Los Angeles County Office of Education

Extraordinary Audit of the Azusa Unified School District

January 12, 2018

Michael H. Fine
Chief Executive Officer

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

January 12, 2018

Debra Duardo, Ed.D., Superintendent
Los Angeles County Office of Education
9300 Imperial Highway
Downey, CA 90242

RE: FCMAT AB 139 Extraordinary Audit-Azusa Unified School District

Dear Superintendent Duardo:

In July 2017, the Los Angeles County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to conduct an AB 139 Extraordinary Audit on behalf of the Azusa Unified School District. Specifically, the agreement stated that FCMAT would perform the following:

> The Los Angeles County Office of Education has requested FCMAT to assign professionals to conduct an AB 139 Extraordinary Audit. This audit will be conducted pursuant to Education Code Section 1241.5 (b). The COE has received documentation of possible fraud, misappropriation of funds or other illegal practices at the Azusa Unified School District and is requesting that FCMAT review the internal controls and specifically the purchasing practices of the Maintenance, Operations and Transportation (MOT) Department on behalf of the district.
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> The primary focus of this review is to determine, based on the testing performed, whether (l) adequate management and internal controls are in place regarding the district's reporting, monitoring, and authorization of financial transactions, purchases, work orders, and inventory of supplies, parts, and other assets, and that such assets are properly segregated and accounted for in the MOT Department, and (2) based on that assessment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.
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> Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific audit objectives will include evaluating the establishment, implementation and effectiveness of policies, procedures and internal control activities through the review of financial transactions, and policies and procedures of the district relative to the following:
>
> - Vendor selection and levels of authorization to approve and assign work
> - Vendor backgrounds and affiliation with the district

- Vendor payments compared to work performed, invoiced, and other documentation
- Purchases of equipment and supplies including the pricing of equipment and supplies compared to other vendor prices
- Inventory of supplies, parts, and other assets; receiving of supplies, equipment and parts, recording into inventory, use of supplies and reconciliation to ending inventory
- Work order authorization and completion process; reconciliation of work orders
- completed with supplies, parts and other assets usage
- Sale or disposition of scrap items, i.e., scrap metal
- Expenditure of funds for personal or other non-district business purposes. Use of district equipment, parts, or supplies for personal or other non-district business purposes

The team will review and test recorded transactions for fiscal years 2013-14 through 2016-17 to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on a sample of transactions and records for this period. Testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the district's financial transactions and activity.

Specific audit objectives are outlined in the study agreement in Appendix A, which is attached to this report.

This report contains the study team's findings and recommendations.

FCMAT appreciates the opportunity to serve you and extends thanks to all the staff of the Los Angeles County Office of Education and Azusa Unified School District for their cooperation and assistance during fieldwork.

Sincerely,

Michael H. Fine

Chief Executive Officer

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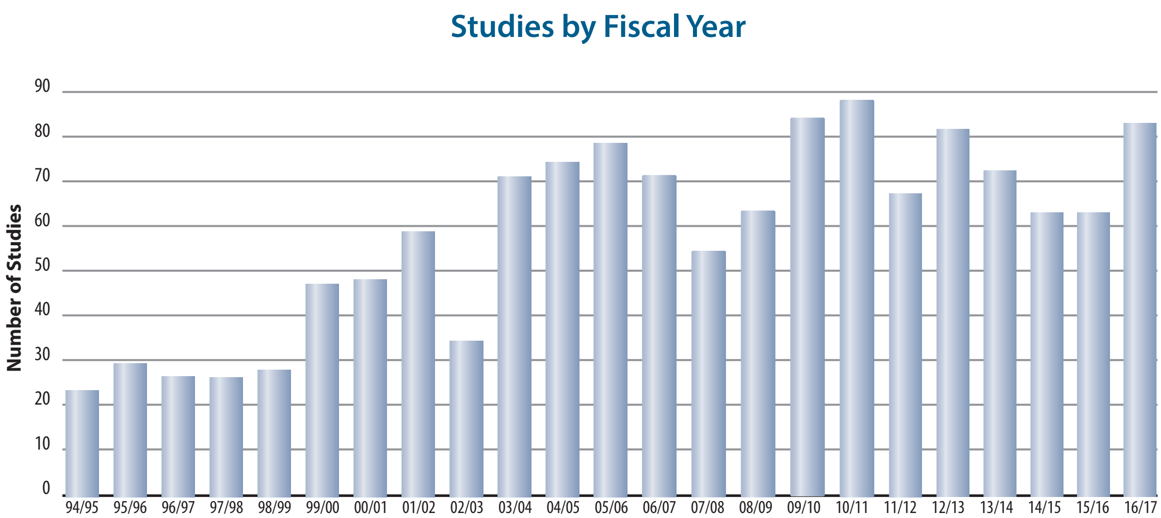
About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the LEA to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms.



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, Senate Bill 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

The Azusa Unified School District is located in East Los Angeles County and serves students in transitional kindergarten through 12th grade from the cities of Azusa, Covina and Glendora. The district educates approximately 8,734 students in 12 elementary, three middle and three high schools, which also includes an adult school and alternative education center. The district's board of education consists of five members; three have terms expiring in 2018 and the remaining two in 2020.

In March 2017, the district contacted the Azusa Police Department to investigate an alleged theft of equipment in January 2017 that was valued at approximately $3,678.22 . In June 2017, a follow-up to the investigation by the local police department, the district's legal counsel, Atkinson, Andelson, Loya, Rund and Romo reviewed specific complaints about the maintenance, operations and transportation supervisor and concerns about purchasing irregularities, including items that may have been purchased for personal use. The review found instances when invoices with the maintenance supervisor's home address were located in his district-issued vehicle. The police department and district found no conclusive evidence that the employee participated in any illegal practices, and the employee returned to work in August 2017.

In July 2017, the Los Angeles County Office of Education requested that FCMAT conduct an Assembly Bill (AB) 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal activities may have occurred at the district. The review's primary focus is to determine, based on the testing performed, whether the following is true:

1. Adequate management and internal controls are in place regarding the district's reporting, monitoring, and authorization of financial transactions, purchases, work orders, and inventory of supplies, parts; and other assets are properly segregated and accounted for in the Maintenance, Operations and Transportation Department (MOT).
2. Based on the assessment, whether fraud, misappropriation of funds or other illegal practices may have occurred.

In recent years, the district has experienced frequent changes in administrative leadership at all levels of business services and MOT management staff positions. Three different assistant superintendents of business services have served over the last four years, the newest of which has held the position for approximately six months. The lack of institutional memory and operational experience in key administrative leadership positions, specifically in business and MOT management, has contributed to the inconsistent practices and methodologies used by the MOT Department.

As part of the review, FCMAT evaluated the district's policies, procedures and internal controls for purchasing, contractual commitments and vendor payments. FCMAT's interviews found that some staff members felt intimidated by the MOT supervisor regarding the use of specific vendors. Reports indicated a climate of fear, frustration and discontent among the MOT staff and that the district has a negative operating environment that includes continued, pervasive pressure to conduct business in disregard of established policies.

The purpose of the AB 139 Extraordinary Audit is to identify whether any fraud, misappropriation of funds or other illegal activities may have occurred and help the district improve its internal control processes to avoid potential fraud or other illegal activities in the future. Therefore, starting to produce reports or correct procedures after the fact is beneficial; however, any post-audit report development or response to findings should not be considered as grounds to eliminate or nullify the findings of this report.

In conducting this study, FCMAT interviewed representative district, department, and site staff; reviewed policies and procedures; and examined a sampling of district documents. To provide a more succinct report, the findings and recommendations are predominately of a deficit nature, meaning that items of concern are reviewed and reported, but appropriate, reasonable, and correct business practices are normally excluded.

Study Guidelines (AB 139 Audit Authority)

Education Code Section 1241.5(b) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. On completion of the investigation, if evidence exists that fraud or misappropriation of funds may have occurred, Education Code Section 42638 (b) states, "… the county superintendent shall notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney." The purpose of this review is to determine if sufficient documentation exists to further investigate the findings, or if there is evidence of possible fraud, misappropriation of funds or other illegal fiscal practices that should be reported to the local district attorney's office for further investigation by law enforcement. The investigation and scope of work is designed to prevent further loss or exposure to risk if any, establish and secure evidence necessary for potential criminal or disciplinary action, minimize and recover losses, strengthen internal controls and promote an anti-fraud culture that may require the local entity to take the appropriate legal or disciplinary action.

Based on the allegations and information provided, the county office asked FCMAT to assign professionals to conduct an AB 139 extraordinary audit under the provisions of Education Code Section 1241.5(b). FCMAT and the county office entered into a contract for this extraordinary audit August 1, 2017 as part of the audit, FCMAT interviewed past and present district management, staff and board members, and reviewed documents to determine if instances of fraud, misappropriation of funds or other illegal fiscal practices may have occurred that would warrant further investigation by the local district attorney's office.

FCMAT conducted the AB 139 audit using the Statement of Auditing Standards No. 99, Consideration of Fraud in a Financial Statement Audit, to establish standards in fulfilling the responsibility to plan and perform the audit and to obtain reasonable assurance about whether fraud, misappropriation of funds or other illegal activities may have occurred in accordance with generally accepted auditing standards (GAAS).

Study Team

The study team was composed of the following individuals:

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*As a member of this study team, this consultant was not representing his respective employer but was working solely as an independent contractor for FCMAT. Each team member reviewed the draft report to confirm its accuracy and to achieve consensus on the final recommendations.

