND POLICY ACTIVITIES

ORGANIZATION

The Office of Management and Policy is headed by a Deputy Inspector General and serves as the Inspector General's Chief of Staff and as the Acting Inspector General in the Inspector General's absence. The staff of the Office of Management and Policy consists of a special projects administrator, an audit manager, a senior investigator, an administrative assistant and a number of internal auditors assigned from the Office of Audits as workload dictates.

The Office of Management and Policy assists the Inspector General with managing the OIG's administrative infrastructure, including budgeting, payroll, human resources, contract monitoring and procurement. The Office's staff also conducts quick-look analyses of District offices and programs, operations research, special reviews of District programs and operations, and follow-up reviews of prior audits and investigations. These types of projects are key to providing District managers with real-time data to make more informed decisions in managing their programs, offices and operations.

SIGNIFICANT SPECIAL REVIEWS

The Office of Management and Policy performs a limited number of special reviews. These reviews are short-term management and program reviews that focus on issues of concern to the School Board, Superintendent, and senior staff. They examine programs from a broader, more issue-oriented perspective than the traditional audits conducted by the OIG. The following paragraphs contain summaries of the significant special reviews performed during fiscal year 2003.

Ethics Program

This Review was completed at the request of the Ethics Officer. The purpose of the review was to assess the effectiveness of and progress made by the Ethics Office as it was currently structured and to provide the Ethics Officer with recommendations for improvement. The review contained 26 findings and 30 recommendations. Some of the review's findings were that the District did not currently have an effective Ethics Program, and that the Program had not moved forward since October 2001. Also, the goals and objectives of the Ethics Office were not well defined. Further, personnel and funding were not sufficient to meet minimal program requirements and the Program was at a standstill because the Board-approved Employee Code of Ethics had not yet been implemented. In addition, there was a lack of delegation of Program responsibilities, the Ethics Officer was given and undertook too many responsibilities, and there was the perception that the

Ethics Officer functioned more as a “cheerleader” than as a resource to train and help employees make ethical choices. As a result, District employees may not aggressively work toward creating an ethical environment that fosters public and collegial trust, personal and institutional integrity, high levels of competence and accountability, as well as a positive atmosphere characterized by integrity, fairness, respect, and caring. (02-077)

Telecommunications Branch, Information Technology Division

This review found that the methods used by the Telecommunications Branch to procure telecommunications services met District procurement technical standards, but inadequacies existed with regard to cost efficiencies. Also, the equipment inventory system was neither effective nor efficient. Further, there were inadequate internal controls over telephone billings and there was insufficient analysis of the accuracy and appropriateness of telephone charges by the Telephone Billing Unit, school principals and department managers. In addition, based on benchmarking with other school districts, staffing of the Branch was generally below optimum levels. (SR 02-112)

Corporate Donations to High School Athletic Teams

This review found that although several high school athletic teams received generous donations of cash, equipment or merchandise from athletic supply companies, the District did not centrally monitor, manage or maintain corporate donation sponsorship information. As a result, the District had incomplete records to verify the appropriate management and control of these donations. The U.S. Department of Education advised that “private donations to individual girls’ and boys’ athletic teams are not, *per se*, a violation of Title IX”, however, the incomplete accounting data weakens the District’s position as it relates to compliance with both District and California Interscholastic Federation mandated policies and procedures. (SR 02-113)

FOLLOW-UP AND TECHNICAL SUPPORT

Government Auditing Standards require that auditor’s follow-up on significant findings and recommendations to determine if management has taken timely and appropriate corrective action. Additionally, the District’s Board of Education also requested that the OIG monitor the status of administrative or other actions taken in response to Reports of Investigation. Benefits from audit or investigative work are not only in the findings reported or the recommendations made, but also in effectively implemented resolutions. Follow-up reviews determine if audit recommendations have been implemented, reports of investigation have resulted in administrative, civil or criminal actions.

