Annual Report
to the
Board of Education
Fiscal Year 2001
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, 2000 through June 30, 2001. This is my third Annual Report to the School Board.

The OIG conducts audits and investigations of the Los Angeles Unified School District’s (“School District”) programs and operations to detect and prevent waste, fraud, and abuse. We also work with School District managers to identify improved measures for managing the School District, ones that impose a common-sense, businesslike approach to fulfilling the public trust.

Whether through audits or investigations, the OIG is working to help the School District operate with new discipline and accountability. We work cooperatively with School District officials – but we are careful to maintain our independence. Our work helps advance the School District’s mission of educating all students to their maximum potential.

This reporting period has been a continuing time of transition for our office as we have made a number of organization and process changes to make sure that we provide the School Board, Superintendent, and School District managers with timely and valued services. For example, we created audit teams and aligned their audit responsibilities with the major functions within the School District, such as business and facilities. We also established a biannual audit-scheduling workshop. These organization and process changes will help the OIG do the right audit at the right time and at the right location – allowing the OIG to more effectively use its resources to support the School District leadership.

During fiscal year 2001, the OIG produced 28 formal audit reports containing 66 findings and 274 recommendations, conducted 9 special reviews and retained two private firms to conduct reviews of the School District’s payroll system and its implementation of the Chanda Smith Consent Decree. These reports identified about $80 million in potential monetary benefits as well as improved School District practices and operations. The OIG also issued 40 reports of investigations and referred 7 of these cases to prosecutive authorities. In addition, the OIG’s Fraud Hotline Center received 300 calls, and we conducted 18 Fraud Awareness Seminars.

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 School District. The OIG’s staff takes pride in this commitment. 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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## ANNEXES

A. Reports Issued
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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 School 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 School 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 Los Angeles Unified School District (“School District”) is unlike any other school district in the State of California. It has an OIG that comprises both auditors and investigators who have authority to examine any and all functions within the School District as well as those private entities that do business with the School District. Each day, the OIG staff searches for funds to put back into classrooms so that all students have a better opportunity to receive a quality education.

Evolution of the OIG
In August 1998, the Board of Education (“School Board”) began efforts to establish a credible and effective organization within the School District that had the primary mission of detecting and preventing waste, fraud, abuse, and mismanagement. As the starting point, the School District retained the accounting firm of KPMG LLP (“KPMG”) to review the operations of the then-Internal Audit Branch and to make recommendations on how to increase its effectiveness.

KPMG found significant deficiencies in the Internal Audit Branch, including an internal audit function that (i) was not properly structured to allow independent and objective reviews, (ii) had staff members who were not properly trained to perform their jobs, and (iii) did not use effective audit management techniques. As a result of KPMG’s findings, the School Board implemented a concept of combining auditors with investigators to form the Internal Audit and Special Investigations Unit, and initiated a nation-wide recruitment effort to locate a Director for the new Unit.

In January 1999, Don Mullinax became the first Director of the Internal Audit and Special Investigations Unit. Mr. Mullinax brought to the School District almost 20 years of experience in conducting audits and investigations of waste, fraud and abuse on a wide variety of government programs. He had most recently served as the Chief Investigator for the U.S. Senate Permanent Subcommittee on Investigations. Prior to his time on Capitol Hill, Mr. Mullinax served 15 years as an auditor with the Department of Defense.
On February 8, 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 Board Members highlighted that the Inspector General in his first year’s work restored integrity and professionalism to the processes of audit and investigation within the School District. The Board Members also emphasized that they wished to instill a culture of excellence and professionalism in all aspects of the mission of the School District and that an Inspector General-approach to detecting and preventing waste, fraud and abuse enhanced this culture of excellence.

**Reporting and Functional Relationships**

The OIG reports directly to the School Board. This reporting structure gives the OIG significant independence from School District managers.

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, frank recognition 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 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 School District managers.

The OIG consists of two offices – the Office of Audits and the Office of Investigations. The Office of Audits conducts audits of School 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.

The Office of Investigations conducts investigations of alleged waste, fraud and abuse or other illegal activities by School 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.
Authority and Responsibilities

The OIG has a Charter (see Annex D) that outlines its authority and responsibilities. Some of the key provisions of the Charter are the Inspector General is authorized:

- To audit and investigate any and all functions within the School District as well as private entities that do business with the School District.
- To have full, free and unrestricted access to all School 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 School District.
- 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 School Board.
- To share information relating to possible criminal acts with appropriate law enforcement officials.

In addition, the Inspector General is required to keep the School Board and Business, Finance, Audit and Technology 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 organizational structure and charter creates independence for the OIG both in fact and appearance.

OPERATIONAL PROCESSES

The following paragraphs detail the approach used to carry out the audit and investigative responsibilities of the OIG.

Office of Audits

The Office of Audits conducts comprehensive financial and performance audits of School 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 manner.

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 School District management officials to ensure that audit findings are accurate and fairly presented in the audit report. The OIG plans its audit coverage using a variety of factors, such as current and potential dollar impact, adequacy of internal control systems as indicated by a School District-wide risk assessment and other reviews, prior audit experience, and availability of audit resources.

The OIG performs primarily two types of audits:

Financial – These audits include financial statement and 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 Government Auditing Standards (often referred to as the generally accepted government auditing standards) provide auditing standards to help ensure accountability and to assist public officials and employees in carrying out their responsibilities. According to these standards,

“Officials and employees who manage [government] programs need to render an account of their activities to the public. While not always specified in law, this accountability concept is inherent in the governing process of this nation.”
“The need for accountability has caused a demand for more information about government programs and services. Public officials, legislators, and citizens want and need to know whether government funds are handled properly and in compliance with laws and regulations. They also want and need to know whether government organizations, programs, and services are achieving their purposes and whether these organizations are operating economically and efficiently.”

“Public officials and others entrusted with public resources are accountable both to the public and to other levels and branches of government for the resources provided to carry out government programs and services. Consequently, they should provide appropriate reports to those to whom they are accountable.”

“Audit of government reporting is an essential element of public control and responsibility. Auditing provides credibility to the information reported by or obtained from management through objectively acquiring and evaluating evidence.”

“To realize governmental accountability, the citizens, their elected representatives, and program managers need information to assess the integrity, performance, and stewardship of the government’s activities. Thus, unless legal restrictions or ethical considerations prevent it, audit reports should be available to the public . . .”

The audit process includes:

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

**Audit Notification.** The OIG notifies activity 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 activity 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.** After completion of the fieldwork, auditors submit tentative findings and recommendations to the administrator for review and comment.
**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 exit 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.

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

As a supplement to the audit function, the OIG also performs a limited number of special reviews. These reviews, which are not performed in accordance with generally accepted government auditing standards, are short-term management and program reviews that focus on issues of concern to the School Board, Superintendent, and senior staff. These reviews examine programs from a broader, more issue-oriented perspective than the traditional audits conducted by the OIG.

**Office of Investigations**

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

The investigative process usually begins with the receipt of an allegation of waste, fraud, abuse, or mismanagement. The Inspector General or Deputy Inspector General are the only individuals who 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 School District management, or if appropriate, referred to another investigative agency.

There is more involved with an investigation of possible wrongdoing, however, than just informing a local law enforcement agency and expecting the agency to immediately begin an investigation. An activity must provide the law enforcement agency with sufficient information to support pursuing prosecution. The OIG’s highly trained and experienced investigators conduct investigations in accordance with the guidelines established by the President’s Council on Integrity and Efficiency, U.S. Department of Justice, and Los Angeles County District Attorney’s Office.

After the OIG opens an investigation, 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 School District policies that may be involved. The investigator then conducts the
investigation, which may involve 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. 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
trial. At the conclusion of any court actions, the OIG advises the School District senior staff of the
court results and monitors any corrective or disciplinary actions that may be taken.

The OIG is also charged with fraud prevention as well as fraud detection. Toward this objective, the
OIG conducts a limited number of proactive reviews. These reviews focus on School District
programs and operations that may be vulnerable to fraud. Proactive investigations are broader-based
and systemic in nature. In addition, the OIG conducts Fraud Awareness Seminars to strengthen the
awareness of School District employees on areas vulnerable to fraud and abuse.

STATUTORY RESPONSIBILITIES

The California State Legislature passed legislation (Education Code Sections 35400 and 35401)
during its 2000 session that authorized the School District’s Inspector General to 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. Governor Gray Davis signed the legislation on September 26, 2000.

The legislation also provided that if the Inspector General determines that there is reasonable cause
to believe that an employee or outside agency has engaged in any illegal activity, he shall report the
nature and details of the activity on a timely basis to the local district attorney or the Attorney
General. Further, the legislation requires that every investigation be kept confidential, except that the
Inspector General may issue any report of an investigation that has been substantiated, keeping
confidential the identity of the individual or individuals involved, or release any findings resulting
from an investigation conducted pursuant to this article that is deemed necessary to serve the
interests of the district. In addition, the legislation requires that the Inspector General submit an
interim report to the California Legislature by July 1 of each year through 2004, and a final report by
December 1, 2004. These reports should include information on (i) the use and effectiveness of the
subpoena power in the successful completion of the Inspector General’s duties, (ii) any use of the
subpoena power in which the issued subpoena was quashed, including the basis for the court’s order,
and (iii) any referral to the local district attorney or the Attorney General where they declined to
investigate the matter further or declined to prosecute.

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.”

ASSESSMENT OF LAUSD RISKS

Since July 1999, the OIG has worked with the School Board to promote the effective implementation of much needed management reforms throughout the School District. These reforms included improving the school system’s financial management system, procurement practices, information technology structure, construction program, legal function, environmental policies, and transportation operations.

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 reforms and the use of new types of information to guide decisions. The following paragraphs highlight some risks – or challenges – that the OIG has been tracking for some time, but has seen only limited improvement.

Strategic Planning

The Superintendent of Schools (‘‘Superintendent’’) is in the process of developing a strategic plan. The Superintendent should be commended for embarking on this difficult task – a task that has been lacking for over 40 years. As of today, however, the School District does not have a strategic plan that outlines its mission, vision, values, goals, strategies, and performance measures. As a result, School District managers do not have a clear vision as to where the District is, where it is going, and how it is going to get there. Too often in the past, the School District has failed to manage on the basis of a clear understanding of the results expected to be achieved and how performance will be gauged. These understandings are vital because programs are designed and implemented in dynamic environments; competing program priorities and stakeholders’ needs must continuously be balanced and new needs addressed.