In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

Transaction Sampling Analysis

To accomplish the objectives of this audit, several audit test procedures were developed to provide an analysis and understanding of the allegations and potential outcomes. The conventional methodology used in audits may often limit the possibility of discovering fraud and many times requires information received on a tip from an employee, vendor or others. In an effort to analyze the district's data more thoroughly, FCMAT requested various reports and transaction data from the 2013-14, 2014-15, 2015-16 and 2016-17 fiscal years that included the district's detailed general ledger, financial reports and open purchase orders. The district uses the PeopleSoft financial reporting software system supported by LACOE to comply with the state's accounting and financial reporting requirements. FCMAT did not review payroll transactions with the exception of overtime records for all MOT employees.

Transactions selected were evaluated for compliance with the district's board policy, administrative regulations, operational procedures, and industry-standard or best practice procedures based on the team's judgment and technical expertise in school district accounting. Testing procedures and noted exceptions are detailed in the substantive testing section of this report. FCMAT's findings and recommendations are the result of the above audit procedures and interviews with current and former district staff.

Sample testing and examination results are intended to provide reasonable but not absolute assurance regarding the accuracy of the transactions and financial activity. Some degree of uncertainty is implicit in the concept of "a reasonable basis for an opinion." The justification for accepting some uncertainty is derived from the relationship between factors such as the cost and time required to examine all data and the adverse consequences of erroneous decisions resulting from the examination of only a sample of the data. The basic concept of sampling transactions is well established in auditing practice.

Interviews and Document Collection

FCMAT visited, the district August 29 -31 and November 3, 2017 to conduct interviews, collect data and review documents. During interviews of staff, administrators, and other individuals, FCMAT study team members asked questions pertaining to the allegations; policies and procedures; transactions and activities; authorization levels; job duties, responsibilities and training; and the internal control structure, lines of authority, and oversight.

In the investigative process, FCMAT also utilized TLOxp software powered by TransUnion, which is considered one of the most advanced data security technologies available. The software assists in multiple levels of data collection and additional analytics to assist with fraud mitigation and identity authentication.

Definitions of Fraud, Occupational Fraud, Internal Control, Gift of Public Funds

Fraud

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts. Fraud may occur when an employee or organization deliberately deceives others to gain an unauthorized benefit. A material weakness is a deficiency in the internal control process that could cause errors or fraud to occur or could violate specific laws or regulations. Because of the weakness, employees in the normal course of business may not detect errors in time to correct them.

Although all employees have some degree of responsibility for internal controls, the governing board, district superintendent and senior management are ultimately responsible for the controls that employees under their supervision are expected to follow.

Occupational Fraud

Occupational fraud occurs when an organization's owners, executives, managers or employees use their occupation to deliberately misuse or misapply the employer's resources or assets for personal benefit. The three main types of occupational fraud are asset misappropriation, corruption, and financial statement fraud.

Asset misappropriation includes cash skimming, falsifying expense reports and/or forging company checks. Corruption involves an employee using his or her influence in business transactions to obtain a personal benefit that violates that employee's duty to the employer or the organization. Financial statement fraud includes the intentional misstatement or omission of material information in financial reports.

Occupational fraud is one of the most difficult types of fraud and abuse to detect; however, tips help prevent this type of fraud from occurring three times as often as any other detection method.

According to the "2016 Report to the Nations on Occupational Fraud and Abuse" published by the Association of Certified Fraud Examiners, corruption schemes accounted for 35.4% of the 2,410 cases reported, with a median loss of $200,000. There is a direct correlation between the perpetrator's position and authority in an organization and the amount of losses incurred. Losses from fraud by owners and executives are four times higher than those from fraud by managers and seven times higher than losses incurred because of fraud by employees. Proper monitoring and effective oversight are also highly effective at preventing fraud.

Internal Controls

The framework for internal controls is designed to help management implement effective controls in the organization while providing the board of education more visibility in overseeing the entire system of controls. An effective system of internal controls allows management to focus on the organization's financial and operational goals, while still providing some certainty that risks or fraud are minimal. Even though the internal control system is ultimately the responsibility of management, all employees in the organization can play a part in helping ensure that a control is working effectively. Effective internal controls also help an organization deal with changes in leadership or budgetary decisions that affect the organization. Management must set objectives to determine what control measures are needed in an organization.

Several factors influence the effectiveness of internal controls, including the social environment and how it affects employees' behavior; the availability and quality of information used to monitor the organization's operation; and the policies and procedures that guide the organization. Internal controls help an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, produce reliable financial reports, and ensure compliance with applicable laws and regulations. Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal controls provide reasonable assurance that operations are effective and efficient, that the financial information produced is reliable and that the organization complies with all applicable laws and regulations.

All educational agencies should establish internal control procedures to accomplish the following:

- Prevent management from overriding internal controls.
- Ensure ongoing state and federal compliance.
- Assure the governing board that the internal control system is sound.
- Help identify and correct inefficient processes.
- Ensure that employees are aware of the expectation that proper internal controls will be used.

Internal controls provide the framework for an effective fraud prevention program. An effective internal control structure includes the policies and procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees. The five interrelated elements of an effective internal control structure and their definitions are included in the table below:

Internal Control Component	Definition
Control Environment	Commonly referred to as the moral tone of the organization, the control environment includes a code of ethical conduct; policies and guidelines for ethics, hiring and promotion; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations.
Risk Assessment	Identification and assessment of risks to achieving the organization's objectives and developing strategies to manage those risks.
Control Activities	The development of policies and procedures to enforce the governing board's directives. These include actions by management to prevent and identify misuse of the district's assets, including preventing employees from overriding controls in the system.
Information and Communication	Establishes effective communication to prevent and deter fraud. Ensures that employees receive information regarding policies and opportunities to discuss ethical dilemmas. Establishes clear means of communication within an organization to report suspected violations.
Monitoring Activities	Ongoing monitoring that includes periodic performance assessments to help deter fraud by managers and employees.

A strong system of internal controls that includes all five of the above elements can provide reasonable but not absolute assurance that the organization will achieve its goals and objectives.

Control Environment

The internal control environment establishes the moral tone of the organization. Although intangible, it begins with the leadership and consists of employees' perception of the ethical conduct displayed by the governing board and executive management.

The control environment is a prerequisite that enables other components of internal control to be effective in preventing and/or deterring fraud or illegal acts. It sets the tone for the organization, provides discipline and control, and includes factors such as the integrity, ethical values and competence of employees. The control environment can be weakened significantly by a lack of experience in financial management and internal controls.

Control Activities

Control activities are a fundamental element of internal controls, and are a direct result of policies and procedures designed to prevent and identify misuse of a district's assets, including preventing any employee from overriding controls in the system. Control activities include the following:

Performance reviews, which compare actual data with expectations. In accounting and business offices, these occur most often when budgeted amounts are compared with actual expenditures to identify variances and are followed by budget transfers to prevent overspending.

Information processing, which includes the approvals, authorizations, verifications and reconciliations needed to ensure that transactions are valid, complete and accurate.

Physical controls, which are the processes and procedures designed to safeguard and secure assets and records.

Segregation of duties, which consists of processes and procedures that ensure that no employee or group can commit and conceal errors or fraud in the normal course of duties. In general, segregation of duties includes ensuring separate employees are responsible for the custody of assets, the authorization or approval of transactions affecting those assets, the recording or reporting of related transactions, and the execution of the transactions. Adequate segregation of duties reduces the likelihood that errors will remain undetected by providing for separate processing by different individuals at various stages of a transaction, and for independent review of the work.

Independent auditors' reports on internal control over financial reporting are based on an audit of financial statements performed in accordance with government auditing standards. When conducting independent financial audits, auditors consider internal control over financial reporting to determine audit procedures that are appropriate in the circumstances so they may express their opinion on the financial statements. However, they will not express an opinion on the effectiveness of an organization's internal control because the auditors' consideration of internal control is not designed to identify all deficiencies in internal control that might be a material weakness or significant deficiency. This means that an organization may have material weaknesses or significant deficiencies that were not discovered during the audit.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and/or correct misstatements in a timely manner. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or not be detected and corrected in a timely manner.

A significant deficiency is an internal-control deficiency or combination of deficiencies that is less severe than a material weakness yet important enough to merit attention from those charged with governance.

The following is a partial list of deficiencies and omissions that can cause internal control failures:

- Failure to adequately segregate duties and responsibilities related to authorization.
- Failure to limit access to assets or sensitive data (e.g., cash, fixed assets, personnel records).
- Failure to record transactions, which can result in lack of accountability and the possibility of theft.

- Failure to reconcile assets with the correct records.
- Unauthorized transactions, which can be an indicator of skimming, embezzlement or larceny.
- Lack of monitoring or implementation of internal controls by the governing board and management, or because personnel are not qualified.
- Collusion among employees where little or no supervision exists.

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization is achieving its goals and objectives. Traditionally referred to as hard controls, these include segregation of duties; limiting access to cash; management review and approval; and reconciliations. Other types of internal controls, typically referred to as soft controls, include management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct.