During fiscal year 2003, the OIG conducted follow-up reviews of 101 audit reports containing 393 recommendations. Of these audit recommendations, 332 (or 85 percent) were implemented, 10 were no longer applicable or not resolved, and 51 had new target dates. Recommendations with new target dates indicate that District staff is continuing to work on correcting the identified weaknesses or deficiencies. The OIG also conducted follow-up reviews on 117 reports of investigations. These reviews revealed that administrative, civil or criminal actions were taken on 78, or 67 percent, of the cases, and 39 cases remain unresolved. Actions taken include referrals to the United States Attorney’s Office or the Los Angeles County District Attorney’s Office resulting in convictions or court-ordered restitutions. Action by the District included employee reassignments, suspensions, demotions, resignations, terminations and vendor debarments. Reports unresolved indicates that

District staff is still considering whether administrative action is warranted, action is pending by law enforcement agencies or the OIG's follow-up is still in progress.

During the fiscal year, the Office of Management and Policy also performed a number of other professional tasks, including:

- ❑ Conducted follow-up reviews of recommendations contained in an external assessment of the Information Technology Division.
- ❑ Provided technical support to the OIG staff, including assistance in using statistical sampling and data inquiry software.
- ❑ Updated the OIG Policy Manual.
- ❑ Conducted quality assurance reviews of audit and investigation reports.
- ❑ Tracked the status of audit recommendations and monetary benefits.
- ❑ Managed the OIG's training program.



ANNEXES



REPORTS ISSUED

Audits

<u>Date</u>	<u>Report Number</u>	<u>Title</u>
07/01/02	OA 02-130	Library Plans
08/08/02	OA 02-131	Pre-Award Review of Parsons Brinckerhoff Construction Services Inc.
08/23/02	OA 02-132	Equipment Inventory Procedures
08/29/02	OA 02-133	Mentor Teacher Program
08/29/02	OA 02-134	Athletics Program, Sylmar High School
09/05/02	OA 02-135	Budget Adjustments
09/10/02	OA 02-136	Air Quality Management District Compliance
09/25/02	OA 02-137	Follow-Up Audit of Imprest Fund - Relocation Program
10/11/02	OA 02-138	Attendance Accounting, Annalee Avenue Elementary School
10/04/02	OA 02-139	Individualized Education Program Process
10/04/02	OA 02-140	Robert E. Peary Middle School
10/10/02	OA 02-141	Drug and Alcohol Testing Program
10/25/02	OA 02-142	Design Unit - New Facilities
10/25/02	OA 02-143	Progress Payments, Facilities Services Division
11/04/02	OA 02-144	Student Body Funds, Fremont Community Adult School
11/19/02	OA 02-145	School Financial Operations, Apperson Street School
11/22/02	OA 02-146	School Financial Operations, Alexander Hamilton High School
12/09/02	OA 02-147	Tobacco Use Prevention Education Program
12/23/02	OA 02-148	Financial Operations, Thomas Jefferson High School
12/23/02	OA 02-149	Financial Operations, Sun Valley Middle School
01/07/03	OA 02-150	Student Body Fund, Harding Street Elementary School
01/13/03	OA 03-151	Student Body & Imprest Funds, Nevada Avenue Elementary School
01/17/03	OA 03-152	Warrant Distribution Process
01/17/03	OA 03-153	Transportation Wet Line Fueling
02/07/03	OA 03-154	Earthquake Recovery Program
02/06/03	OA 03-155	Student Body Funds, Imprest Funds & Equipment, 75th Street Elementary School
02/10/03	OA 03-156	Budget & Budget Procedures, Sharp Avenue Elementary School
02/13/03	OA 03-157	Student Body Funds, Harbor Occupational Center
02/18/03	OA 03-158	Proposition BB Bond Change Order Process
02/24/03	OA 03-159	Financial Operations, Cheremoya Avenue Elementary School
02/24/03	OA 03-160	Individual Education Program Due Process
02/25/03	OA 03-161	Labor Compliance Program
03/05/03	OA 03-162	Financial Operations, Central/TRI-C Opportunity School
03/07/03	OA 03-163	Food Production and Inventory Management
03/11/03	OA 03-164	Follow-up Audit of Imprest Fund - Relocation Program
03/17/03	OA 03-165	Procurement Card Pilot Program
03/28/03	OA 03-166	Student Body and Imprest Funds and Equipment, Abram Friedman Occupational Center
04/03/03	OA 03-167	Financial Operations, Abraham Lincoln High School
04/22/03	OA 03-168	Financial Operations, Arroyo Seco Museum Magnet
04/23/03	OA 03-169	Facilities Vehicles
05/15/03	OA 03-170	Environmental Site Assessment
05/22/03	OA 03-171	Student Body Funds, North Valley Occupational Center