Information Technology

During fiscal year 2001, under the direction and leadership of the Superintendent, the School District began tackling the broad scope of problems in this area. The Superintendent took an important first step towards resolving a long-standing problem by recruiting and hiring a Chief Information Officer. The School 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 School District take the next steps in transforming its known
deficiencies into comprehensive, realistic corrective actions. It will take a focused, sustained effort if the School District is to fully resolve these challenges.

**Risk Management**

The School District needs to develop a formal risk management program, including a designated position of Risk Manager. Every organization, no matter how large or small, inherently possesses exposures to risk. A risk exposure is the possibility of loss or injury because of some peril or cause of a loss. Risk management is the management process of planning, organizing, staffing, leading, and controlling an organization’s resources to minimize the possibility of loss or injury from various causes of loss. Simply stated, risk management is the process of identifying and controlling an organization’s losses.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. However, because risk exposures exist in all areas of the organization, a comprehensive risk management program involves the risk management staff in accounting and finance, law, human resources, and all operations of the organization.²

The School 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 School District will be managed in a manner that will reasonably eliminate and/or control risks, thereby minimizing the total cost of risk to the School District. Toward this end, the School District should develop a risk management policy that reflects this philosophy and appoint a Risk Manager 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 School 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 School District.³

A well-conceived, comprehensive risk management program requires a significant commitment of time and resources by the organization. The cost of this organizational commitment, however, is 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. A risk management program will also result in increased productivity and improved employee morale.⁴

¹ http://www.sorm.state.tx.us/VolumeOne/121.htm.
² Id.
⁴ http://www.sorm.state.tx.us/VolumeOne/121.htm.
Budget Process

The School District recently began implementing meaningful changes in its budget process; however, the budget is not tied to performance to ensure that funds are spent in the most efficient and cost-effective manner.

The concept of linking performance information with the budget is commonly known as performance budgeting. Within the past 50 years, initiatives at the local, state, and federal levels of government as well as in other nations have sought to link performance expectations with specific budget amounts. In essence, the concept of performance budgeting assumes that a systematic presentation of performance information alongside budget amounts will improve budget decision-making by focusing funding choices on program results. Specifically, performance budgeting seeks to shift the focus of attention from detailed items of expense – such as salaries and travel – to the allocation of resources based on program goals and measured results.5

Performance budgeting initiatives have encountered many challenges. Key challenges include a lack of credible and useful performance information, difficulties in achieving consensus on goals and measures, dissimilarities in program and fund reporting structures, and limitations of information and accounting systems. Past initiatives have shown that performance budgeting cannot be viewed in simplistic terms – that is, resource allocation cannot be mechanically linked to results. The process of budgeting is inherently an exercise of political choice – allocating scarce resources among competing needs – in which performance information can be one, but not the only, factor underlying decisions. Ultimately, the promise of any performance budgeting initiative lies in its potential to more explicitly infuse performance information into budgetary deliberations, thereby changing the terms of debate from simple inputs to expected and actual results.6

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 expect to 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 School 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, the OIG recently began documenting how leading organizations consistently apply information technology to perform their payroll functions. With the assistance of an outside accounting firm, the OIG documented the “best practices” for payroll operations used across the nation by both public and private organizations. The outside firm also identified those “best practices” that would be feasible for implementing within the School District. These options were presented to the School Board, Superintendent, and Chief Financial Officer.

6 Id.
Personnel Management

The School District’s personnel management system needs to create a performance-oriented culture. Employees must be recognized as crucial to the School District success and their role considered through all stages of strategic planning and day-to-day business management. The School District also needs to identify the skills and other characteristics needed – among leaders and all other employees – to help achieve success, and make the appropriate investments to hire, develop, and retain people to ensure that these competencies are sustained. In addition, the School District needs to nurture an organizational culture that stresses results, accountability, teamwork, and employee involvement and empowerment so that employees will work together to achieve high performance.7

Leading organizations understand that effectively managing employees is essential to achieving results. Only when the right employees are on board and provided the training, tools, structure, incentives, and accountability to work effectively is organizational success possible. The rapid pace of social and technological change and shifts in School District strategies to achieve its mission pose continuing challenges to attract and develop skilled staff.

Effective implementation of performance management hinges on the ability to strategically manage all School District resources – financial, information technology, and people – to achieve organizational missions and goals. A useful first step for the School District would be to adopt a human capital focus – to put the spotlight on their human capital approaches in light of its mission, vision for the future, core values, goals, and strategies, in an effort to see whether it is managing its most important assets to its fullest advantage.8

The civil service system as a whole is still viewed by many as burdensome, unappealing to ambitious recruits, outdated, over-regulated, and inflexible. But the School District can do much to make the system work better – to empower employees and deliver better products and services to the schools and students. There is no law prohibiting the School District from creating mission and vision statements, from developing a strategic planning and performance measurement process, or from aligning most human capital policies and practices with its organizational mission and core values. Nor is the School District prohibited from establishing performance management systems that assess and reward employee performance in light of organizational goals and values. The School District is also free to make continuous learning a guiding principle. And it has a variety of formal and informal actions at its disposal to establish trust, respect, diversity, and fairness in the workplace.9

Contract Operations

The School District’s multi-billion dollar procurement program needs a single spokesperson for procurement policy. The School District also needs to create a contract administration function to ensure that contracts are effectively administered and monitored.

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8 Id.
9 Id.
Contract administration involves those activities performed by government officials after a contract has been awarded to determine how well the government and the contractor performed to meet the requirements of the contract. It encompasses all dealings between the government and the contractor from the time the contract is awarded until the work has been completed and accepted or the contract terminated, payment has been made, and disputes have been resolved. As such, contract administration constitutes that primary part of the procurement process that assures the government gets what it paid for.\textsuperscript{10}

Several weaknesses have been identified in contract administration practices used by government agencies, and the School District is not exempt from these weaknesses. The principal problem is that contracting officials often allocate more time to awarding contracts rather than administering existing contracts. This often leads to problems in contractor performance, cost overruns, and delays in receiving goods and services.\textsuperscript{11}

Several other deficiencies have been noted such as unclear roles and responsibilities of the contractor officer’s technical representatives (“COTR”), excessive backlog in contract closeout and incurred costs audits, improperly trained officials performing contract oversight, unclear statements of work that hinder contractor performance, and inadequate guidance on voucher processing and contract closeout.\textsuperscript{12}

In contract administration, the focus is on obtaining supplies and services, of requisite quality, on time, and within budget. While the legal requirements of the contract are determinative of the proper course of action of government officials in administering a contract, the exercise of skill and judgment is often required in order to effectively protect the public interest.\textsuperscript{13}

The specific nature and extent of contract administration varies from contract to contract. It can range from the minimum acceptance of a delivery and payment to the contractor to extensive involvement by program, audit and procurement officials throughout the contract term. Factors influencing the degree of contract administration include the nature of the work, the type of contract, and the experience and commitment of the personnel involved. Contract administration starts with developing clear, concise performance based statements of work to the extent possible, and preparing a contract administration plan that cost effectively measures the contractor’s performance and provides documentation to pay accordingly.\textsuperscript{14}

Post award orientation, either by conference, letter, or some other form of communication, should be the beginning of the actual process of good contract administration. This communication process can be a useful tool that helps government and contractor achieve a clear and mutual understanding of the contract requirements, helps the contractor understand the roles and responsibilities of the government officials who will administer the contract, and reduces future problems. It is helpful to have a pre-meeting with applicable program and contracting officials prior to the post award

\textsuperscript{10} \text{http://www.arnet.gov/Library/OFPP/Best.}
\textsuperscript{11} \text{Id.}
\textsuperscript{12} \text{Id.}
\textsuperscript{13} \text{Id.}
\textsuperscript{14} \text{Id.}
orientation conference so that there is a clear understanding of their specific responsibilities and restrictions in administering the contract. Items that should be discussed at the pre-meeting include such things as the authority of government personnel who will administer the contract, quality control and testing, the specific contract deliverable requirements, special contract provisions, the government’s procedures for monitoring and measuring performance, contractor billing, voucher approval, and payment procedures.15

Good contract administration assures that the end users are satisfied with the product or service being obtained under the contract. One way to accomplish customer satisfaction is to obtain input directly from the customers through the use of customer satisfaction surveys. These surveys help to improve contractor performance because the feedback can be used to notify the contractor when specified aspects of the contract are not being met. In addition, the contracting and program officials can use the information as a source of past performance information on subsequent contract awards. Customer satisfaction surveys also help to improve communication between the procurement, program, and contractor personnel.16

Government agencies are becoming increasingly aware of the importance of proper contract administration in ensuring the maximum return on contract dollars. The COTR plays a critical role in affecting the outcome of the contract administration process. The technical administration of government contracts is an essential activity. It is absolutely essential that those entrusted with the duty to ensure that the government gets all it has bargained for must be competent in the practices of contract administration and aware of and faithful to the contents and limits of their delegation of authority from the contracting officer. The COTR functions as the “eyes and ears” of the contracting officer, monitoring technical performance and reporting any potential or actual problems to the contracting officer. It is imperative that the COTR stay in close communication with the contracting officer, relaying any information that may affect contractual commitments and requirements.17

**Summary**

Left unresolved, the above risks or challenges could expose the School District programs and operations to unnecessary risk, excessive costs, and chronic performance shortfalls. Resolving some of these challenges offers the potential to save millions of dollars and dramatically improve the delivery of services to schools and students. The OIG is committed to assisting the School Board, Superintendent, and School District managers in addressing these challenges in a collaborative fashion as well as helping enhance the public’s respect for and confidence in our school system.

**DESCRIPTION OF STRATEGIES TO ADDRESS RISKS**

A common lesson of management reform is that change does not come quickly or easily. Old ways of doing business must be critically reexamined and new approaches have to be developed and institutionalized.

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15 Id.
16 Id.
17 Id.
Other government oversight agencies have reported on management issues that are particularly important initiatives that genuinely take root and eventually resolve the problems they are intended to fix. The following paragraphs were taken almost entirely from a report by the U.S. General Accounting Office and applied to the circumstances at the School District. Specifically, in the context of the School District, these management elements are (1) a demonstrated leadership commitment and accountability for change; (2) the integration of management improvement initiatives into programmatic decision making; (3) thoughtful and rigorous planning to guide decisions, particularly to address human capital and information technology issues; (4) employee involvement to elicit ideas and build commitment and accountability; and (5) strong and continuing involvement by the School Board.