Executive Summary

The Los Angeles County Office of Education requested the Fiscal Crisis and Management Assistance Team (FCMAT) to conduct an AB 139 Extraordinary Audit pursuant to Education Code Section 1241.5(b). The county office received documentation of potential fraud, misappropriation of funds or other illegal practices. The audit's primary focus is to review the Azusa Unified School District's Maintenance, Operations and Transportation (MOT) Department and its procurement practices and internal controls. In conducting the review, FCMAT interviewed staff and reviewed data and documents for compliance and adherence with current law and industry best practices.

FCMAT found that the district's internal control environment is lacking in maintenance, payroll (overtime) and purchasing. For the district to adopt best business practices, it is crucial to develop a code of ethics and communicate its expected standards of conduct to the administration and staff. The district has operated under board policies and administrative regulations that were not routinely updated. FCMAT reviewed board policies that were last updated in 2012. The district lacks adequate procurement processes and experienced purchasing staff and has demonstrated inconsistencies in following policies and procedures. This has led to concerns that district funds may have been used inappropriately and inefficiently. FCMAT found significant material weaknesses in the enforcement of governing board policies, internal controls, operational processes and procedures related to the management and oversight of activities in the MOT Department. These weaknesses appeared mostly through lack of adherence to policies and oversight; the Maintenance Department bypassed specific procurement procedures and circumvented board policies and administrative regulations. Many orders were placed without a proper district purchase order, and the maintenance supervisor directly approved several contracts during the review period.

The MOT Department has a director who has significant experience in school transportation and a supervisor who is also a licensed general contractor and former Department of State Architect (DSA) inspector. Interviews with maintenance staff found that the department is divided in its support of the director versus the maintenance supervisor, and past relationships and loyalty issues are creating many problems for the department. The director was recently promoted to the position after serving as the transportation supervisor, and while his leadership skills are unquestioned, the experience and knowledge necessary for overseeing school building maintenance and understanding compliance issues for bidding and contract management are subject to a high learning curve.

In the last six months, the maintenance supervisor was on paid leave status following an investigation by the Azusa Police Department and the district's legal counsel, Atkinson, Andelson, Loya, Ruud & Romo regarding allegations of theft and the purchase of equipment for personal use with district funds. The police department and district's legal counsel did not identify any conclusive evidence that validated the allegations, and the maintenance supervisor returned to work in August 2017.

During FCMAT's interviews, maintenance staff reported multiple instances of intimidation and bullying by the district's maintenance supervisor and indicated his management style is inconsistent with best practices. While there is no definitive research linking this type of behavior to fraud, there are possible correlations. Several factors may influence the effectiveness of internal controls, including the social environment and how it affects employees' behavior; the availability and quality of information used to monitor the organization's operation; and the policies and procedures that guide the organization. Manipulating employees who feel intimidated creates a work environment where employees are less likely to report fraud or other illegal activities for fear of losing their jobs. Interviews confirmed areas of concern in the Maintenance Department, including unfair or lack of bidding practices, vendor preferences, unfair distribution of employee overtime, misappropriated assets, ignoring safety or compliance issues and insufficient inventory records for tools, supplies and fuel.

Several employees interviewed described the work environment as hostile and at times reported that the maintenance supervisor was abusive. Specific employees allegedly faced this type of retribution continually, had difficulty completing assignments and stated it was difficult to be efficient and productive in performing their jobs. In all of the interviews conducted by FCMAT, an equal number of employees indicated they did not feel threatened or offended by the maintenance supervisor or the instruction they were provided to complete tasks. There were multiple reports of tobacco use by employees on district property, which is in direct violation of board policy 3513.3 Tobacco Free Schools and its corresponding administrative regulation. This type of activity could result in the forfeiture of federal funds.

Every employee interviewed reported instances of theft that were continually blamed on a resident homeless population that lived directly behind the maintenance facility. Police reports were made, and cameras were installed, but the theft of district equipment has continued. Several employees reported tools or supplies disappeared from their trucks when there was no apparent break-in of their vehicles.

Employees interviewed reported entire heating, ventilation and air conditioning units went missing, large volumes of exterior paint were ordered in colors that the district did not use, and excessive amounts of Freon disappeared. While errors can be made in the ordering process, the district lacks the proper internal controls and oversight to monitor MOT procurement. The MOT Department operates in isolation and has little or no oversight from the central business office or Purchasing Department. Management control is the first line of defense against fraud or illegal activities, with compliance functions identified as the second line of defense.

The district's board policies, which provide the foundation for internal controls and efficient use of district funds, are not current with legal statute and best practices and the MOT Department does not follow many of the policies and administrative regulations. The following were issues of concern identified by FCMAT:

- Official written purchasing policies and procedures were not updated by board approval
- Specific levels of authority identifying who is permitted to approve purchases, for what items, established dollar criteria or amount were unclear.
- Establishing and maintaining an approved-vendor list with a vendor validation process was lacking for open purchase orders.
- Written processes were not implemented to ensure that only authorized employees can make purchases from specified vendors.
- Competitive bids were not required for all purchases in accordance with Education Code and Public Contract Code.
- MOT employees are not identified and required to file public disclosure documents for Form 700 requirements. Multiple employees in the MOT Department have personal businesses and may conduct business with district vendors.

On several occasions, a district representative may have benefited from his/her approval of a contract, which is a potential conflict of interest. District policies should be regularly reviewed and updated as needed to align with current law and district priorities.

MOT overtime appears to be excessive and was not authorized or offered in accordance with Article V of the CSEA bargaining agreement. However, FCMAT validated that overtime was offered consistently using the same daily process. Many employees reported favoritism was used to grant these extra hours, but they may be confused about the ability of specific employees to select overtime based on the type of work involved. It is almost impossible to detect overtime payroll schemes carried out by management personnel or in collusion with other employees; however, the district can examine its internal control structure to ensure that appropriate checks and balances are implemented.

The Purchasing Department is adequately staffed and organized with a purchasing supervisor, buyer and data entry clerk. However, the purchasing supervisor is new to her position, and has a high learning curve to become thoroughly familiar with purchasing laws, best practices, and the district's purchasing policies and procedures. The district utilizes a financial software application [PeopleSoft (Oracle)] maintained and controlled by the county office. PeopleSoft has established securities that limit the district's ability to efficiently utilize only one system for financial reporting purposes. However, the district does not use the financial system's online purchasing module.

FCMAT reviewed transactions made since the 2013-14 fiscal year to identify weaknesses in the procurement process. This report contains the review and evaluation for purchase orders, contracts, and vendor audits that identify many instances of concern. Many of the issues resulted from a lack of purchasing policies; however, where processes procedures were implemented, FCMAT found that they were circumvented. These include agreements that had been entered into, but did not follow the procurement vetting and approval process.

Findings and Recommendations

Internal Control Deficiencies

Background

At the Azusa Unified School District, many internal control elements are weak or lacking, including the control environment, monitoring and control activities. This has led to an environment with considerable risk for fraud, misappropriation of funds and misuse of district assets in the management and oversight of the district's MOT department. FCMAT identified material weaknesses in multiple areas of internal control because of ineffective procedures in several elements of the internal control structure. These weaken the district's ability to provide the proper segregation of duties in the procurement of materials and supplies and contracts under the MOT department. Among these weaknesses were: improper application and/or enforcement of governing board policy, weak management and oversight of maintenance activities, and management that overrides established procedures and internal controls. In addition, employees widely perceived the maintenance supervisor's ethical conduct as inconsistent with best practices, which has compromised the organization's moral tone.

Leadership

Well-defined roles between the board, management and MOT leadership positions are critical to the development of a strong working relationship and efficient operations. Organizational relationships may be influenced by internal and external factors that affect school leaders during times of fiscal crisis, personnel changes and demands to improve or enhance facilities by staff and the community. During interviews, staff expressed dismay at the work environment, which includes allegations of bullying or lack of respect directly from the maintenance supervisor. Many staff indicated they were treated in an unprofessional manner, specifically rude or dismissive behavior from the supervisor, particularly in front of other employees. Some employees stated that persistent criticism and derogatory comments were made, which undermined the employee's credibility.

Employees alleged that the supervisor made unreasonable demands or withheld critical information, making it difficult for the employees to perform their work. The impact on employees and organizational morale appears to be significant, and the district will need to monitor and review this type of behavior to improve the MOT Department. It will be extremely important to develop a culture that communicates and promotes ethical behavior, sets the appropriate tone at the top and provides employees with an avenue to identify potential fraud and other illegal activities

Information obtained during interviews and a review of transactions support that the maintenance supervisor may have used his influence over business transactions to deliberately override recommendations and board policies on the procurement of materials and supplies and contracted services. The supervisor's role is normally to assume leadership in the formulation of internal processes and procedures and assume responsibility for implementing and following specific board policies. However, during FCMAT's audit of the district, the team identified multiple internal control deficiencies and noncompliance with industry-standard practices in the MOT Department. There is a lack of proper segregation of duties in functional areas that included maintenance purchasing and accounts payable.

District staff reported that they were subject to retribution by the maintenance supervisor when they questioned the purchases of equipment, materials and services. On multiple occasions, the maintenance supervisor processed transactions without documentation and bypassed established internal control procedures on bidding and processing invoices. Staff reported problems that arose from changes in management positions over the last three years and indicated that these have resulted in a weakness in MOT leadership.

The board's role is to promote transparent vendor relationships and fiscal responsibility through consistent oversight. The district's Board Policy 3311 states the following:

> To ensure transparency and the prudent expenditure of public funds, the Board of Trustees shall award contracts in an objective manner and in accordance with law. District equipment, supplies, and services shall be purchased using competitive bidding when required by law or if the Board determines that it is in the best interest of the district to do so.