REPORTS ISSUED

Audits

<u>Date</u>	<u>Report Number</u>	<u>Title</u>
05/23/03	OA 03-172	Expenses of the Chanda Smith Consent Decree Office and the Administrators' Offices
05/29/03	OA 03-173	Student Body and Imprest Funds, Martin Luther King Jr. Elementary School
06/26/03	OA 03-174	Soda Sales Survey
06/26/03	OA 03-175	Follow-Up Audit of Psychological Services
06/30/03	OA 03-176	Bank Account Management

Contract Audits

<u>Date</u>	<u>Report Number</u>	<u>Title</u>
03/26/03	CA 03-001	Incurred Costs (Confidential)
05/13/03	CA 03-002	Incurred Costs (Confidential)
05/13/03	CA 03-003	Incurred Costs (Confidential)

REPORTS ISSUED

Investigations

<u>Date</u>	<u>Report Number</u>	<u>Title</u>
07/03/02	02-060	Senior Mechanic, Child Pornography
07/08/02	02-090	Library Aide, Violation of Acceptable Use Policy for the Internet
07/09/02	02-051	Brown Act Violation
07/15/02	02-115	Disturbances in two High Schools
07/18/02	02-076	Office Manager: Payroll Fraud
07/26/02	01-141	Elementary School: Textbook Theft
07/26/02	02-074	Middle School: Payroll Irregularities
08/06/02	02-012	SAA/Time Reporter: Payroll Fraud
08/07/02	02-150	Stanford 9 Testing
08/13/02	02-079	Elementary School: Violation of Policy
08/16/02	01-154	Rental of School Facilities to Entertainment Production Companies: Violations of Policies, Procedures, Regulations or Rules
08/21/02	02-093	Former Cafeteria Manager: Embezzlement of Funds (DA)
08/23/02	02-058	Principal: Payroll Fraud
08/26/02	02-092	Principal: Payroll Fraud
08/28/02	02-060B	Heavy Bus Driver: Adult Pornography
10/10/02	00-087	Overcharging on E-Rate Year 1 Projects
10/11/02	02-126	Office Assistant: Payroll Fraud
10/16/02	02-054	Traveling Playground Supervisor: Payroll Fraud
10/18/02	02-197	Contractor Due Diligence
10/31/02	02-117	Teacher: Payroll Fraud
11/14/02	02-215	Contractor Due Diligence
11/14/02	02-216	Contractor Due Diligence
12/03/02	02-172	Teacher: Violation of Policy, Regulations and Rules
12/11/02	01-152	Principal: Education Code Violation, Payroll Fraud
12/16/02	02-199	SAA: Payroll Fraud
12/16/02	02-186	21 st Century After School Program
12/20/02	02-111	Assistant Principal: Misuse of Property and Assets
01/13/03	02-116	Special Education Trainees: Payroll Fraud
01/13/03	02-032	Principal and Assistant Principal: Misapplication of Funds
01/14/03	PI-005	Construction of Elementary School: Possible Fraud, Unfair Bidding Practices
01/24/03	02-021	Professional Services Contracts (Facilities)
02/28/03	02-217	Development Company: Ethics Code Violation
03/07/03	02-163	Principal: Misappropriation of Funds
03/10/03	02-237	Elementary School: Ethics Policy Violation
03/18/03	02-221	Principal: Ethics Violation
03/26/03	02-167	Former Parent Center Director: Counterfeiting of School Documents
04/04/03	01-097	Use of Senior Facilities Executive Real Estate Consultants
04/07/03	02-165	Physical Outreach Program: False Documents
04/09/03	02-162	Former Principal: Violations of Policies, Procedures, Regulations or Rules
04/14/03	01-125	Eagles Academy: Embezzlement
04/18/03	03-026	Hostile Work Environment Allegations

REPORTS ISSUED

Investigations

<u>Date</u>	<u>Report Number</u>	<u>Title</u>
04/25/03	02-236	Procurement Services Group: Collusive Bidding
04/28/03	03-005	Christmas Party
04/30/03	03-069	Possible Contractor Fraud
05/02/03	02-164	Review of District Telephone Hotlines
05/12/03	02-081	Insurance Consultant: Conflict of Interest
05/15/03	02-153	Teachers: Policy Violation, Fraud
05/28/03	03-007	High School: Contractor Discrimination
06/02/03	02-017	Workers' Compensation
06/04/03	02-225	Cafeteria Vendor: Contract Fraud