**Commitment**

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. Organizations that successfully address their long-standing management weaknesses do not “staff out” responsibility for leading change. Top leadership involvement and clear lines of accountability for making management improvements are critical to overcoming organizations’ 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.\(^{18}\)

Sustaining top leadership commitment to improvement is particularly challenging in the School District because of the frequent turnover of senior staff. For example, in just the past 6 years the School District has had four Superintendents, five Chief Administrative Officers [or Chief Operating Officers], three Chief Financial Officers, five General Managers of the Facilities Services Division, six Directors of the Environmental Health and Safety Branch, and four Chief Technology Officers. As a result, sustaining improvement initiatives requires commitment and leadership by the School Board.

**Integration**

Traditionally, the danger to any management reform is that it can become a hollow, paper-driven exercise where management improvement initiatives are not integrated into the day-to-day activities of the organization. Thus, successful organizations recognize – and implement reform efforts on the basis of – the essential connection between sound management and the programmatic results those organizations hope to achieve.\(^{19}\)

The School Board needs a mechanism for making this essential connection, engaging the Board Members and the Superintendent in a discussion of how and when management problems will be addressed, and helping to pinpoint additional efforts that may be needed. Other government agencies have found that annual performance plans that include precise and measurable goals for resolving mission-critical management problems are important to ensuring that agencies have the institutional

\(^{18}\) Management Reform: Elements of Successful Improvement Initiatives (GAO/T-GGD-00-26, October 15,1999).

\(^{19}\) Id.
capacity to achieve their more results-oriented programmatic goals. Moreover, by using annual performance plans to set goals to address management weaknesses, agencies provide themselves with a vehicle – the subsequent agency performance reports – for tracking progress in addressing management problems and considering what, if any, additional efforts are needed.\footnote{20}

**Planning**

The magnitude of the challenges that many agencies face in addressing their management weaknesses necessitates substantive planning be done to establish (1) clear goals and objectives for the improvement initiative, (2) the concrete management improvement steps that will be taken, (3) key milestones that will be used to track the implementation status, and (4) the cost and performance data that will be used to gauge overall progress in addressing identified weaknesses. Prior reviews of government entities have found the effective use of human capital and information technology – both separately and, importantly, as they relate to one another – are areas where thoughtful and rigorous planning is needed if fundamental management improvements are to be made.\footnote{21}

**Employee Involvement**

Successful management improvement efforts require the active involvement of managers and staff throughout the organization to provide ideas for improvements and supply the energy and expertise needed to implement changes. Employees at all levels of high-performing organizations participate in – and have a stake in – improving operational and program performance to achieve results. Government oversight agencies have found that high-performing organizations use a number of strategies and techniques to effectively involve employees, including (1) fostering a performance-oriented culture, (2) providing the training that staff need to work effectively, and (3) developing authority while focusing accountability on results.\footnote{22}

Fostering a performance-oriented culture requires agency management to communicate with staff throughout the organization to involve them in the process of designing and implementing change. Setting improvement goals is an important step in getting organizations across the government to engage seriously in the difficult task of change. The central features of strategic planning, performance measurement, and public reporting and accountability can serve as powerful tools to help change the basic culture of the School District. Involving employees in developing and implementing these goals and measures can help direct a diverse array of actions to improve performance and achieve results.\footnote{23}

Employees in high-performing organizations understand the importance of and the connection between their performance and the organization’s success. The failure to constructively involve staff in an organization’s improvement efforts means running the risk that the changes will be more difficult and protracted than necessary. Employees’ capabilities play an important role in achieving performance improvements, and training is a key factor enabling employee involvement. Agencies

\footnotesize{20 Id.  
21 Id.  
22 Id.  
23 Id.}
High-performing organizations also seek to involve and engage employees by devolving authority to lower levels of the organization. Employees are more likely to support changes when they have the necessary amount of authority and flexibility – along with commensurate accountability and incentives – to advance the agency’s goals and improve performance. Allowing employees to bring their expertise and judgment to bear in meeting their responsibilities can help agencies capitalize on their employees’ talents, leading to more effective and efficient operations and improved customer service.25

**Board of Education**

Finally, the School Board plays a critical role in management improvement efforts throughout the School District through its policy development and oversight capacities. The School Board should establish a framework consisting of requirements for goal-setting and performance measurement, financial management, and information technology management, all aimed at improving the performance, management, and accountability throughout the school system. Through the enactment of such a framework and a strong and continuing commitment to implement the framework, the School Board can serve as an institutional champion for improving the management within the school system, providing a consistent focus for oversight and reinforcement of important policies.26

The School Board, in its oversight role, can monitor management improvement initiatives and provide the continuing attention necessary for reform initiatives to be carried through to their successful completion. Information in department plans and reports, high quality financial and program cost data, and other related information can help the School Board in targeting its oversight efforts and identifying opportunities for additional improvements in department management. In this regard, the School Board can use its committee structure to hold augmented oversight meetings on each major department. The committees could examine, for example, the degree to which departments are building the elements of successful management improvement initiatives into their respective management reform efforts. Such meetings would further underscore for departments the importance that the School Board places on creating a high-performing school system.27

In summary, serious and disciplined efforts are needed to attack the risks confronting the School District. Experience has shown that when the elements discussed above are in place, lasting management reforms are more likely to be implemented that ultimately lead to improvements in the performance and cost-efficiency of an organization.28

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24 Id.
25 Id.
26 Id.
27 Id.
28 Id.
OIG PROACTIVE INITIATIVES

The OIG role within the School 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. Such enforcement has been and remains a key role of the OIG. After all, wrongdoers must be identified and removed from continued abuse of School District programs, and their ill-gotten gains returned. Thus, individual audits and investigations serve critical functions – to protect the fiscal integrity of programs and to deter other would-be abusers.

The OIG, however, is keenly aware that its Charter directs the Inspector General to prevent as well as detect waste, fraud and abuse in programs. Preventive efforts can amplify the effectiveness of OIG activities by instituting regulatory and operational change in a given program or operation. We are proud that over the past 2 years we have redoubled our commitment to activities designed not just to uncover existing fraud and abuse, but to avoid it. Most of these efforts, described briefly below, are based on the realization that the School District, alone, cannot solve the problems of waste, fraud and abuse. Instead, we must inform and educate School District employees, contractors, and the public and enlist their help in avoiding impropriety. For example:

- State Controller Audit – At the request of the Chief Financial Officer, provided assistance in responding to the State Controller’s audit of excused absences.

- Payroll Best Practices – Retained a “Big Five” accounting firm to identify payroll best practices in private and public agencies that possibly could be implemented within the School District.

- Accounts Payable – Worked closely with the Superintendent’s designee to improve the accounts payable process.

- Bus Operations – Provided meaningful recommendations to the Business Manager to help better manage the efficiency and effectiveness of school bus operations.

- Office of General Counsel – At the General Counsel’s request, documented the weaknesses within the General Counsel Office and provided meaningful recommendations for improving the office operations.

- Imprest Fund – At the Controller’s request, provided advice on increasing authorized amounts for imprest funds.

- Restitution Process – Documented the weaknesses in the School District’s restitution process and made meaningful recommendations for improving the process.

- Debarment Policy – Drafted a debarment policy.

- Code of Ethics – Drafted a revised and more comprehensive code of ethics.
• Whistleblower Protection Policy – Drafted a whistleblower protection policy.

• Conflict of Interest Policy – Assisted the General Counsel in revising the School District’s conflict of interest policy and reporting requirements.

• Fraud Awareness Seminars – At the request of School District staff, the Inspector General personally conducted seminars on how to identify, report and reduce waste, fraud and abuse in school operations. Attendees included local superintendents, local business managers, principals, assistant principals, financial managers, cafeteria managers, school administrative assistants, and office assistants.

• Travel Policy – Dedicated two members of the OIG staff to work with School District officials in developing a more efficient and effective travel policy.

As shown by the above activities, the OIG is committed to assisting School District managers and staff in addressing their daily challenges. The OIG is working diligently to identify improved measures for managing operations, ones that impose a common-sense, businesslike approach to fulfilling the public trust. These measures will help the School District operate with new discipline and accountability.

BUDGET AND PERSONNEL

The OIG’s budget for fiscal year 2000 was $6,347,111 and included 63 authorized positions. For fiscal year 2001, the OIG submitted a budget request of $6,326,420. The Chief Financial Officer, however, imposed a 10-percent budget reduction for most School District offices. As a result, the OIG’s budget was reduced by about $680,000 to $5,646,390. At mid-year, the School Board approved a budget supplement of about $463,000 for the OIG, which also included an increase in the staffing level to 70 positions. In addition, during the fiscal year, the OIG hired 13 new employees, promoted 13 employees, and 9 employees either resigned or retired. For fiscal year 2002, the OIG submitted a budget request of $6,743,232.

SENIOR OIG STAFF

Inspector General
1/19/99 – present: Don Mullinax

Deputy Inspector General
1/04/00 – present: Samuel Stanton

Assistant Inspector General for Audits
11/02/00 – present Robert Kasper

Assistant Inspector General for Investigations
4/09/01 – present Jerry Thornton
11/13/00 – 4/06/01 Al Dovetko
LEGAL SUPPORT

Holland & Knight LLP

On September 1, 2000, the OIG retained the law firm of Holland & Knight LLP (“Holland & Knight”) to provide advice and counsel regarding audits, investigations and general day-to-day office operations. Holland & Knight made significant contributions to the OIG’s operations as well as to the School District. Some of the law firm’s efforts included either drafting, reviewing or giving advice on:

- Special Review of School Police Department
- Special Review of Office of General Counsel
- Special Review of Restitution Process
- Code of Ethics
- Contractor’s Code of Ethics
- Lobbyist Registration Code
- Debarment Policy
- Whistleblower Protection Policy
- Conflict of Interest and Financial Disclosure Code
- Subpoena Manual
- Audits of Nonpublic Schools
- Audit of Proposition BB Bond Change Order Process
- Audit of the Real Estate Branch
- Report to the State Legislature on the Use and Effectiveness of Subpoena Authority

Holland & Knight also showed a serious commitment to the children of the School District through its Opening Doors for Children program. This program focuses resources toward improving the lives of children, from birth through high school graduation, employing innovative volunteer programs. In October 2000, Holland & Knight volunteers formed a partnership with the School District’s Esperanza Elementary School. The partnership began with an office-wide book drive for the school, which resulted in collecting 1,284 new books for the school children. The volunteers also began a tutoring program for students with special needs. In addition, Holland & Knight established a Reading is Fundamental program within the school to ensure that every child has books at home for family reading time.