Board Policies and Bylaws

The district's Board Policies 3000-3600 cover Business and Non-Instructional Operations. Specific policies related to the procurement processes include the following:

Board Policy 3000, Concepts and Roles, recognizes the board of education's fiduciary responsibility to oversee the prudent expenditure of district funds. It states that the board of education recognizes that business operations "support the education program by maximizing and prioritizing resources" and "the board expects sound fiscal management from the administration."

The policy further states that the following:

> …in order to best serve District interests, the Superintendent or designee shall develop and maintain effective purchasing procedures that are consistent with sound financial controls and that ensure the District receives maximum value for items purchased. S/He shall ensure that records of expenditures and purchases are maintained in accordance with law.

Regarding expending authority, the policy states the following:

> …the Superintendent or designee may purchase supplies, materials, apparatus, equipment and services up to the amounts specified in Public Contract Code 20111, beyond which a competitive bidding process is required. The Board shall not recognize obligations incurred contrary to board policy and administrative regulations.

The policy provides as follows:

> …the Board shall review all transactions entered into by the Superintendent or designee on behalf of the board every 60 days (Education Code 17605). The Superintendent or designee may authorize an expenditure which exceeds the budget classification allowance against which the expenditure is the proper charge only if an amount sufficient to cover the purchase is available in the budget for transfer by the Board.

Public Contract Code (PCC) 20111 requires school districts to publicly bid certain purchases for equipment, materials, supplies or services that are subject to a variety of bid thresholds and criteria. A record review found that many documents were not on site at the district including the following:

- Bid documents for the bidding of contracts, request for proposals or qualification for professional services related to construction projects from bond funds.
- The official budget for each project.
- Inspector's records, construction progress and other construction accounting records including budget-to-actual records by project.

Because of this lack of bid documents to inspect, the team could not identify the process, evaluation criteria for award, number of bids, type of bid, request for quotation or request for proposal documents.

Further, Board Policy 3300, Expenditures and Purchases references purchasing procedures, states the following:

> Insofar as possible, goods and services purchased shall meet the needs of the person or department ordering them at the lowest price consistent with standard purchasing practices. Maintenance costs, replacement costs, and trade-in values shall be considered when determining the most economical purchase price. When price, fitness, and quality are equal, recycled products shall be preferred when procuring materials for use in district schools and buildings.

This board policy then concludes as follows:

> All purchases shall be made by formal contract or purchase order or shall be accompanied by a receipt. In order to eliminate the processing of numerous small purchase orders, the Superintendent or designee may create a 'blanket' or 'open' purchase order system for the purchase of minor items as needed from a vendor. S/He shall ensure that the 'open' purchase order system details a maximum purchase amount, the types of items that can be purchased.

Board Policy 3314, Payment for Goods and Services adopted in November of 2012 recognizes the importance of developing a system of internal control procedures to help fulfill the district's obligation to monitor and safeguard its resources as follows:

> To facilitate warrant processing, the Superintendent or designee shall ensure that purchasing, receiving, and payment functions are kept separate. He/She shall also ensure that invoices are paid expeditiously so that the District may, to the extent possible, take advantage of available discounts and avoid finance charges.
>
> The Superintendent or designee shall sign all warrants and shall ensure that warrants have appropriate documentary support verifying that all goods and services to be paid for have been delivered or rendered in accordance with the purchase agreement.

The district should have policy and regulation enforcement mechanisms for all board members and employees. One of the most important policies is for managing district assets/accounts to ensure necessary safeguards of the district's funds. Board Policy (BP) 3400, Management of District Assets/Accounts has been adopted for internal controls and fraud prevention and is a clear reminder that employees should report any indication of fraud, financial impropriety, or other illegal act in their area of responsibility.

Board Policy 3400 states the following:

> Board members, employees, consultants, vendors, contractors and other parties maintaining a business relationship with the District are expected to act with integrity and due diligence in duties involving the District's assets and fiscal resources.

Internal controls are to be developed that aid in the prevention and detection of fraud, financial impropriety or irregularity in the district. The policy requires all employees to be vigilant for any of the following:

> …indication of fraud, financial impropriety, or irregularity within their area of responsibility. Any employee who suspects fraud, impropriety, or irregularity shall immediately report those suspicions to his/her immediate supervisor and/or the Superintendent or designee. In addition, the Superintendent or designee shall establish a method for employees and outside persons to report anonymously any suspected instances of fraud, impropriety, or irregularity.
>
> The Superintendent or designee shall have primary responsibility for investigations of suspected fraud, impropriety, or irregularity, in coordination with legal counsel, the District's auditors, law enforcement agencies, or other governmental entities.
>
> The Superintendent or designee shall provide regular reports to the Board on the status of the District's internal control procedures and recommend any necessary revisions to related Board policies or administrative regulations.

Board Policy 3600, Consultants does the following:

The governing board authorizes the use of consultants to provide expert professional advice or specialized technical or training services that are not needed on a continuing basis and cannot be provided by district staff because of limitations of time, experience or knowledge. Individuals, firms or organizations employed as consultants may assist management with decisions and/or project development related to financial, economic, accounting, engineering, legal, administrative, instructional or other matters.

> As part of the contract process, the Superintendent or designee shall determine, in accordance with Internal Revenue Service guidelines, that the consultant is properly classified as an independent contractor. District employees who perform extra-duty consultant services shall not be retained as independent contractors. They shall be considered employees for all purposes, even if the additional services are not related to their regular duties.
>
> All consultant contracts shall be brought to the Board for approval.
>
> Independent contractors applying for a consultant contract shall submit a written conflict of interest statement disclosing financial interests as determined necessary by the Superintendent or designee, depending on the range of duties to be performed by the consultant. The Superintendent or designee shall consider this statement when deciding whether to recommend the consultant's employment.

The board will not contract for vague services.

Before contracting with a consultant, a written proposal or contract will detail the following:

- The specific objectives to be accomplished by the consultant.
- The specific tasks to be performed.
- The procedures to be used in carrying out the tasks.
- The target dates for the completion of tasks.
- The method to be used to report results to the board and/or to deliver any "product" (e.g., long-range plan, codified policy manual, etc.) to the board.

As part of the contract process, the Superintendent or designee shall determine, in accordance with Internal Revenue Service guidelines, that the consultant is properly classified as an independent contractor."

District employees who perform extra-duty consultant services shall be considered employees even if the additional services are not related to their regular duties.

Independent contractors applying for a consultant contract shall submit a written conflict of interest statement disclosing financial interests.

The board's bylaws, policies and administrative regulations should be reviewed as often as necessary and be continually updated to remain consistent with the best practices in K-12 education. Board policies and administrative regulations are based on laws and regulations in numerous documents, including the California Constitution, Education Code, Code of Regulations, Government Code, federal regulations, case law, and industry practice. Board policies and regulations provide guidelines and directives for district operation and are a key component of internal controls. It is important to ensure that board policies are updated to reflect changes in legislation. In designing board policies and administrative regulations, management is responsible for designing and implementing a system of internal controls over financial reporting.

This system should provide reasonable assurance that misstatements and/or noncompliance affecting the financial statements are prevented or detected and corrected through normal operating procedures. When adopting board policy, the district should carefully consider the specific guidelines that promote behavior that secures district assets from misuse or fraud. As a part of this study, FCMAT requested copies of the district's board policies and administrative regulations, which the district provided through its online link to California School Boards Association's (CSBA) Gamut Online program.

FCMAT's review of those policies and bylaws and their adoption dates show they were adopted and updated by section, but most have remained unmodified since November 27, 2012. Further comparison of the district's adoption dates to those of the CSBA Gamut master policy manual found policies in each section that have undergone revisions because of changes in law since the district's adoption dates.

Recommendations

The district should:

1. Regularly review and update board policies and administrative regulations to ensure they remain relevant and reflect the latest statutory requirements and district objectives.

2. Ensure employees are aware of board policies and that policies remain accessible for public and staff reference.

3. Establish regular training on the identification and prevention of fraudulent activity for all business staff.

4. Require that all invoices submitted for payment include the project reference or name and job code, before making payments.

5. Hold an orientation meeting between incoming and outgoing business positions including but not limited to the assistant superintendent and director of maintenance positions to ensure continuity in the organizational transition.

6. Conduct professional development training on the handling of all documents containing information relating to property, activities, financial condition or transactions and are defined as Class 1 - Permanent Records in accordance with Title 5, California Code of Regulations, Section 16023. The original or one exact copy, unless microfilmed, of these records is required to be retained indefinitely.

7. Ensure the superintendent and board address the perception of unethical behavior by the maintenance supervisor.

Conflict of Interest

The district provided FCMAT with board policies and bylaws in compliance with Government Code 1090, which requires board members and designated staff to disclose any conflict of interest and to abstain from participating in any decisions when a conflict exists. The disclosure requirement is fulfilled through the annual submission of a Statement of Economic Interest (Form 700), which is required of the board, superintendent, assistant superintendent of business services and, to a lesser degree of disclosure, other district administration including the supervisor of purchasing.

Additional steps available to help identify possible conflict of interest, opportunity for collusion, and potential fraud include vendor verification and vendor affirmation of no conflict of interest.