REPORTS ISSUED

Special Reviews

<u>Date</u>	<u>Report Number</u>	<u>Title</u>
07/12/02	SR-142	Crisis Management Preparedness
08/08/02	02-147	3D/International, Inc.-URS Corporation Americas, A Joint Venture
11/04/02	02-077	Ethics Program
02/04/03	SR 02-112	Telecommunications Branch, Information Technology Division
02/27/03	SR 02-113	Corporate Donations to High School Athletic Teams
05/29/03	SR 03-04	Enrollment and Attendance at El Dorado Avenue School

Other

<u>Date</u>	<u>Report Number</u>	<u>Title</u>
10/04/02	*	Internal Compliance Audit, Title I Program
10/18/02	02-197	Tutor-Saliba Corporation (Contractor Due Diligence)
11/14/02	02-215	Emma Corporation (Contractor Due Diligence)
11/14/02	02-216	Thompson Pacific Construction, Inc. (Contractor Due Diligence)

* Performed by the accounting firm of Thompson, Cobb, Bazilio & Associates, P.C.

POTENTIAL MONETARY BENEFITS

The OIG is strongly committed to identifying and reducing waste, fraud, and abuse and to pointing out opportunities for achieving greater economy, efficiency, and effectiveness of operations, which could result in additional funds for use toward student achievement. By identifying and reporting the potential monetary benefits from audits, investigations, and special reviews, the OIG gives the District managers an additional incentive for implementing timely and effective corrective actions.

Generally, potential monetary benefits arise from recouping funds erroneously paid out; reducing the need for funds by reducing computed requirements; eliminating or reducing the scope of construction, renovation, and repair projects; terminating or reducing the scope of contracts for material or services which exceed current requirements; substituting less costly items to satisfy requirements; and reducing personnel and operating costs through program or consolidation, or use of more efficient methods.

The OIG classifies potential monetary benefits into two major categories – funds put to better use and questioned costs. Funds put to better use are recommendations or actions taken that will result in more efficient use of District funds. Questioned costs are primarily incurred on contracts, grants, and other forms of cooperative agreements. This category is typically used when the OIG recommends recoupment of funds. OIG investigations also may result in monetary benefits, such as fines, restitutions, and recoveries.

Measuring return on investment in any one year is difficult because the work of the OIG often involves multiyear efforts and the results recorded for a single year are heavily dependent on work initiated in prior years. **As a result, the OIG established a goal to maintain a \$5 to \$1 rolling average return on investment over a 5-year period. The OIG's rolling average for the 4-year period ended June 30, 2003 was \$15.4 to \$1 (\$401 million potential benefits/\$26 million OIG budgets).** During fiscal year 2003, the OIG, with assistance from consultants, identified approximately \$12.6 million of potential monetary benefits through its audits, investigations, and special reviews.

<u>Report Number</u>	<u>Report Title</u>	<u>Potential Monetary Benefits</u>	
		<u>Funds Put To Better Use</u>	<u>Questioned Costs</u>
OA 02-139	Individualized Education Program Compliance Process		\$250,000
OA 02-140	Robert E. Peary Middle School	\$6,048	
OA 02-148	Thomas Jefferson High School		\$62,698
OA 03-160	Individualized Education Program Due Process		\$2,540
OA 03-163	Food Production and		

<u>Report Number</u>	<u>Report Title</u>	<u>Potential Monetary Benefits</u>	
		<u>Funds Put To Better Use</u>	<u>Questioned Costs</u>
	Inventory Management	\$654,500	
OA 03-166	Abram Friedman Occupational Center	\$13,000	
OA 03-167	Abraham Lincoln High School		\$69,478
OA 03-171	North Valley Occupational Center	\$13,000	
OA 03-172	Chanda Smith Consent Decree		\$4,802
CA 03-001	Incurred Cost Audit (Confidential)		\$1,000,000
CA 03-002	Incurred Cost Audit (Confidential)		\$53,727
CA 03-003	Incurred Cost Audit (Confidential)		\$118,195
*	Internal Compliance Audit, Title I		\$1,880,435
**	Sales/Use Tax Review	\$491,694	
		<u>\$1,178,242</u>	<u>\$3,441,875</u>

* The OIG retained the accounting firm of Thompson, Cobb, Bazilio & Associates, P.C. to conduct an audit of the Title I Program.