Sidley & Austin

On March 14, 2000, the OIG retained the law firm of Sidley & Austin, on a pro bono basis, to provide advice and counsel regarding OIG operations. Sidley & Austin has a long tradition of providing pro bono services. The firm’s pro bono policy strongly urges all attorneys to devote time to pro bono matters, including legal assistance to charitable, religious, civic, community, governmental, professional or educational organizations, which would otherwise be unable to afford legal representation. Over the past decade, Sidley & Austin has received special awards and recognition for its pro bono work from numerous groups, including the State Bar of California and
the Los Angeles Public Counsel. Some of the law firm’s pro bono services for the OIG included giving advice on the Special Reviews of School Police Department, Office of General Counsel, and Restitution Process. In addition, the firm gave extensive legal guidance on a sensitive investigation of a major vendor.

**TRAINING**

The training courses received by OIG personnel during fiscal year 2001 are summarized below:

<table>
<thead>
<tr>
<th>Type of Training</th>
<th>Number of Courses Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit</td>
<td>11</td>
</tr>
<tr>
<td>Investigative</td>
<td>5</td>
</tr>
<tr>
<td>Information Technology</td>
<td>9</td>
</tr>
<tr>
<td>General Management/Administrative</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total Training Courses</strong></td>
<td><strong>34</strong></td>
</tr>
</tbody>
</table>

**EXTERNAL EVALUATION OF OIG**

The School Board retained KPMG LLP (“KPMG”) to assist in fulfilling its obligation to review the performance of the OIG. As part of the review, the School Board requested that KPMG prepare and present a public report containing information and recommendations regarding the functions performed by the OIG, the School District’s utilization of OIG recommendations, and ways to use OIG and School District resources jointly and effectively to improve the School District’s financial and management controls and processes.

KPMG based its report on the Quality Standards for Federal Offices of Inspector General, the Institute of Internal Auditors’ Standards and the goals, strategies and performance measures contained in the OIG’s strategic plan. KPMG reported that during the term of Don Mullinax (Inspector General), many changes had occurred that had a positive effect on the OIG and the School District. KPMG further reported that since taking office, Mr. Mullinax had addressed nearly all of the recommendations made by KPMG in its 1999 report on the then-Internal Audit Branch. According to KPMG, the OIG had developed a greater sense of pride and professionalism, and this level of professionalism was exhibited in the credibility of the reports issued by the OIG. Several of the OIG’s strengths and accomplishments identified by KPMG are highlighted below.

**Overall Strengths and Accomplishments**

KPMG found that the Inspector General and the functions within his office had appropriate authority levels effectively accomplish the mission. Also, the internal audit plans for fiscal years 2000 and 2001 were based on a risk assessment with audit priority placed on high impact/high probability risks. KPMG further reported that the OIG had developed written policies and procedures manuals.

While KPMG acknowledged that many positive changes had occurred, KPMG reported that opportunities for improvement remained both within the OIG and in the dynamics of the relationship
between the OIG and the rest of the School District. KPMG reported that the OIG, the School Board and School District management needed to work together to find the most beneficial role for the OIG while maintaining the required independent perspective. KPMG emphasized that communication and cooperation must be real, not perfunctory, on the part of all parties to extract the greatest benefit from the audit and investigation functions. KPMG concluded that ultimately, the success of the OIG is in the hands of the School Board and School District management as they hold the final responsibility for improving the efficiency and effectiveness of the School District. KPMG identified several opportunities for improvement, which are highlighted below.

**Overall Opportunities For Improvement**

*Communication and Reporting Protocol (High Priority)*

One of KPMG’s primary concerns was the incremental risk created when observations and findings were publicly communicated. KPMG reported that how issues are framed to the public in the light of School Board priorities and School District resources could have a significant impact on the public perception of the school system. KPMG further found that risk also had been increased by the negative tone of reports through an identification of issues with no recognition of strengths noted. KPMG concluded that identification of and adherence to certain rules for communication between the OIG, the School Board, senior management, and the public could enhance the effectiveness of the OIG.

KPMG recommended that:

- A clear understanding and protocol should be established among the OIG, top School District management, the School Board, and the Business, Finance, Audit and Technology Committee related to the following:
  - Communication of projects and investigations underway
  - Review of draft reports
  - Obtaining an accepted plan of action
  - Issuing press releases
  - Responding to media questions requests

- Strengths should be communicated as well as weaknesses in audit reports.

- Management’s responses, preferably in the form of an agreed-upon anticipated action plan with identified responsibilities and expected timelines, should be included and readily identifiable.

*Risk Assessment and Audit Targeting (High Priority)*

During KPMG’s review of the risk assessment and audit plan, it noted that the risk assessment did not explicitly identify the participation of School District management and the School Board in determination of the risk ranking. KPMG reported that while the OIG indicated the School Board and School District management were given the opportunity to review the assessment and plan, it did
not appear that they participated enough to embrace the assessment and subsequent audit plan as a guide to their efforts to improve the School District. KPMG concluded that failure to align the audit plan with School District priorities and resources could result in reduced audit effectiveness and efficiency.

KPMG also found that audit activities appeared to be heavily concentrated on compliance issues and reported that while addressing compliance issues is vital to organizations that have made substantial efforts in establishing policies and procedures, it has less benefit to an organization that is redefining basic organizational strategy and performance goal setting and monitoring issues.

KPMG recommended that the OIG:

- Align the audit plan with the priorities and resources of the School District and the OIG.
- Tailor the audit plan to assist management in establishing business processes and procedures that may be worthy of future compliance testing.

**Audit Execution (Medium Priority)**

During KPMG’s review of individual audits and their execution and the survey responses for both audit staff and customers, KPMG noted several issues related to the auditors knowledge of School District policies and procedures as well as industry practices. KPMG also found that many of the school-focused audits appeared to address only the compliance issues and not the underlying performance issues that contributed to noncompliance. Finally, KPMG reported that all audits should have clearly identified agreed-upon recommendations for program, procedure and policy improvements, as well as an implementation plan with identified responsible parties.

KPMG recommended that the OIG:

- Continue to develop the audit staff’s knowledge of School District programs, policies and procedures by training existing staff and hiring appropriately skilled employees.
- Continue to develop the audit staff’s knowledge of entity functions and industry practices.
- Develop audit plans that address the root causes of noncompliance and offer recommendations targeted at the root causes.
- Clearly address recommendations and management implementation plans with identification of responsible parties and timelines for completion.

**Adequacy of Resources (Medium Priority)**

KPMG found that while the overall budget and staffing of the OIG appeared to be reasonable given the size and complexity of the School District, the skill sets of the audit field staff limit the types of
audits that can be performed and the ability of the OIG to provide meaningful recommendations for improvement.

KPMG recommended that:

- Existing staff should be trained on specific functional areas in order to become familiar with industry practices and available solutions.

- Resources should be reallocated to make available appropriate subject matter experts for performance-oriented process improvement audits.

**Follow-Up on Internal Audit Findings (Medium Priority)**

KPMG found that the OIG had not performed consistent, systematized formal follow-up on significant findings and recommendations such as tracking and reporting to the School Board the status of management’s implementation plan.

KPMG recommended that the OIG:

- Implement the policy on internal audit follow-up that became effective November 1, 2000.

- Develop a tracking mechanism to ensure the timeliness and completeness of the follow-up process. Document and track the results of the follow-up.

- Report results to the School Board and Business, Finance, Audit and Technology Committee members on a periodic basis.

**Budget Monitoring (Medium Priority)**

KPMG found that the OIG had made some improvements in monitoring audit budgets such as tracking actual hours spent on a project. However, KPMG found that the overwhelming majority of audits continue to be over budget.

KPMG recommended that:

- Each section within an audit should have a budget assigned. Staff should be responsible for tracking their hours and reporting them to the supervisor/manager. The manager should use this information to monitor the timely completion of the audit.

- Audit budgets and timing should be evaluated during the planning phase of the audit when the scope is determined. At this point, the use of a Project Change Form would be appropriate. However, after the planning phase, the use of Project Change Forms should be minimized. Otherwise, they appear only as justifications for inefficiencies during the audit.
• The OIG consider monitoring their progress against the original budget and original timing dates to get a better sense of whether they are meeting their goals as originally planned.

**OIG Charter (Medium Priority)**

In reviewing the Charter, KPMG noted that the term of the Inspector General was shorter than the term of the School Board members. KPMG concluded that this could diminish the Inspector General’s ability to maintain an independent attitude. KPMG also found that while the Charter mentions the need for the OIG to work with School District management, it did not specify the nature of the relationship. Finally, KPMG reported that the Charter provides no requirement for the OIG to separately develop and implement a proactive investigations strategy.

KPMG recommended that the Charter should be amended to:

• Lengthen the term of the Inspector General to one year longer than the term of the School Board.

• Clarify the operating relationship between the OIG and School District management and the School Board’s expectations for aligning the interest of the two parties.

• Clarify the scope of activities that the OIG is expected to perform, guided by an entity-wide risk assessment that considers the risks related to compliance and internal control issues. The Charter should also include the expectation that the OIG should be proactive and future-oriented.

**FISCAL YEAR 2002 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.

The OIG must allocate its resources in a manner that gives sufficient coverage to the risks confronting the School District. The term “risk,” as referred in this process, is the probability that an event or action may adversely affect the School 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 School District’s reputation;
• Failure to adhere to School 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 School District programs or operations.

The first phase of conducting a risk assessment is to identify and catalog the School District’s auditable activities, or what may be referred to as the audit universe. The School District’s audit universe consists of those subjects, functions, or systems that are capable of being defined and evaluated. Auditable activities may include policies, procedures and practices; cost centers; information systems; major contracts; organizational units; functions such as purchasing, finance and accounting; and transaction systems such as payroll and disbursements.

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 2001, the OIG identified 244 auditable activities. The Annual Work Plan for fiscal year 2002 contains 47 new projects, 4 follow-up audits, and several proactive investigations and special reviews. The OIG’s Work Plan for fiscal year 2002 can be accessed via our website.

The Work Plan contains six chapters that encompass the various projects that are to be addressed during fiscal year 2002. The projects are segregated by major functions within the School District – Business and Finance, Facilities Services, School Operations/Information Technology, and Special Projects (embraces those projects related to issues which cut across District programs). The final two chapters focus on investigations and special reviews.

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 Board of Education, Superintendent, Local District Superintendents, 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.lausd.k12.ca.us/lausd/offices/IG) 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 an Assistant Inspector General for Audits (“AIGA”) and four Audit Managers. The Audit Managers are segregated by major school functions, such as business, facilities, and school operations.

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. They are also the focal points with School 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 LAUSD 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 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 3.8 out of a possible score of 5.0 (the range was 2.6 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 School District agreed with 257 of the 274 audit recommendations (94 percent) made by the OIG. This was an improvement from fiscal year 2000, when the School District agreed with only 84 percent of audit recommendations.