Vendor verification should include a front-end check of all new vendors and annual review of the district's vendor master file. This verification should ensure vendors have been processed through the appropriate approval process; tested for any relationship with district decision-makers including vendor name, address, and Social Security/taxpayer identification number; and confirmation is obtained that the vendor is still in business. Vendor affirmation includes having the vendor complete and sign a form similar to Form 700 to verify their independence and lack of conflict. Requiring these steps will substantially strengthen the district's internal control system.

The district's adopted Board Bylaw 9270, revised in April 2013 includes a comprehensive conflict of interest code including California Government Code Section 87100 etc., and designates by board resolution specific positions that must report conflicts of interest on Form 700. The conflicts of interest code also states the following:

> Board members and designated employees are required to annually file a Statement of Economic Interest/Form 700 in accordance with the disclosure categories specified in the district's conflict of interest code. The district's bylaws in accordance with Government Code Section 87200 specifically list the Maintenance and Operations Director and Supervisor as designated employees who must file form 700 under category 2. Specifically, designated persons in this category must report investments or business positions in or income from sources which:
>
> a. Are contractors or subcontractors engaged in work or services of the type used by the department which the designated person manages or directs.

During FCMAT's interviews, the team found that the supervisor position and four subordinate positions have contractor licenses and own or operate small businesses that may have potential conflicts of interest in accordance with the district's board bylaws. None of the employees interviewed, including the director and supervisor, had been instructed on filing and meeting the requirements of form 700. During the document collection period and while on site, FCMAT requested all form 700 annual filings, but did not receive any documents from the district.

Specifically, the maintenance supervisor has a fiduciary responsibility for purchasing materials and supplies and equipment on behalf of the district. In reviewing the open purchase order list for the past four years, the Maintenance Department has open purchase order listings that total from $2.6 million in 2015-16 to less than $1 million projected for the 2017-18 fiscal year.

Potential conflicts of interest are based on the concept that government officials' personal and private financial considerations while performing in their official capacity for the local educational agency should not be allowed to participate in decision-making. In accordance with the California Fair Political Practices Commission, a public official has a disqualifying conflict of interest in a governmental decision if it is foreseeable that the decision will have a financial impact on his or her personal finances or other financial interests. In such cases, there is a risk of biased decision-making that could sacrifice the public's interest in favor of the official's private financial interests. To avoid actual bias or the appearance of possible improprieties, the public official is prohibited from participating in the decision.

Disqualifying Financial Interests

Five types of interests may result in disqualification:

- **Business Entity.** A business entity in which the official has an investment of $2,000 or more in which he or she is a director, officer, partner, trustee, employee, or manager.
- **Real Property.** Real property in which the official has an interest of $2,000 or more including leaseholds. (However, month-to-month leases are not considered real property interests.)
- **Income.** An individual or an entity from whom the official has received income or promised income aggregating to $500 or more in the previous 12 months, including the official's community property interest in the income of his or her spouse or registered domestic partner.
- **Gifts.** An individual or an entity from whom the official has received gifts aggregating to $470 or more in the previous 12 months.
- **Personal Finances.** The official's personal finances including his or her expenses, income, assets, or liabilities, as well as those of his or her immediate family.

Recommendations

The district should:

1. Update as necessary board policy 9720 that requires compliance with Government Code 1090 and the disclosure of any conflicts of interest.
    a. Ensure the board policy correctly identifies all positions by title that are required to meet the disclosure requirements.
2. Establish and implement a vendor verification process for all new vendors and annually review the vendor master file.
3. Ensure that the district's elected officials, administration and designated employees complete ethics training on the roles and responsibilities of public officials in relation to conflicts of interest and the Fair Political Practices Act.
4. Exercise its authority to question designated employees and members of the board about outside activities or financial interests included in Government Code Sections 1090 and 1126.
5. Ensure that all new and existing employees, consultants and elected or appointed board members who are in the designated classifications that require them to complete form 700 and submit the form within 30 days of taking\leaving office or employment, and annually as applicable.

Purchasing Overview

FCMAT reviewed key areas of the district's procurement process, including: purchasing, bidding, contracts, and staffing and organization. Internal purchasing controls and payment processes were reviewed in both the MOT and Purchasing departments, and audits were performed on a random sample of transactions that included bid documents, open purchase orders, invoices, etc. from July 1, 2013 to the current fiscal year.

In local education agencies (LEAs), including school districts, the process of purchasing supplies, equipment and services is dictated by statute, local board policy, and district procedures and practices. Sections of the Education Code, Public Contract Code, Government Code, and California Code of Regulations all provide the legal basis and parameters that a school district must use to conduct its purchasing functions. Board policies, regulations, procedures and guidelines add controls that are designed to protect school districts by meeting various purchasing and contract needs efficiently while considering lowest cost and highest value.

Effective internal controls provide reasonable assurance that a district's operations are effective and efficient, the financial information produced is reliable, and the organization complies with all applicable laws and regulations. Weaknesses or the lack of many internal control elements can often lead to an environment with potential for fraud, misappropriation of assets and misuse of district assets.

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization achieves its objectives and goals. Traditionally referred to as hard controls, these include segregation of duties, limiting access to cash, management review and approval, and reconciliations. Other types of internal controls include soft controls such as management tone, performance evaluations, training programs, and established policies, procedures and standards of conduct.

General guidelines and best practices for school district purchasing include the following:

1. Board policies and regulations to provide the foundation and expectation that purchasing follows legal requirements, provides strong internal controls and meets procurement objectives.
2. Designation of staff member(s) responsibilities and authority throughout the purchasing process.
3. Standardized procedures for vendor selection, requisition generation, and issuance of purchase orders. These procedures should also establish competitive bidding processes to ensure prudent and optimal use of funds and appropriate minimum standards and compatibility requirements for supplies and services.

Board Policies

The district recognizes its fiduciary responsibility to oversee prudent expenditures of all funds. Board Policy (BP) 3300 (updated 2012) delegates spending authority to the superintendent or designee in accordance with the Public Contract Code Section 20111 and other statutes including Education Code Section 17605. District purchasing policies include budget, management of assets and accounts, financial reports and accountability, conflict of interest and expending authority.

Additional board policies related to purchasing that were reviewed by FCMAT include the following:

BP 3311 (2012) Bids: To ensure transparency and prudent expenditure of public funds, the board shall award contracts in an objective manner and in accordance with law.

BP 3312 (2012) Contracts: The power to contract may be delegated to the superintendent or designee. To be valid or to constitute an enforceable obligation against the district, all contracts must be approved and/or ratified by the board.

BP 3314 (2012) Payments for goods and services: The board recognizes the importance of developing a system of internal control procedures. To facilitate warrant processing, the purchasing, receiving, and payment functions are to be kept separate. The superintendent or designee shall sign all warrants and ensure there is appropriate documentary support verifying receipt of goods and services.

BP 3314.2 (2012) Revolving fund: A revolving fund may be used to pay for goods, services, and other charges as determined by the board. A vital step in the purchasing process is the approval process for making the purchase of goods or services.

BP 3400 (2012) Internal controls/fraud prevention: The District expects board members, employees, consultants, vendors, contractors and other parties maintaining a business relationship with the district to act with integrity and due diligence in dealings involving district assets and fiscal resources. Internal controls shall be developed to aid in the prevention and detection of fraud, financial impropriety, or irregularity. These internal controls may include segregating employee duties; providing job descriptions explaining the segregation of duties; adopting an integrated financial system; conducting background checks on business office employees; and requiring training for business office staff on the importance of fraud prevention.

Designation of Staff Members

The district's purchasing supervisor had been in this position for less than six months when FCMAT completed its fieldwork. She was previously administrative assistant to the superintendent and had no purchasing experience before holding that position. The Purchasing Department is also staffed with a buyer and data entry clerk. Although the department is adequately staffed and organized, the purchasing supervisor has a significant learning curve to become thoroughly familiar with the district's purchasing policies and procedures. The district maintains integration with the county office's financial system (PeopleSoft), but all staff need additional professional development training to ensure monitoring and accountability controls are in place.

The Maintenance and Operations Department has been allowed to operate independently of the business office and more specifically the Purchasing Department. All departments including Business, Maintenance and Purchasing fail to follow the required board policies for purchasing supplies and services or follow best practices for internal controls. Because of the lack of professional development training and consistent personnel in the business office and more specifically experience in the Purchasing Department, board policies, Government Code and statutes implemented to protect the district and its funds have not been followed. While it is imperative for the department to remain flexible and able to operate expeditiously, full and open competition for the purchase of goods and services protects the district and employees from potential conflicts of interest. Because the district failed to clearly define price levels for which quotes were obtained and/or written verification is needed, the Maintenance and Operations Department may not have stimulated competition to receive the most favorable pricing. None of the personnel operating in purchasing or maintenance are aware of best practices and purchasing requirements of the Education Code, Public Contract Code or Government Code. Neither department had any written processes or procedures, and the Purchasing Department was initiating the development of a purchasing handbook during the interview process. The document was in its initial phase and had no substance or value.

Standardized Use of Vendor Selection and Use of Purchase Order Process

School districts use purchase orders to initiate purchases from vendors. Purchase orders are also used to complete an approval process prior to purchase, communicate the specifics of an order, such as items and quantity, to a vendor, and encumber the amount of the purchase order against a budget for budget monitoring purposes. Purchase orders can also be used to track the receipt of goods and services and provide information to accounts payable for auditing prior to payment.