** The OIG retained the accounting firm of Deloitte & Touche LLP to conduct a sales and use tax recovery study.

In addition to the above potential monetary benefits, confidential reports issued by the Office of the Investigations identified fines, restitutions, recoveries, and funds put to better use totaling \$7,987,094

Total Potential Monetary Benefits = \$12,607,211

**CHARTER
OFFICE OF THE INSPECTOR GENERAL**

Purposes

The Office has two interrelated purposes:

- To audit the District's records and record-keeping systems, identify deviations from proper business practices and recommend changes to the District's system of internal controls.
- To detect and prevent fraudulent or unethical behavior by District employees or firms doing business with the District, and to recommend necessary changes to the District's policies.

Scope of Work (Office of Audits)

- Prepare an annual audit plan based on an entity-wide risk assessment that considers risks related to compliance and internal control issues and District goals.
- Inform District management of identified risks so preventive actions can be taken.
- Working with District management and the District's independent auditor, review the District's mechanisms of financial controls and recommend cost-effective improvements.
- Develop appropriate procedures and training for audit staff.
- Review attendance, time reporting and financial records as necessary.
- Test whether enrollment and attendance records are correct.
- Test whether the managers of student body, imprest and cafeteria funds have followed proper procedures.
- Test whether schools (including Charter and Learn schools) have maintained adequate financial and personnel records.
- Audit the District's systems of electronic data processing (EDP).
- Perform operational reviews of District organizational units.
- Test whether BB bond funds are properly accounted for.
- Advise the Board of Education regarding effective methods of contracting, including the selection process and awarding of contracts.
- Test whether the District's records comply with grant compliance requirements.
- Advise the Board of Education regarding the appropriate level and kinds of resources needed to carry out the audit function, improve internal controls, and detect and prevent fraud.

Scope of Work (Office of Investigations)

- Develop procedures for the investigation or referral of alleged fraudulent or unethical activities.
- Conduct investigations and review investigations carried out by others, to detect and prevent waste, fraud and abuse in the District's programs and operations.
- Identify systemic issues and systemic steps that can be taken to reduce fraudulent or unethical activities.
- Manage the District's Fraud Hotline. Investigate or refer allegations made via the Fraud Hotline and via the Board Rule 133 process.

- Protect individuals who allege misconduct from retaliation to the extent allowed by law. Develop a Whistle Blower’s Protection Policy for Board consideration.
- Recommend remedies in situations where apparent fraudulent or unethical behavior has been found.
- Protect the due process rights of individuals and corporate entities that are accused of wrongdoing.
- Coordinate with appropriate offices and agencies when criminal activity is suspected.

Authority of the Inspector General

The Inspector General is authorized:

- To audit and investigate any and all functions within the District as well as private entities that do business with the District.
- To have full, free and unrestricted access to all LAUSD records, reports, audits, reviews, plans, projections, documents, files, contracts, memoranda, correspondence, data or information on audio/video/computer tape/disk, or other materials of LAUSD.
- If permitted by law, to 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 inquiry or investigation undertaken.
- To 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.
- To share information relating to possible criminal acts with appropriate law enforcement officials.

Qualifications and Term of Office of the Inspector General

The Inspector General shall have knowledge and experience in the following areas:

- Accounting and auditing
- Investigative techniques
- Criminal law, civil law, rules of evidence and expert witness matters
- Management of a professional staff

The following process shall be used to fill the Inspector General’s position:

- The Personnel Commission advertises the position and screens candidates.
- The Personnel Commission presents three to five candidates to the Business, Finance, Audit and Technology (“BFAT”) Committee or its successor(s).
- The BFAT Committee presents a recommended candidate to the Board of Education.

The Board of Education shall appoint the Inspector General for a three-year term. The appointment may be renewed at the Board’s discretion at three-year intervals.