- Average time required to complete projects.
  
  The OIG averaged 199 days to complete its 41 audit reports. This is a 20 percent improvement from fiscal year 2000 (average was 237 days). The OIG’s goal for fiscal year 2002 is an average of 165 days.

- Percent of Annual Work Plan projects initiated.
  
  The OIG initiated 67 percent of the projects identified in its annual work plan. The OIG’s goal for fiscal year 2002 is to initiate at least 80 percent of its projects.

- Return on investment.
  
  As shown at Annex C, the OIG’s return on investment was $13 to $1 ($79,928,831 potential monetary benefits/$6,106,390 OIG budget).

GOAL: Develop a world-class workforce.

Performance Measures:

- Employee satisfaction surveys.
  
  The OIG employee satisfaction survey conducted during the year showed that for the nine survey categories, ratings improved in four and remained generally the same in the other five. Survey categories included areas such as work environment, sexual harassment, equal employment opportunity, training and development, and leadership.
• Customer satisfaction with OIG staff.

The assigned overall rating on satisfaction surveys by the OIG’s customers averaged 3.8 out of a possible score of 5.0 (the range was 2.6 to 5.0).

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

65 percent of OIG staff have advanced degrees, certifications and/or participate in professional organizations. During the year, 22 OIG staff members joined the Association of Government Auditors and 2 staff members received two certifications each – Certified Internal Auditor and Certified Government Auditing Professional.

**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 converted from a manual to an automated working paper system, purchased and regularly used data analysis software (ACL), installed two local area networks, and established an OIG website.

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

The OIG developed 50 percent of its formal audit reports using advanced technologies, methodologies, and applications.

• Employees’ satisfaction with information technology.

The OIG employee satisfaction survey showed that information technology received a score of 4.5 out of a highest possible score of 5.0. This score was a significant improvement of the 1.7 score received 2 years ago.

**GOAL:** Improve the economy, efficiency, and effectiveness of School 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 C, the OIG reported total potential monetary benefits of $79,928,831.
• Number of reports or products containing recommendations that improve the economy, efficiency, or effectiveness of School District programs or operations.

Of the OIG’s 28 formal audit reports, 20 contained recommendations that improved the economy, efficiency, or effectiveness of School District programs or operations.

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

50 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 recently developed an audit recommendation tracking system so that we can track the progress of corrective actions. The Government Auditing Standards emphasize the importance of follow-up on significant findings and recommendations from prior audits to determine if corrective actions have been implemented. In this regard, we plan to add a performance measure for fiscal year 2002 to measure the percentage of audit recommendations implemented. We strongly believe that this will be a valid measure of our worth because it is an outcome measure. Audit findings and recommendations do not produce the desired outcomes unless they are implemented. Moreover, we will continue to work towards process improvements in measuring our productivity and performance.

CREDENTIALS AND QUALIFICATIONS

The Office of Audits is comprised of 45 auditors. Auditors have 4-year degrees from an accredited college or university. Many of our auditors also 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

In addition, members of our staff are active in professional organizations, such as the American Institute of Certified Public Accountants, Institute of Internal Auditors, Association of Government Accountants, National Association of Local Government Auditors, Association of Certified Fraud Examiners, and Information Systems Audit and Control Association.

EXTERNAL TECHNICAL ASSISTANCE

The 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 2001 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 the accounting firm of Deloitte & Touche LLP (“Deloitte & Touche”) 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).

Deloitte & Touche also assisted the OIG in developing its annual work plan by participating in a business risk assessment of the School District. Specifically, Deloitte & Touche reviewed the audit universe of all auditable areas of the School District, developed a risk control model to assist in identifying areas of exposure, completed a risk matrix for each item in the audit universe, and assisted the OIG in prioritizing the audit universe based on the results of the risk matrix scores.

SIGNIFICANT AUDITS AND SPECIAL REVIEWS

The Office of Audits issued 28 formal audit reports and 13 memorandum reports during fiscal year 2001. Audits performed were conducted as part of our fiscal year 2001 work plan or because of emerging issues requiring our immediate attention. Our audit reports recommended to School 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.lausd.k12.ca.us/lausd/offices/IG. The following paragraphs contain summaries of our more significant audits and special reviews.

Partial Day Attendance in Secondary Schools

This audit disclosed that principals and teachers reported some students absent for the entire day even though the students were present for part of the day. This condition occurred because (i) laws and regulations were not clearly incorporated into School District policies, (ii) principals and teachers were not fully informed on how to accurately record partial day attendance, and (iii) attendance personnel did not follow-up and correct student absences when students attended other classes. As a result, the School District may have incorrectly reported apportionment attendance during fiscal year 1999. (OA 00-21)
School Bus Operations

This audit found that the School District could further strengthen the effectiveness and efficiency of its bus operations. Specifically, the Transportation Branch did not (i) establish regional cost measures to evaluate the financial performance of its regional offices, (ii) prepare budgets at the regional office or section level, (iii) have adequate segregation of duties and supervision within the safety and maintenance area, and (iv) have an adequate process for gathering ridership surveys and did not ensure that supporting documents were reviewed for accuracy. As a result, the Transportation Branch could not readily determine the financial performance of its regional offices on an individual basis, and the cost efficiency of the regional offices and sections could not be adequately monitored. (OA 00-22)

Dixie Canyon Avenue School – Financial Operations

Our audit found that controls over the student body and imprest funds needed improvement. Specifically, the school administrative assistant did not (i) reconcile the bank accounts each month, (ii) follow established cash receipts and disbursements procedures, and (iii) properly account for equipment. These conditions occurred because the school administrative assistant did not receive adequate training on the policies and procedures governing the student body fund, and the principal did not effectively supervise the school administrative assistant. In addition, we found that school personnel did not sign for the receipt of supplies and verify the quantity and quality of the supplies received. As a result, the school’s financial records and data were inaccurate and there was no assurance that the school actually received all of the supplies that were ordered. (OA 00-24)

Custodial Operations

This audit disclosed that, overall, custodial operations were well managed and in most areas, policies and procedures were established and followed. However, we found that some schools under the Year-Round Cleaning Program did not use the services provided by the Program and did not provide the maintenance area offices with their cleaning schedules. We also found that 29 percent of the schools visited had unclean restrooms and 71 percent of plant managers did not have procedures for tracking custodial supplies. Further, custodial overtime paid out of Proposition BB Bond Funds was not properly authorized and monitored. In addition, proper controls were not in place for monitoring custodial vacancies and the verification of timecards. As a result, there was no assurance that custodial services were provided in the most efficient and cost-effective manner. (OA 00-31)

Westmark School – Nonpublic School

Our audit revealed that Westmark School improperly charged the School District for certain unexcused absences, for a Parent-Teacher Conference during which students did not report to class, and for tutorial services that were charged to parents but conducted during time paid for by the School District. Westmark School also billed the School District for the services of classroom teachers who did not have the special education credentials required by the Master Contract. In addition, our review disclosed instances where instructional days, billed to the School District, were
not covered by Individual Service Agreements and Contracts. As a result, Westmark School billed and was paid $1,453,105 in questionable costs. (OA 00-32)

Pupil Transportation

This special review showed that there was the potential for the School District to achieve cost savings in the pupil transportation function by making greater use of private contractors. Our survey of similar reviews showed that public-private partnerships have been an effective means for other school districts to achieve cost savings that ultimately benefited students the most since more funds became available for the classroom. We recognized cost is not the only factor to consider when deciding whether to pursue an expanded outsourcing arrangement. The purpose of this special review was not to address in depth all of the factors that would bear on the decision to change the current School District pupil transportation arrangement. Both monetary and non-monetary considerations must be weighed and evaluated for a responsible management decision to be made. This reviewed represented an important first step towards initiation of this process. (SR 00-01)

Educational Resource and Services Center, Inc. – Nonpublic School

This audit found that the Educational Resource and Services Center, Inc. (“ERSC”) improperly charged the School District for (i) certain unexcused absences reported as excused and absences not properly documented, (ii) services of classroom teachers without the proper special education credentials required by the Master Contract, and (iii) for counseling services without the proper documentation from the providers. We also found that even though ERSC’s contract with the School District began in September 1998, ERSC did not use a sign-in log for substitutes until January 2000. As a result, ERSC billed and was paid $64,457 in questionable costs. (OA 00-34)

Financial and Performance Review – Chanda Smith Consent Decree

The OIG retained KPMG to conduct a financial and performance review of the School District’s Special Education Program with regard to the Chanda Smith Consent Decree. KPMG’s key findings and observations included: (i) the Consent Decree was a unique evolutionary process for knowledge discovery, sharing and implementation for compliance, (ii) the District’s administration of the Consent Decree Administrators and their outside consultants could have more adequately provided documentation by having executed contracts, (iii) the District had initiated two revenue enhancement initiatives which could provide substantial benefit, (iv) the District could provide more security over the evidence file in terms of providing adequate secure files and providing backup, (v) the District should take greater strides to document anecdotal evidence of compliance, and (vi) resource allocation and District reorganizations should allow for Consent Decree implementations and there should be accountability mechanisms to ensure implementation activities of staff.