The best practice to document purchasing includes a written rationale for the purchase selection and specifies the competitive process used, if any. The Purchasing Department should vet frequently used materials, supplies, and services and, once selected, that selection rationale should suffice for subsequent purchases. All nonstandardized purchases should require supportive rationale for vendor and product selection. When the bidding process is used, the retained bid documents will provide satisfactory evidence. When requests for proposals or qualifications are utilized, the request document and proposals/qualifications should be maintained along with the analysis describing the selection rationale. In the case of written quotes, all should be retained along with a written explanation if the lowest quoting vendor was not selected. If verbal quotes are obtained, contemporaneous notes in the purchasing file should provide the names of the vendors solicited along with the prices quoted and an explanation of the selection rationale if the lowest quoting vendor was not selected.

The district has established some informal purchasing procedures for the Maintenance Department. Blanket purchase orders are opened at the beginning of the fiscal year and may be used only for purchases up to $500. Any purchase of more than $500, even for consumables such as paint, requires a separate purchase order and should be referenced by the department as a “special purchase order.” The district annually maintains approximately 150 blanket or open purchase orders. Interviews indicated that open purchase orders sometimes have zero charges against them throughout the year. This indicates that the district is operating in a status-quo mode, reopening purchase orders that may not be needed.

At the beginning of the fiscal year, when open purchase orders are created, the director of maintenance, operations and transportation creates a signing sheet for each vendor. The signing sheets identify which employees are authorized to use and “sign” for items using open purchase orders assigned to specific vendors. FCMAT was unable to determine, through written policy, how these signing sheets were created. Interviews found that some maintenance employees lacked the ability to make purchases against open purchase orders. Purchasing materials and parts is an essential function required to perform the duties of maintenance personnel. Because of the limited signing ability, maintenance staff reported a waste of time throughout the day. Maintenance staff members are required to meet the director of maintenance, operations and transportation at local suppliers so he can sign and authorize purchases needed for repairs.

Although the need for purchasing controls is important, the limited signing authority of maintenance personnel is overly strict and causes many inefficiencies that impede employees' ability to complete work orders. The best practice for school district purchasing procedures is to make distinctions among supplies, parts and noncapitalized equipment, with appropriate purchasing procedures and thresholds for each. Abuse of the purchasing procedures should be addressed through disciplinary action for the individual involved rather than through greater restrictions on all staff.

It would benefit the district to establish new purchasing procedures to improve efficiency and productivity and facilitate budgeting without compromising accountability. Blanket purchase orders for an average years' worth of supplies should be opened at the beginning of the fiscal year. By encumbering those funds, the department is provided with an accurate view of account balances through periodic review of funds. In addition, the department should assess each open purchase order to determine if that vendor is used annually. Finally, it would benefit the district if management increased the signing authority for maintenance staff. Individuals who abuse this limit should face disciplinary action on an individual basis. This change will empower staff, increase trust, and improve morale and efficiency within the department.

Recommendations

This district should:

1. Evaluate the number of open purchase orders and reduce them as necessary.
2. Develop a purchasing handbook that aligns with board policy and administrative regulations
3. Increase signing authority of maintenance staff, and address purchasing abuse, if needed, on an individual basis.
4. Continue to support the department with the appropriate professional development to increase organizational capacity.

Bidding Process

Public Contract Code (PCC) 20111 requires school districts to publicly bid for certain materials, supplies or services that are subject to a variety of bid thresholds and criteria. FCMAT examined the district's bidding processes and found its materials, services and supply acquisition and public works construction bidding procedures are based on the mandates outlined in Section 20111, which requires school districts to formally bid supplies, equipment, materials, services other than construction, and repairs in accordance with the following:

> **20111. (a)** The governing board of any school district, in accordance with any requirement established by that governing board pursuant to subdivision (a) of Section 2000, shall let any contracts involving an expenditure of more than eighty Eight Thousand, three hundred dollars($88,300) for any of the following:
>
> (1) The purchase of equipment, materials, or supplies to be furnished, sold, or leased to the district.
>
> (2) Services, except construction services.
>
> (3) Repairs, including maintenance as defined in Section 20115, that are not a public project as defined in subdivision (c) of Section 22002.
>
> The contract shall be let to the lowest responsible bidder who shall give security as the board requires, or else reject all bids.
>
> (b) The governing board shall let any contract for a public project, as defined in subdivision (c) of Section 22002, involving an expenditure of fifteen thousand dollars ($15,000) or more, to the lowest responsible bidder who shall give security as the board requires, or else reject all bids. All bids for construction work shall be presented under sealed cover and shall be accompanied by board approved forms of bidder s security.

FCMAT found that district staff need professional development training and were not knowledgeable of public contract code and bidding requirements or follow board policies.

Recommendations

This district should:

1. Continue to align the materials, supplies, and public works project bid thresholds to the thresholds required of all K-12 local educational agencies in California.
2. Offer ongoing professional development for Purchasing Department staff.

Accounts Payable

The accounts payable staff must ensure the proper procurement process is followed and that goods or services were received before funds are disbursed.

When paying invoices, accounts payable should ensure that each vendor invoice references a unique purchase order number. If no purchase order is indicated, accounts payable may have to search the database for these documents using vendor, items purchased, and ship-to locations. Once the purchase order is located, accounts payable should verify that the items on the invoice match the items on the purchase order. When matching invoices to purchase orders, the best practice is to be able to answer in the affirmative the following questions:

- Does the vendor information on the invoice match the vendor information on the purchase order and the packing slip or bill of lading (commonly referred to as the three-way match)?
- Was the purchase order approved and issued before the invoice was received?
- Are the items invoiced the same as the items ordered?
- If paying on an open purchase order, do the items match the general category of items authorized?
- Do the amounts invoiced (by total or by item) match the purchase order?
- Does the invoice have enough detail to verify that the services were performed as contracted?

An invoice for services, especially a progress invoice, should include details such as dates, descriptions, and hours of service. Accounts payable should also verify that invoices match the receiving document, such as a packing slip or bill of lading.

A receiving clerk or warehouse employee can verify that items were received. However, the receiving of contracted services should require verification by a person with knowledge of the services performed. The school district should be able to answer in the affirmative or accurately the following questions regarding verifying invoices to receiving documents:

- Does the invoice match the items received?
- When were the items received? This will make a difference at year end when determining the fiscal year.
- Is the order complete and can the purchase order be finalized?

Accounts payable should also audit invoices to ensure the following:

- The purchase order, receiving document and invoice all match.
- The invoice is not a duplicate. Use exact vendor invoice number, amount and date to verify.
- The total invoice amount is correct.
- Shipping and handling have been applied correctly per the purchase order.
- Sales tax and/or use tax rate is correct for the delivery location.
- All charges are current, and the invoice does not include an amount brought forward.

- Purchase order encumbrances are sufficient to pay the current invoice or are within the district's variance policy.
- The invoice pricing matches any quote or bid pertaining to the purchase order.
- The account code is correct per the chart of accounts, department responsibility, and state account code requirements.
- The fiscal year for processing is correct.

Sometimes the purchase order, receiving document and invoice will not match. This can happen in the case of direct payments for which no purchase order was issued, such as a board-authorized pay voucher; when prepayments are made for services not yet received; and when purchases are made online using an authorized credit card.

During fieldwork, staff indicated that the Maintenance Department routinely processed confirming requisitions, and payment was often made after work was performed. Because the department must be equipped to deal with emergencies, confirming requisitions will be justified in some instances. However, these documents should not be used to circumvent the purchasing process when conducting normal operational activities.

Recommendations

The district should:

1. Develop criteria to determine when a maintenance emergency exists.
2. Process confirming requisitions only when the maintenance emergency meets district-adopted criteria.
3. Provide accounts payable staff with the maintenance emergency criteria to ensure that confirming requisitions from the Maintenance Department are not processed in error.

Work Orders

The district uses an electronic work order system to ensure repairs and tasks are managed in an organized way, assigned to the appropriate individual and completed in a timely manner. The district has maintained a work order system for many years, but changed systems within the last three years. Because of this change, much of the legacy documentation was not retrievable for the purposes of FCMAT's review. The current version of the work order system (KACE System Management) allows for the entire work order process to be electronic. The district has purchased all maintenance employees electronic tablets, which allows employees to receive work orders, document labor, material and a description of the work performed, and eventually close an assigned work order. Interviews indicated multiple areas of concern with the work order system as follows:

- **Lack of consistency in work order recordkeeping.** Many Maintenance Department employees do not fill out detailed information on their assigned work orders. Labor hours are routinely not recorded. Employees often do not record the amount or type of materials that were used during a repair, and the description of the work performed lacked substance or sufficient information to justify the amount of time or funds used to make a repair. The lack of information prevents the district management team from making strategic decisions. For example: If all the work orders for a specific air-conditioning system are documented with details and accuracy, the district can make preventive decisions to replace a system based on the number of repairs, amount of funds expended or number of work orders generated in a specific time period.

- **Lack of Connectivity and Technical Support** Many interviewees reported that the district's wireless system lacks connectivity in many areas. This lack of access to the electronic work order system creates frustration among the employees. Once access is gained to the electronic work orders, employees quickly post a limited amount of information before they lose connectivity. Additionally, while the district's Information Technology Department supports the work order system, the Maintenance Department was unable to change the routing approval order for maintenance work orders while the maintenance supervisor was on administrative leave.
- **Paper work orders.** Because of the lack of connectivity and inability to change the routing approval order, the department has been printing paper copies of all work orders. This has created a duplication effort by the administrative staff in the Maintenance Department. The administrative staff is now required to print, track, and file completed work orders. Additionally, if time permits, the administrative staff will transfer any written information on a paper work order to the electronic work order system.
- **The feedback loop is bypassed.** By reverting to a paper work order process, the Maintenance Department has eliminated feedback to the requestor of a work order. The Maintenance Department administrative staff often spent time researching the status of a work order so updates could be given to the requestor. With a fully implemented electronic system that contained daily updates, the requestor of the work order could review the status through the online system.