Relationship to the Board of Education and the BFAT Committee

The Inspector General shall report to the Board of Education. He/she shall receive oversight from the BFAT Committee. The Inspector General shall present an annual work plan for the BFAT Committee's review and approval. He/she shall apprise Committee members of audits and investigations in progress at least quarterly and seek their approvals and recommendations as appropriate. The Inspector General shall keep the Board of Education and BFAT Committee fully and currently informed concerning reports of fraud and other serious problems, abuses, and deficiencies related to the administration of programs and operations.

The Inspector General may communicate directly with members of the BFAT Committee and/or the Board President regarding any issue that requires the immediate attention by the BFAT Committee or the Board of Education, whether they are informative in nature or requiring direction or approval.

When it is appropriate to discuss matters in closed session, the Inspector General may schedule such matters for closed session discussion with the BFAT Committee or the Board of Education.

The Board of Education shall schedule time as needed to hear concerns and recommendations of the Office of the Inspector General and responses of District management.

The Inspector General shall submit an annual report to the Board of Education by July 31 of each fiscal year. The report shall summarize the activities of the office during the preceding fiscal year.

The Board of Education and the BFAT Committee shall evaluate the Inspector General's performance on an annual basis. The evaluation shall be based on the Quality Standards for Federal Offices of Inspector General as well as the goals, strategies and performance measures contained in the strategic plan for the Office of the Inspector General.

Each spring, the Board of Education shall establish a fiscal-year budget for the Office of the Inspector General, taking into account the amount the Inspector General requests to perform his or her mission and the District's overall financial condition. The Board of Education may modify the OIG's budget during the course of the fiscal year as conditions warrant. The Superintendent and his or her staff have no authority to reduce the budget of the Office of the Inspector General without an express vote of the Board of Education.

Relationship to District Management

The Board of Education expects and encourages the Office of the Inspector General to be an independent voice that expresses its views without censorship by District management. The OIG is expected to develop its own annual priorities for approval by the BFAT Committee, identify problems within LAUSD or with its vendors, and where appropriate recommend solutions. The Board recognizes that the OIG and District management may not always agree regarding the OIG's priorities, analyses, or recommendations.

While fully supporting the independence of the OIG, the Board of Education also believes that District management and the OIG are parts of a single organization with a common purpose of improving education and using the District's resources wisely. The Board expects the OIG and District management to develop and maintain a relationship that is designed to further their common purpose. The OIG and District management are expected to meet regularly, discuss priorities, share

information and ideas, and seek agreement where possible so that the OIG's work can contribute most effectively to the District's primary objectives.

District management is responsible for the day-to-day management of District programs, which includes establishing and maintaining effective controls to ensure that: appropriate goals and objectives are met; resources are safeguarded; laws, regulations and policies are followed; and reliable data are obtained, maintained and fairly disclosed. District management is also responsible for establishing policies and systems of internal control that discourage fraudulent or unethical behavior.

The OIG is responsible, along with the District's external auditors, for reviewing and testing the District's internal control structure to ensure that resources are applied efficiently, economically and effectively. The OIG shall keep the Superintendent fully and currently informed concerning reports of fraud and other serious problems, abuses and deficiencies related to the administration of programs and operations.

District management is expected to communicate its agreement or disagreement with any recommendations made in OIG audits, and to track the implementation of recommendations with which it agrees. Similarly, District management is expected to track any actions it takes in response to OIG investigations. District management is responsible for reporting any allegations or evidence of misconduct to the Inspector General and for providing full information to the staff of the Office of the Inspector General about matters in which the Office has a legitimate interest. District management is expected to protect employees who contact the Inspector General and/or staff of the Office of the Inspector General from reprisal or threat of reprisal, unless the employee knowingly gave false information or gave information with willful disregard for its truth or falsity.

Role of Other Offices

The District's General Counsel is responsible for advising the Board of Education regarding its legal options in the pursuit of remedies against employees and contractors.

The LAUSD School Police and other Police agencies are responsible for investigating alleged crimes other than white-collar crime.

The LAUSD Office of Staff Relations is responsible for matters having to do with the District's labor agreements and providing advice regarding employee discipline.

The LAUSD Personnel Commission is responsible for investigating alleged violations of the classified merit system laws and rules.

The OIG will coordinate media contacts with the District's Director of Communications.

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

1-866-LAUDS-OIG

Write to us:

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

Website:

www.laoig.org