Dorothy Brown School – Nonpublic School

Our audit disclosed that Dorothy Brown School improperly charged the School District for: (i) unexcused absences reported as excused and absences not properly documented; (ii) services of classroom teachers who, in some cases, did not have valid special education credentials required by
the Master Contract or, in other cases, were absent and not properly replaced with a substitute; and (iii) counseling services without proper documentation from the providers. As a result, the school billed and was paid $54,581 in questionable costs. (OA 01-39)

Roosevelt-Bilingual Community Adult School – Financial Operations

Our review of overtime processing and reporting procedures did not disclose any material deviations from prescribed procedures. The current and former financial managers, however, often did not follow School District guidelines for managing student body income and expenditures, equipment, textbooks, and trust accounts. Specifically, bank statements were not properly reconciled, disbursements were not properly documented, salary payments for student body employees were not pre-approved, slow-moving and obsolete textbooks were not disposed of in a timely manner, periodic inventories of equipment were not conducted, and income from fund-raising activities as well as other student body income was not properly accounted for. We also found that the school hired student body employees without conducting background checks. As a result, the school’s student body funds were inadequately controlled and accounted for, financial records and data were inaccurate, and equipment and supplies were not adequately safeguarded. (OA 01-41)

Proposition BB Bond Change Order Process

This audit found that the School District needed to take action to improve the management of change orders associated with BB Bond Projects. Specifically, the Facilities Services Division did not (i) review and approve change orders in accordance with established policies, and follow the California Public Contracts Code when using multiple change orders on contracts; (ii) ensure that architects adequately documented existing field conditions in bid drawings and specifications, and ensure that contractors properly segregated costs for change orders; (iii) process change orders in a timely manner; (iv) adequately coordinate its projects with other School District offices to prevent duplication of effort; (v) ensure that costs billed for performance bonds were actually incurred prior to payment; and (vi) ensure that its inspectors properly maintained their project diaries. These conditions occurred primarily because the Facilities Services Division did not develop, implement, and enforce adequate policies and procedures and establish clear lines of responsibility for all parties involved in the change order process. As a result, the School District had little assurance that change orders were managed in the most efficient and cost effective manner. (OA 01-42)

Food Services – Cash Handling Procedures

Our audit found that the School District needed to take action to improve the data accuracy for student and faculty a la carte cash food sales. Specifically, the Food Services Branch did not (i) provide adequate equipment to accurately and efficiently process cash sales activity, (ii) effectively monitor the preparation of all reports, schedules, and worksheets related to meal service and collections; and (iii) adequately report or analyze discrepancies between food sales and cash collections. These conditions occurred because installation of electronic cash registers District-wide was not deemed to be cost effective by District management, area food services supervisors did not perform adequate reviews of financial records, cafeteria personnel performing cash handling tasks were not adequately supervised, document preparation guidelines were not strictly enforced, and
existing policies did not require food sales information to be compared to actual cash collections. As a result, there was an increased likelihood of errors without the use of modern equipment, School District assets might not be adequately safeguarded and accounted for, and reporting mechanisms did not sufficiently detect and deter misappropriation of funds. (OA 01-43)

Garfield High School – Financial Operations

Our audit disclosed that improvements were needed in managing and controlling attendance accounting, cafeteria and imprest funds, and payroll operations. Specifically, (i) partial day attendance was not accurately recorded, (ii) attendance rosters had a 24 percent error rate, (iii) instructional minutes were not calculated correctly, (iv) improper expenditures were paid with the imprest fund and some disbursements were not adequately supported, (v) cash collections for the cafeteria fund were not properly accounted for and controlled, and (vi) regular time, overtime and benefit absences were not accurately recorded and reported. As a result, financial data was inaccurate and unreliable. (OA 01-44)

Garfield High School – Athletics Program

Our audit disclosed inadequacies in the administration of the school’s athletics program due to insufficient funding and management’s non-compliance with School District policies and procedures. Specifically, we found that (i) some income from fund-raising events and donations were not properly controlled and accounted for; (ii) purchases of goods and services were not properly approved and adequately documented; (iii) athletic facilities, equipment and uniforms were not properly maintained; and (iv) procedures for reporting and monitoring student eligibility were not adequately followed. (OA 01-45)

Grant and Compensatory Program – Compliance Processes

This audit revealed that the School District lacked a central office of grants management capable of making reasoned judgments on the manner in which the District should best manage its grants. This in turn reduced the District’s capability of reporting sub-optimal use of grant funds to management. Lack of a central office of grants management has also impeded the development of a performance measurement system designed to monitor the effectiveness of grant-funded programs. We also found that the July 2001 reorganization of the School District resulted in changes that may have diminished the effectiveness of the compliance function administered by the Specially Funded Programs Compliance and Technical Support Branch. (OA 01-47)

Heliotrope Avenue School – Financial Operations

Our audit of the school’s budget, cafeteria fund, and attendance accounting disclosed findings that did not rise to the materiality level that required a formal audit report. We presented these findings to the principal in a separate management letter during the audit. Our audit, however, found that improvements were needed in managing the imprest and cafeteria funds as well as its payroll operations. Specifically, (i) the imprest fund was not reconciled monthly, invoices were not stamped
“paid” to prevent reuse, and reimbursement claims were not submitted in a timely manner; (ii) transactions related to the student body fund were not properly recorded and reported and established cash collection and disbursement procedures were not followed; and (iii) payroll information was not accurately recorded and reported. As a result, the school’s financial data was inaccurate and unreliable, and there was no assurance that payroll expenditures were valid. (OA 01-49)

**Medi-Cal Reimbursements Program**

Generally, we found that the Student Health and Human Services Division, which was responsible for managing the Medi-Cal Reimbursement Program, needed assistance in the form of systems resources and possibly staffing to operate the program in an effective and efficient manner. Specifically, the Division needed to (i) establish and enforce formal policies and procedures for preparing and submitting service logs on a timely basis, (ii) provide adequate training and supervision of the Medi-Cal coordinators and billing clerks to ensure that all eligible services were reported and documentation supporting all reimbursable services were collected, (iii) file all eligible claims through the appropriate program so that additional revenues would be generated, (iv) maintain a record-keeping system that would ensure all services eligible for reimbursements were recorded, claimed, and collected, and (v) monitor the performance of the billing contractor with regard to claims in process and rejected claims. (OA 01-52)

**Division of Adult and Career Education—Attendance Accounting/Class Size**

This audit found that the Division of Adult and Career Education (“DACE”) needed to improve its control and operations of attendance accounting and management of school class size. Specifically, DACE did not report all school attendance that it was entitled to report for attendance revenue purposes and close or consolidate small classes. These conditions occurred because the DACE administration did not adequately supervise implementation of the Student Information System procedures, and the principals did not monitor compliance with the minimum class size standards. As a result, an estimated $290,000 of apportionment attendance revenue was not realized due to faulty attendance keeping, and unnecessary teacher salary cost of at least $422,000 was incurred in fiscal year 2000. (OA 01-54)

**Donations – Accountability and Controls**

This audit disclosed that the School District needed to improve its monitoring and control over donations. Specifically, some schools did not comply with donation approval and documentation requirements and maintain adequate records showing how donated funds were spent. In addition, the School District did not maintain a central records system that showed the amount of donations made to student body funds. As a result, there was no assurance that all funds donated to the schools were received, accounted for, processed, and spent in accordance with School District policies. (OA 01-55)

**Energy Conservation Unit**

Overall, we found that the management of the Energy Conservation Unit needed improvement. We found that the Unit did not (i) ensure that energy services requirement contracts were in compliance
with the applicable laws and regulations, (ii) clearly understand its roles and responsibilities for managing energy services contracts, and (iii) maintain written procedures for reviewing utility bills and accounting for utility rebates. As a result, the School District expended about $20 million on projects that had little or no financial benefits. (OA 01-58)

Accounts Payable Process

Our audit found that in recent months, the School District’s Office of the Superintendent had expressed a renewed interest in improving the accounts payable process. This position was desirable given that historically the District had not taken sufficient action to improve its accounts payable process and had permitted the department to operate at a less than desirable level of efficiency and customer service. In addition, the School District had not sufficiently encouraged school and office staff to comply with existing procedures or to embrace changes that would enhance the payment process. Specifically, District managers had not (i) implemented previously identified process improvements provided by independent accounting experts, (ii) ensured the use of an effective system to process payments to vendors on a timely basis, and (iii) required the development of adequate reporting tools to monitor productivity. These conditions occurred because, historically, improvement of the process was not a high priority of senior management. As a result of these conditions, payments to vendors and suppliers took from 10 days to 2 years, cash discounts were lost, the School District may have paid more for purchase of materials and supplies, and the risk of legal actions by creditors was increased. (OA 01-60)

Payroll Overtime

Our audit revealed that the School District could further strengthen the effectiveness of its budgetary controls related to overtime pay. Specifically, the District’s Budget Services and Financial Planning Division did not establish guidelines and procedures for developing a reliable annual overtime budget by operating unit and closely monitor actual overtime incurred in relation to budgeted levels. These conditions occurred because the District personnel have historically monitored budgets in their totality, not at the object level. As a result, some organizations had no overtime budgets established for them, actual overtime expenditures often exceeded the levels included in the original or current modified budget for some, and budget transfers were sometimes made to organizations that had no overtime budgets to cover the actual overtime expenditures incurred. The funds transferred were often from expenditure categories unrelated to payroll; and organizations did not provide explanations for variances between actual and budgeted overtime expenditures. (OA 01-61)

Meal Ticket Controls and Technology Initiatives

This audit found that the School District needed to take action to improve controls over meal tickets as well as project management over the Point of Service Cafeteria Computer System (“POS”) Project. Specifically, the Food Services Branch (i) did not maintain sufficient accountability for all meal ticket books and ticket rolls issued to schools; (ii) lacked effective reporting tools to properly manage the implementation of the POS project or to control related costs; (iii) did not have sufficient support from local district management and school-based staff for the POS project implementation schedule; and (iv) needed to expand its procedure of visiting schools prior to their conversion to
ensure that relevant operational and logistical problems are addressed beforehand. As a result, there was no assurance that all meal tickets issued to schools were being properly accounted for. In addition, there was a higher likelihood for scheduling delays and cost overruns related to the POS project. (OA 01-62)

**California Sales and Use Tax Recovery Study**

California imposes a sales tax on the purchase of tangible personal property at retail in California. The primary responsibility or liability for the sales tax applies to the seller (generally vendors with California locations); however, purchasers generally reimburse their vendors. California also imposes a complementary use tax on the storage, use or other consumption of tangible personal property in California when sales tax does not apply (generally purchases from vendors based outside California). For use tax transactions, the purchaser bears the responsibility for the tax. If the vendor does not collect use tax, the purchaser has a responsibility to self assess the tax and report it to the California State Board of Equalization.

The OIG retained Deloitte & Touche LLP (“Deloitte & Touche”) to conduct a study focusing on recovering overpayments of (i) self assessed California use tax and (ii) use tax paid directly to out-of-state/non-California vendors. Deloitte & Touche found that the School District made several overpayments for products and services that were exempt from use tax. As a result, the California State Board of Equalization refunded overpayments totaling $660,020 to the School District.

**Payroll Best Practices Review**

The OIG retained Andersen to compare payroll best practices to those practices used by the School District. Andersen found that (i) the overall pay structure of the School District was complex, contributing to inefficiencies in calculating payroll and errors in employee’s pay and (ii) there were technological limitations used to support the payroll process resulting in inefficiencies in the payroll processes. Specifically, Andersen reported that the School District paid seven major types of employees. These seven categories were paid on varying payment schedules. There were also approximately 80 earning codes that were processed differently. Further, due to union contracts, teachers were permitted to submit salary credits at any time during the year, rather than by a specific due date consistent to most other school districts.