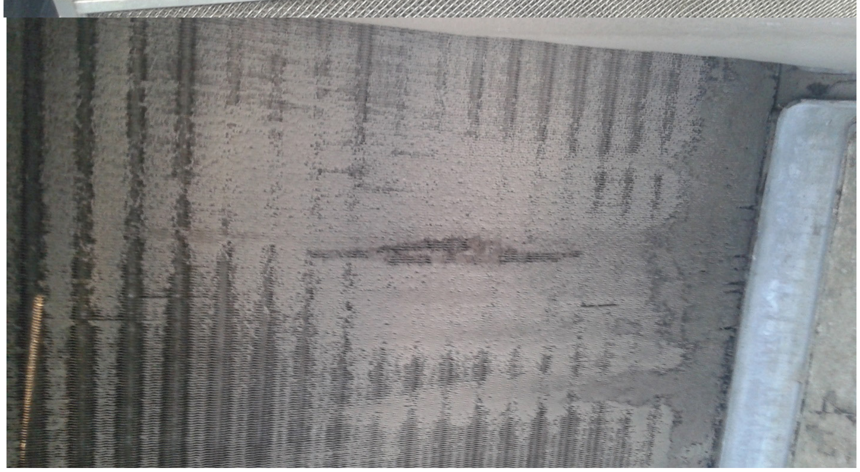
While the supervisor of maintenance was on administrative leave, the director of maintenance, operations and transportation was reviewing work orders. The director of maintenance, operations and transportation was recently promoted to this position from the Transportation Department. He has received positive comments from the maintenance staff and district administration, but he lacks industry knowledge that allows him to evaluate work orders.

The following show that the employees performing tasks on HVAC equipment are not following through with the completion of work orders. After a repair is made, failed parts and debris often remain. A technician should always remove this material. In these examples, additional problems can occur from the discarded material being left on the roof. Motors or parts with sharp edges left on the roof create the potential for roof damage resulting in roof leaks or trip hazards. Roof drains can become plugged when air filters or other debris is not removed, causing rain water to accumulate. This accumulation can cause roof leaks or stagnate water, which attracts pests that carry a potential for disease. Additionally, some lightweight material, such as air filters, can become airborne with a light wind causing a potential for injury to students and others on the ground.

Work Order Process

Request	•Work order is generated by site principal, department lead, etc.
Assign Work Order	•Maintenance supervisory staff assigns a techincian
Schedule Work	•Supervisory staff and technician schedule time for diagnosis
Diagnose	•Technician diagnoses the problem and procures repair parts, if needed
Repair	•Technician makes repairs and tests system functionality
Clean up	•Technician cleans up debris, resulting from repair
Close Work Order	•Technician documents work performed with accurate details and closes work order

Air filters have fallen into the return air plenum of an HVAC system. By leaving these filters in this space, the volume of the airflow through the unit is decreased, creating inefficiencies in system performance, additional maintenance needs, and premature failure of the system.



The evaporator coils within the HVAC unit are extremely dirty. This accumulation of debris on the coil occurred from lack of maintenance, and it appears that air filters were not installed in these systems. Otherwise, the debris would have been stopped in the air filter. These pictures indicate that the district lacks any type of preventive maintenance program. A preventive maintenance plan would include cleaning or replacing air filters on a regular interval to ensure peak performance. Failure to replace air filters or operate an HVAC unit with coils as dirty as the ones pictured above, will cause high indoor humidity, low airflow throughout the conditioned space, increased energy consumption, and premature failure.

The technician who worked on this unit bypassed the thermostat. The wiring block in the picture is the typical connection point for the thermostat, which controls the unit from the conditioned space. The yellow wire has been placed between the “R” terminal and the “G” terminal. This action would cause the fan to run continuously, without control from the thermostat. It is uncertain why this action was taken, but the result is increased energy consumption, premature failure of the indoor fan motor, and a potential for cold drafts or discomfort in the conditioned space.

Recommendations

This district should:

1. Ensure that the maintenance supervisor has specific maintenance and or construction knowledge.
2. Document detailed description of work that is performed on all work orders. This should include labor hours and material.
3. Fully utilize the electronic work order system. This should be done by working closely with the district's Information Technology Department to correct the work order approval and routing process.
4. Ensure internet connectivity is available for tablet devices used by the Maintenance Department.

Inventory

During FCMAT's fieldwork, the district could not provide an inventory list for any parts, material or equipment used by the maintenance department. The district does not have adequate purchasing and warehousing procedures that ensure the following:

1. Only properly authorized purchases are made.
2. Authorized purchases are made consistent with LEA policies and management direction.
3. Inventories are safeguarded.
4. Purchases and inventories are timely and accurately recorded.

During FCMAT's fieldwork, several employees recalled that parts or materials were received at the MOT facility and later could not be located. These parts or materials did not meet district standards and were not used in the district's building maintenance program.

Education Code 35618 states the following:

> The governing board of each school district shall establish and maintain a historical inventory and an audit trace inventory system, or any other inventory system authorized by the State Board of Education which shall contain the description, name, identification numbers, and original cost of all items of equipment required by it whose current market value exceeds five hundred dollars ($500.00) per item, the date of acquisition, the location of use, and the time and mode of disposal.

School districts are required to monitor their inventory with regular audits. In their tracking, they must record these specific details for any item valued more than $500. This includes the following:

- Item description
- Name of the item
- Identification number
- Original cost
- Date of acquisition
- Location of use
- Time and mode of disposal

The district should perform a physical inventory of all items with a current market value of $500 or more every two years to conform to Education Code Section 35168 and 34 CFR 80.32. This should include an inventory of MOT tools and equipment. The Purchasing Department should be assigned the roles and responsibilities to maintain an inventory system. This inventory list should be continually updated. A list of any district assets determined to be unusable, obsolete, lost/stolen or no longer in use should be submitted to the board of trustees for approval to be disposed or sold, with inventory records adjusted accordingly. Items received at the MOT facility that are not accompanied by the required paperwork should be quarantined until the director of maintenance and operations validates their purchase.

A school district struggles to balance the need to invest in new equipment with the demands of a limited budget, thus, the consequences of improper inventory management are far reaching. These ramifications include:

- A lack of historical inventory trends, resulting in poor decisions.
- Decreased employee productivity from inefficient purchasing.
- Increased stock on-hand, resulting in warehouse clutter and unnecessary expenditures of funds.
- Potential for theft due to improperly accounted resources.
- Overstock, creating a potential for waste due to expiration or material becoming obsolete prior to use.

Additionally, the district does not maintain a facility inventory (facility master plan) used for capital planning. In interviews and a document review, FCMAT found no indication of any long-range planning to address the pending facility needs in the foreseeable future. A facilities master plan begins with an assessment of current facilities. This document will inventory items such as the following:

- Classroom
    - Current versus planned use
    - Pull out programs versus loaded
- Capacity Analysis
    - Actual versus desired loading
- Relocatable Classrooms
    - Temporary versus permanent
    - Replacement threshold
- Noninstructional Facilities
    - Centralized versus noncentralized
    - Owned, leased, square footage, age, construction type

While the above list represents only a portion of a thorough plan, it demonstrates that the district's lack of inventory control spans from consumable materials to capital planning.

During fieldwork, FCMAT found that the fueling station used by Maintenance and Operations staff is not monitored with a card lock system or other security device, although a time clock has been installed to prevent fueling on weekends and after hours. The risk of fuel being pilfered by employees is exceptionally high. The best practice is to implement a card lock fuel management system that can generate reports of fuel usage by vehicle, by employee, and by department. The system should allow the district to archive and retrieve past reports.

Recommendations

This district should:

1. Implement an inventory management system per Education Code 35618.
2. Quarantine items received at the MOT facility that do not have the required paperwork until the director of maintenance and operations validates their purchase.
3. Consider developing a facilities master plan and align maintenance activities to pending modernization and new construction projects.
4. Implement a card lock fuel management system at the MOT facility to hold employees accountable for the use of district purchased fuel.

Equipment Purchases

The Maintenance Department is responsible for repairs and maintenance of district school sites and ancillary facilities. To conduct business, the department must be flexible and act in a timely manner, with the ability to make repairs and purchase parts and supplies efficiently. This does not negate the requirements of board policy and industry standards to be effective stewards of the district's resources.

During interviews, FCMAT discovered that the Maintenance Department operated outside of any normal guidelines. The department typically will submit one quote to the Purchasing Department for a purchase order, and back up documentation is rarely submitted. The Maintenance Department reportedly submits invoices routinely to purchasing after work has been completed or services rendered, resulting in the need to issue a confirming purchase order. When soliciting quotes for work, the maintenance supervisor has sent proposals to his personal email address. This undermines the transparency of the department and the district, creating a perception of favoritism.