Andersen also found that there were exponential ways in which to pay the certificated and classified/unclassified employees. First, the certificated employees could be placed on up to 16 different assignments, 3 calendars, 5 tracks, 4 bases, and 9 different salary tables. The classified/unclassified employees could be placed on 14 different assignments and could have 3 shift differentials. Both groups of employees had 4 options of salary payment. There were also a multitude of status codes and time reporting codes. This variety created time reporting difficulties and potentially increased the amount of errors.

Andersen further reported that there were over 13 collective bargaining agreements to which the School District pay scale must conform. The large number of agreements imposed difficulties on the payroll application, which must be adaptable to all agreements. The time reporters and payroll
branch staff must also be aware of the agreement terms. The multitude of policies under the bargaining agreements potentially creates errors by those not familiar with the agreements and further cause inefficiencies in technological support. At least 9 payrolls must be processed each pay cycle, which is approximately a 1-month period, in order to support the complexities of the pay structure.

As a result of these conditions, the School District processes approximately 195,000 adjustments and 48,000 exceptions a year. Andersen concluded that the School District could save a significant amount of labor-hours and funds by taking action to reduce the complexity of the pay structure; improve payroll processes to reduce error rates; implement best practices time and attendance solution; develop a strategy to integrate payroll, benefits, and human resources data into one central information system; and consider outsourcing selected payroll activities.
INVESTIGATION ACTIVITIES
INVESTIGATION ACTIVITIES

ORGANIZATION

The OIG’s Office of Investigations is headed by an Assistant Inspector General for Investigations (‘AIGI’). The AIGI reports to the Deputy Inspector General. The Office of Investigations is comprised of 4 senior investigators and 11 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 LAUSD 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.

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 School District programs and operations, and foster integrity in School District personnel.

Performance Measures:

- Number of cases opened and closed.
  
  29 (opened) and 55 (closed)

- Number of cases referred for criminal prosecution or administrative actions.
  
  7 (criminal) and 33 (administrative)

- Cases presented but declined for prosecution.
  
  4

- Cases accepted for prosecution.
  
  2
• Defendants convicted.
  1

• Defendants acquitted or charges dismissed after indictment.
  1

• Defendants sentenced to terms of probation.
  3

• Suspensions, debarments, sanctions, or some other similar administrative action.
  10

• Amount of fines, restitutions, and recoveries.
  $1,038,000

• Number of fraud awareness seminars conducted.
  18

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) 633-3355 and 1-866-LAUSD-OIG. A total of 300 calls were received on the Hotline during fiscal year 2001. 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
• Private Investigator
• Advanced Peace Officer Standards and Training

Our investigative staff also includes managers and investigators from 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.

FRAUD PREVENTION EFFORTS

The OIG conducts fraud prevention seminars for School District employees. These seminars provide employees with information on the operations and authorities of the OIG, indicators of fraud, and how to deal with possible improper or illegal activities. During fiscal year 2001, the OIG conducted 18 fraud awareness seminars.

EXTERNAL TECHNICAL ASSISTANCE

At one point during fiscal year 2001, the Office of Investigations had 42 open investigations with another 45 investigations awaiting assignment. These investigations included allegations of bribery, misappropriation of funds, theft, sole-source contracting, false claims, improper bidding practices, falsification of invoices, grand theft, embezzlement, forgery, extortion, and ethics violations. Some of these investigations also included highly technical and complex environmental issues, such as asbestos. The Office of Investigations had a staff of 11 investigators throughout most of fiscal year 2001.

Because of the large backlog of cases coupled with the seriousness of the allegations, the OIG retained investigative assistance from 10 external investigators. These external investigators included former special agents with the Federal Bureau of Investigation and the U.S. Secret Service – these investigators’ law enforcement experience ranged from 6 to 30 years. The investigators assisted the OIG with locating and interviewing witnesses, collecting and reviewing documents, conducting public records searches, and writing reports of interview and/or investigations.

SUBPOENAS ISSUED

The OIG issued two subpoenas during fiscal year 2001. 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.
On January 4, 2001, the Inspector General issued a subpoena to International Business Machines ("IBM"). The Inspector General had a reasonable cause to believe that selected documents in IBM’s files were relevant to an ongoing OIG investigation. Moreover, after several weeks of negotiations, IBM representatives were not fully cooperative in responding to requests for documents. On June 4, 2001, the Inspector General issued a second subpoena to IBM to produce additional documents as well as provide answers to specific questions. The OIG’s Counsel believed that IBM continued to be less than forthcoming with the ongoing investigation. In addition, no attempts were made to quash either of these subpoenas.

SIGNIFICANT INVESTIGATIONS AND SPECIAL REVIEWS

The OIG issued 40 reports of investigation during fiscal year 2001. All reports of investigation are confidential. A report of investigation can be classified as an “investigative” or an “administrative” report. Investigative reports are those that the OIG refers to a prosecutive agency because the OIG has reasonable cause to believe that illegal activities may have occurred. Administrative reports are those that the OIG does not refer to a prosecutive agency. Administrative reports are provided to School 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. These reviews are short-term management and program reviews that focus on issues of concern to the School Board, Superintendent, and senior staff. These reviews examine programs from broader, more issue-oriented perspective than the traditional audits and investigations conducted by the OIG. The following paragraphs contain generic summaries of our more significant investigations and special reviews.

Embezzlement

In June 2000, a school principal reported the possible theft and embezzlement of school funds by a school administrative assistant ("SAA"). Subsequently, an investigation revealed the SAA had failed to deposit certain funds collected on behalf of the school and had written and cashed numerous checks containing the forged signature of the principal. The SAA further violated School District policy by altering payroll records for unauthorized overtime pay totaling $4,500. The SAA admitted to the charges and was convicted in Los Angeles County Court and ordered to make restitution of $7,500.

Violation of Policy, Regulations or Rules

An investigation revealed that a high-ranking administrator accused of mismanagement and inappropriate actions had arranged or permitted payments to select employees for secondary assignments with no additional work performed in violation of School District policy. The employment and payroll records examined revealed that employees were allowed to sign in and out of other school sites and locations where they provided no services. The OIG referred the investigation for administrative action. The employment contract of the administrator was not renewed and the fraudulent work assignments were discontinued.
Bribery

The OIG initiated an investigation after receiving allegations regarding possible illegal activities within a School District department. Employees complained they were asked or required to pay a supervisor a sum of money to gain or retain employment. Other allegations involved nepotism and payroll fraud charging the supervisor placed relatives on the department payroll although they did not provide work or services. The supervisor separated from service with the School District without clearing the department’s imprest fund. The fund showed expenditures of $4,360.89 of which documentation was found for only $688.33. After available documents were examined and interviews of current or former employees were conducted, the matter was referred to the District Attorney’s Office for prosecution.

High School Principal Violates LAUSD Policy, Regulations or Rules

During November 2000 and March 2001, the OIG issued an administrative report regarding allegations that a high school principal violated School District policies and procedures. The investigation determined that the principal (i) accepted inappropriate donations from entertainment film companies and failed to deposit the donated funds into the proper School District cash donation account; (ii) allowed school facilities to be used by entertainment film companies without proper authorization from the School District; (iii) directed an employee to give false information to another employee during the performance of that persons duties; (iv) provided false information to an administrator who was conducting an inquiry into the allegation; (v) violated the School District’s nepotism policy by employing relatives; (vi) neglected to supervise business-related travel by an employee to ensure proper procedures are adhered to; and (vii) forged or directed a secretary to forge the signatures of two persons on a document. The principal subsequently retired.

Misuse of Assets at Teachers Centers

During March 2001, the OIG issued an administrative report regarding an allegation that a teacher misused School District assets and operated a retail business on school property. The investigation determined that teachers, who were assigned to work at teachers’ centers, were selling merchandise during work hours without authorization from the School District. The operators of the business had formed a nonprofit corporation and accumulated bank deposits of approximately $10,000 and more than $10,000 in materials and supplies. The OIG referred the matter to the proper administrators and the teachers’ centers were closed. The money, materials and supplies were donated to the School District.

High School Real Estate Lease Review

During June 2001, the OIG issued an administrative report regarding a building leased by the School District. The building was intended to be used as a replacement facility to provide educational services to pregnant unwed students. The investigation determined that a report and Certification of Safety, for a building exempt from the Field Act provisions of the California Education Code, was not obtained. The School District expended $368,906 in lease and property tax payments but never occupied the building. The cost to the School District to fulfill its obligations under the remaining
term of the lease was $574,725. The School District began negotiating with the lessor to buy-out the lease. Corrective action was taken to prevent similar occurrences.

**Contract Fraud**

The OIG received a phone call that led to the investigation of a vendor providing Constructability Reviews (“CR”) for construction on school sites. The OIG determined that the president of the firm of record had subcontracted the CRs to an individual who was also a School District employee. The employee/subcontractor had used the names of two individuals as part of the team that provided the reviews. When interviewed, the two individuals claimed they had not been involved with the reviews. Further, the subcontractor had no proof that the individuals had actually worked on the projects. The OIG recommended that the firm of record discontinue using the employee/subcontractor for any School District projects and referred the matter for administrative action.

**Falsification of Student Records**

The OIG investigated allegations of falsification of student grades and proficiency test results at a high school. The investigation determined that 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. They then entered false passing results in the students’ cumulative records. The motive appeared to be to increase the number of seniors graduating. The two administrators have been demoted back to teachers and suspended. Termination action against them is pending. The other involved employee is awaiting action by the School Board. The case will be referred to the District Attorney for prosecution.

**Payroll Fraud**

The OIG received information that certain teachers were being paid for hours they did not teach. The investigation identified two teachers who signed for hours at a school at which they did not teach or even appear. The authorization for these teachers’ positions and hours came from a former high level School District administrator who knew these employees would not be teaching or working the hours for which they were paid. This case has been referred to the District Attorney for prosecution.

**Nepotism**

The OIG investigated a school principal who hired unqualified relatives of other administrators for teaching positions. A review of the school’s teaching roster found three of the employees at the school were related to other administrators. One individual was paid a teacher’s salary while assigned to a non-teaching position and a second individual held a part-time counseling position without the proper credentials. The findings were referred for administrative action.
Employee Embezzlement

Over a 22-month period, a school administrative assistant ("SAA") embezzled approximately $9,000 from the school’s student body account. The SAA admitted to the theft and explained that overdue tax obligations were the cause for her actions. She subsequently resigned in lieu of dismissal. The case was presented to the District Attorney’s Office for criminal prosecution. In June 2001, the Los Angeles Superior Court issued a Court Judgment and Victim Restitution Order requiring the former SAA to repay the total amount embezzled, complete 100 hours of community service and to serve three years of probation.

False Claims By A Contractor

Several schools within a former School District Cluster contracted with a technology vendor for the purchase and installation of computers and software, as well as to provide training and support services. The total contract amount between the vendor and the School District was approximately $200,000. The vendor was awarded the contract because of his association with a School District principal. Invoices totaling approximately $31,000 were paid to the vendor although the vendor failed to deliver all equipment and services as specified by the contract. The case was referred to the District Attorney’s Office and is currently under investigation by a multi-jurisdictional task force of government agencies.

Employee Embezzlement and Forgery

A former school administrative assistant ("SAA") misappropriated approximately $12,000 from the former Belmont Cluster’s administrative accounts by submitting duplicate invoices and by forging and negotiating checks for which she received personal benefit. The SAA resigned during the course of an internal investigation. In December 1999, the case was presented to the District Attorney’s Office for criminal prosecution. In May 2000, the Los Angeles Superior Court issued a Court Judgment and Victim Restitution Order requiring the former SAA to pay full restitution, serve six months in jail and to complete five years probation.

Misappropriation of Funds

In January 1999, the OIG conducted an investigation, which disclosed a senior office assistant received improper overtime payments in the amount of $11,824.34. Based on the response of the principal, the amount of unauthorized overtime paid was reduced to $8,655.45. The employee then transferred to another school and became an administrative assistant. In March 1999, the school principal at the second school requested the OIG conduct an investigation of the Student Body Fund after the employee confessed to taking approximately $2,300 to $2,400 from this fund. The investigation indicated a shortage in the student body fund of $7,595.05. The OIG referred the investigation for administrative action.

Conflict of Interest

In April 2000, three questionable Employee Reimbursement Forms ("ERP") were discovered for automobile damage occurring at the same school. The ERP’s included repair estimates on
sequentially numbered forms from the same repair business. An investigation revealed the owner of the repair business was a part-time employee at the school where the damage occurred. The repair estimates were legitimate, except that one was fabricated by the employee for a non-existent repair shop. The employee was aware of the policies prohibiting solicitation of outside work while employed by the School District. The OIG referred the investigation for administrative action.

**Misappropriation of Funds**

In December 1999, an elementary school principal was informed of a deficit in the Student Body Fund administered by the school administrative assistant (“SAA”). Accordingly, an investigation revealed the SAA accepted cash for the account but did not properly control the money causing thousands of dollars to be missing from the account. Several different employees at the school had access to the safe and the money. Due to lack of efficient control over access to the safe, culpability for the loss could not be determined. The investigation was referred to the District Attorney’s office but was declined prosecution. The OIG then referred the investigation for administrative action.

**Embezzlement**

In October 1999, a school cafeteria employee reported discrepancies in the school’s cafeteria fund. The discrepancies were noted when the cafeteria employee, upon reviewing the meal account, called a parent to notify him that there was a balance due for his child’s meals. The parent provided a copy of a cancelled check indicating that payment had already been made. Subsequently, an investigation revealed the cafeteria manager had deposited cash and checks collected from meal sales to her personal bank account. To facilitate the deposits, the cafeteria manager instructed parents paying for their children’s meals, to make checks payable to her or cash. The OIG referred the investigation to the District Attorney’s office for prosecution.

**Violation of Board Policies**

The OIG conducted an investigation in response to an anonymous letter received by the Board of Education. The letter alleged that an administrative official within the Division of Adult and Career Education (“DACE”) had abused overtime policy. The investigation determined the DACE administrator had requested and approved teaching assignments at offsite locations for department employees that never went to the locations to perform the work. The administrator violated provisions of Article IX of the Collective Bargaining Agreement between the United Teachers Los Angeles and the Los Angeles Unified School District by allowing employees to falsify sign-in/sign-out records. The OIG referred the investigation for administrative action.

**Special Review of the Office of General Counsel**

On December 1, 2000, the General Counsel asked the OIG to conduct a limited and expedited review of the legal services function within the School District. The review was initiated to provide a determination of whether the Office of General Counsel was structured in an efficient and effective manner. The review was also initiated to provide the General Counsel with recommendations in reorganizing the manner in which legal services were delivered to the School District’s personnel and in its operations.
The OIG found that the Office of General Counsel historically suffered from a lack of decisive leadership and a lack of overall sense of purpose or mission and case management and operations were inadequate. In addition, the OIG’s comparison with other metropolitan school districts showed that the Los Angeles Unified School District had a relatively small legal services office, a relatively high budget, and used a large amount of outside law firms. For example, New York City Public Schools had 40 attorneys, 19 staff members, a budget of $7 million, and the office used 4 to 5 outside law firms. In contrast, the Los Angeles Unified School District had 12 attorneys, 6 staff members, a budget of $13.5 million, and the office used 57 outside law firms.
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Aging of Unresolved Recommendations:

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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 monetary benefits for student achievement. By identifying and reporting the potential monetary benefits from audits, investigations and special reviews, the OIG gives the School 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 School 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.

During fiscal year 2001, the OIG with assistance from consultants retained by the OIG identified about $80 million of potential monetary benefits through its audits and special reviews.

<table>
<thead>
<tr>
<th>Report Number</th>
<th>Report Title</th>
<th>Potential Monetary Benefits</th>
<th>Funds Put To Better Use</th>
<th>Questioned Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>OA 00-24</td>
<td>Financial Operations</td>
<td></td>
<td>$1,340</td>
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</tr>
<tr>
<td></td>
<td>Dixie Canyon Avenue School</td>
<td></td>
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<tr>
<td>OA 00-25</td>
<td>Financial Operations</td>
<td></td>
<td></td>
<td>$3,500</td>
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<tr>
<td></td>
<td>Teresa Hughes School</td>
<td></td>
<td></td>
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<tr>
<td>OA 00-30</td>
<td>Invoice #99-05</td>
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<td>$29,650</td>
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<td></td>
<td>The City of Los Angeles Election Division</td>
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<tr>
<td>OA 00-32</td>
<td>Westmark School</td>
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<td></td>
<td>$1,453,105</td>
</tr>
<tr>
<td></td>
<td>Nonpublic School</td>
<td></td>
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</tr>
<tr>
<td>OA 00-34</td>
<td>Educational Resource and Services Center, Inc.</td>
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<td>$64,457</td>
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<tr>
<td></td>
<td>Nonpublic School</td>
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<td></td>
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<tr>
<td>OA 00-37</td>
<td>Dubnoff Center</td>
<td></td>
<td></td>
<td>$6,976</td>
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<td></td>
<td>Nonpublic School</td>
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<tr>
<td>OA 00-38</td>
<td>Payroll Operations</td>
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<td>$4,368</td>
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<td></td>
<td>Evans Community Adult School</td>
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# POTENTIAL MONETARY BENEFITS

<table>
<thead>
<tr>
<th>Report Number</th>
<th>Report Title</th>
<th>Potential Monetary Benefits</th>
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</thead>
<tbody>
<tr>
<td>OA 00-39</td>
<td>Dorothy Brown School Nonpublic School</td>
<td>$54,581</td>
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<tr>
<td>OA 01-41</td>
<td>Roosevelt-Bilingual Community Adult School</td>
<td>$33,840 $9,036</td>
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<tr>
<td>OA 01-44</td>
<td>Financial Operations Garfield High School</td>
<td>$73,163</td>
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<tr>
<td>OA 01-46</td>
<td>Switzer Center School and Clinical Services Nonpublic School</td>
<td>$8,007</td>
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<tr>
<td>OA 01-48</td>
<td>Financial Operations Lankershim School</td>
<td>$51,423</td>
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<td>OA 01-49</td>
<td>Financial Operations Heliotrope Avenue School</td>
<td>$40,402</td>
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<tr>
<td>OA 01-52</td>
<td>Medi-Cal Reimbursement Program</td>
<td>$1,609,919</td>
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<tr>
<td>OA 01-54</td>
<td>Attendance Accounting and Class Size Division of Adult and Career Education</td>
<td>$712,000</td>
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<tr>
<td>OA 01-58</td>
<td>Energy Conservation Unit</td>
<td>$11,600,000 $8,600,000</td>
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<tr>
<td>OA 01-60</td>
<td>Accounts Payable Process</td>
<td>$2,254,000</td>
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<td>SR 00-01</td>
<td>Pupil Transportation</td>
<td>$24,839,733</td>
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<td>*</td>
<td>Sales/Use Tax Review</td>
<td>$660,020</td>
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<td>**</td>
<td>Contractor Claim</td>
<td>$217,711</td>
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<td>***</td>
<td>Payroll Best Practices Review</td>
<td>$27,601,600</td>
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</tbody>
</table>

**Total:** $69,530,163 $10,398,668
POTENTIAL MONETARY BENEFITS

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

**The Office of General Counsel requested that the OIG review supporting documentation and reasonableness of a monetary claim against the School District by a contractor.

***The OIG retained the accounting firm of Andersen to conduct a review of payroll best practices.
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.
- Working with District management and the District’s independent auditor, review the District’s mechanisms of financial controls and recommend cost-effective improvements.
- Assess the risk of loss in various situations if the District’s internal controls are compromised.
- 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)

- Conduct investigations and review investigations carried out by others, to detect and prevent waste, fraud and abuse in the District’s programs and operations.
- Review the District’s Code of Ethics and recommend changes if necessary.
- Advise the Board of Education, District employees, and those who do business with the District regarding ethical business practices.
- Develop procedures for the investigation or referral of alleged 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.
• To share information relating to possible criminal acts with appropriate law enforcement officials.

The Inspector General is expected to work with District staff while maintaining his/her independence and objectivity.

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.
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.

**Reporting Requirements**

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 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 Chief Operating Officer (COO) will serve as the liaison between the Office of the Inspector General and the rest of the District. The COO will provide day-to-day administrative assistance and may request non-scheduled/confidential reviews for the good of the District.

**Role of Other Entities**

The Board of Education, with advice from the Inspector General and from the District’s General Counsel, is responsible for setting the District’s ethical standards and for assuring that appropriate penalties are applied when such standards are violated.

The Board of Education shall schedule time as needed to hear concerns and act on recommendations of the Office of the Inspector General.

District management is responsible for establishing policies and systems of internal control that discourage fraudulent or unethical behavior. District management is also 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.
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.

The LAUSD Personnel Commission is responsible for investigating alleged violations of the classified merit system laws and rules.
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) 633-3355
or
1-866-LAUSD-OIG

Write to us:
Fraud Hotline Center
355 S. Grand Ave, Suite 300
Los Angeles, CA 90071

Website:
www.lausd.k12.ca.us/lausd/offices/IG