The purpose of a Purchasing Department is to ensure that all district goods and services are obtained through a uniform and unbiased process in accordance with applicable laws and appropriate business practices. By allowing the Maintenance Department to operate without any guidelines, the district has compromised its control and integrity of the purchasing process. The Public Contract Code (PCC) contains an express declaration of legislative intent, stating that the purpose of the code as follows:

- To clarify the law with respect to competitive bidding requirements.
- To ensure full compliance with competitive bidding statutes as a means of protecting the public from misuse of public funds.
- To provide all qualified bidders with a fair opportunity to enter the bidding process, thereby stimulating competition in a manner conducive to sound fiscal practices.
- To eliminate favoritism, fraud, and corruption in the awarding of public contracts.

The procurement function is one of the major business responsibilities of the board of trustees. The governing board shall retain sole approval authority and responsibility for all purchase contracts of the district except as delegated by official action of the governing board. The purchasing department should develop a handbook specifically addressing these guidelines for procurement. Items that should be included in a handbook are as follows:

- Duties of the purchasing department
- Staff/user procedures
- Vendor relationships
- Requisitions
- Open purchase orders
- Piggyback purchasing
- Unauthorized purchases
- Bid solicitation procedures and procurement thresholds
- Construction and public works bid procedures
- Change orders

Site interviews indicated that some members of the Purchasing Department were new to their positions and lacked formal training or job experience in this field. Those staff members need to become involved in professional organizations such as the California Association of School Business Officials (CASBO). Professional organizations allow for networking and collaboration regarding industry best practices.

The district's Maintenance and Purchasing departments must work together daily. To ensure equipment reliability and a safe environment, the relationship between these two departments must be one built on understanding of each other's mandates and clear lines of communication.

Recommendations

This district should:

1. Develop a Purchasing Department handbook that establishes guidelines for procurement in compliance with all legal, state, and governing board policies.
2. Ensure the Purchasing Department staff join professional organizations such as CASBO and CAPPO and receive regular professional development.

Preventive Maintenance

The district does not have a preventive maintenance plan. As a result, the Maintenance Department operates in a reactionary mode, allowing equipment to run until it fails with the goal of keeping maintenance costs low. However, this type of program has proven to be costly in the long run. When equipment fails without warning, it creates a need for immediate repair, resulting in higher costs. Equipment that fails during a critical time can also create an uncomfortable or potentially unsafe environment for students and staff.

One concern is the number of air-conditioning systems that are replaced by outside contractors. FCMAT's review of documentation and interviews indicate that the district replaces an excessive number of these.

The district should consider implementing a preventive maintenance plan that includes the following building systems:

- Roofs
- HVAC
- Walls
- Electrical
- Gas lines
- Plumbing supply and waste lines
- Fire alarms

The desired outcomes of developing a scheduled preventive maintenance program include the following:

- Improved operating efficiency
- Fewer breakdowns
- Lower operating costs
- Improved safety
- Improved customer satisfaction
- Decreased disruptions resulting from reactionary maintenance activities

The director of maintenance, operations and transportation should develop a written schedule and establish maintenance priorities to effectively utilize maintenance funding and materials. The district should draw on the expertise and site-specific knowledge of Maintenance Department staff. The steps for implementing a preventive maintenance program include the following:

- Create a department policy on preventive maintenance and include funding sources.
- Create an inventory database of all facilities and equipment that require routine preventive maintenance and care.
- Create a computer database that stores and displays in chronological orders the dates of when equipment should be serviced or potentially replaced.
- Establish a financial plan, funding sources and budget codes to track preventive maintenance expenditures.

- Develop a calendar for projects that many need to be contracted. This should be developed in concert with the district's facilities master plan.
- Develop a program to annually update the district's facilities and inventory to document the changes that have occurred as a result of maintenance, equipment replacement, modernization, demolition of facilities, or new construction.
- Develop a budget for scheduled maintenance that is not included in the routine restricted maintenance budget.

The district will sometimes have to rely on vendors and outside contractors for maintenance and inspection. The Maintenance Department should define the schedule instead of relying on the vendors to schedule critical inspections. The best practice is utilizing the district's work order system to create recurring work orders assigned to the director of maintenance, operations and transportation who would then schedule necessary maintenance or inspections.

Recommendations

This district should:

1. Implement a comprehensive, scheduled preventive maintenance program to maintain facilities and equipment in acceptable operating condition.
2. Implement a preventive maintenance plan for HVAC that includes cleaning or replacing air filters on a regular interval to ensure peak performance.

Manual of Policies and Procedures

The Maintenance Department lacks a policies and procedures manual. Without a manual, employees lack clear guidance, and the district cannot hold them accountable. Legal and procedural mandates should be communicated to help department employees stay in compliance and work effectively. Before approving a manual, the district should request that the California State Employees' Association (CSEA) representative review the document and provide suggestions. Areas that should be included in a manual include the following:

- Use of district vehicles
- Use of district tools and equipment
- Safety training
- Key control
- New employee orientation
- Employee conduct
- Employee discipline
- Employee evaluation
- Dress code/uniforms

Recommendations

The district should:

1. Ensure the director of maintenance, operations and transportation develops a policies and procedures manual for the Maintenance Department.
2. Provide the staff with training in the contents of the manual and hold them accountable for using this information.
3. Monitor the maintenance department staff to ensure that they follow policies and procedures provided in the manual.
4. Request that the CSEA representative review the manual before it is approved and implemented.

Excessive Overtime

The district's weak internal control environment contributes to issues in the payment of overtime. For the district to adopt best business practices, it is crucial to develop a code of ethics and communicate its expected standards of conduct to the MOT Department administration and staff. Payroll schemes carried out by management personnel or in collusion with other employees are almost impossible to detect; however, the district can examine its internal control structure to ensure that appropriate checks and balances exist and are implemented. The district has operated under board policies and administrative regulations that were not routinely updated and in many cases did not keep pace with changes in law. FCMAT reviewed board policies for this section created in 2013.

All employees interviewed reported that their supervisors, including the director of MOT and supervisor, were aware of the monthly overtime requests and payments. The district lacks strong, effective processes and procedures and does not have board policies and administrative regulations for managing routine operations, such as the distribution of overtime. As a result, individual employees have developed informal, unwritten systems that are not in the district's best interest. Some employees indicated that overtime assignments are not distributed equally among maintenance employees, and some stated that overtime is sometimes approved after work had been performed. A summary of overtime costs approved by the maintenance supervisor for the past four year is as follows:

Year	Number of OT Hours	Total Cost
2014-15	5,049.03	$188,399.58
2015-16	5,075.05	$197,098.98
2016-17	3,741.35	$148,707.06
2017-18	193.85	$7,718.66
Total	14,059.28	$541,924.28

During a review of records, FCMAT found that the district routinely authorized overtime for maintenance employees. Because work orders are not completed with accurate or detailed information, it is impossible to determine if there is a true need for the level of overtime that is approved.

Detailed information within a work order will allow the management team to determine the following (HVAC example):

- The number of HVAC calls per year.
- The average time between when a work order is submitted and when it is closed.
- The average repair time for each work order.

Having such information will allow a supervisor to determine when overtime may be needed.

On the days of field interviews, staff indicated that the Maintenance Department had no HVAC technicians working because of illness or vacation while the temperature was more than 105 degrees. Both excessive overtime and excessive absences indicate a lack of planning on the part of management.

A review of overtime records also indicated anomalies in the amounts of overtime approved for specific employees. The spreadsheet attached as Appendix A to this report highlights three employees. While overtime may have been needed, the excessive amount for these individuals indicates favoritism. In the Collective Bargaining Agreement(CBA) with California School Employees Association (CSEA) Chapter 299 Article 5, Page 5.3, it states "immediate supervisors shall assign overtime to unit members for the tasks to be performed and within the proper classification on a rotating basis."

Continued analysis of overtime records indicate that employees have worked as much as 111 to 144 additional hours within a 30-day pay period. High overtime can cause a counterproductive cycle. Employees may feel more tired, making them prone to sickness. Absenteeism rises, which leads to more overtime, reducing productivity and increasing the risk of accidents.

Recommendations

The district should:

1. Complete work orders with detailed information to allow for strategic decisions of when overtime may be needed.
2. Ensure the appropriate supervisor approves all overtime requests before the work is performed.
3. Establish a formal rotation procedure to align with the collective bargaining agreement.

Year	Number of Hours	Total Cost
2014-15	5,049.03	$188,399.58
2015-16	5,075.05	$197,098.98
2016-17	3,741.35	$148,707.06
2017-18	193.85	$7,718.66
Total	14,059.28	$541,924.28

Conclusion

Potential for Fraud

The district has operated under board policies and administrative regulations that are not routinely updated and board policies that were last updated in 2012. FCMAT found that the district's internal control environment is lacking in the areas of governance, payroll (overtime) and purchasing. The district lacks adequate procurement processes, and experienced purchasing staff and has demonstrated inconsistencies following policies and procedures. FCMAT identified significant material weaknesses in the district's enforcement of governing board internal controls, operational policies, and procedures related to the management and oversight of activities in the MOT Department. These weaknesses appeared mostly through lack of oversight and adherence to policies and oversight where the Maintenance Department bypassed specific procurement procedures and circumvented board policies and administrative regulations. Many orders were placed without a proper district purchase order, and the maintenance supervisor directly approved several contracts during the review period. The issues identified in the report focused on operational errors including nonadherence to board policies and administrative regulations, lack of professional development in the specific areas of procurement and bidding and continuous turnover in business office leadership.

Based on the findings in this report, there is insufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal activities may have occurred in the specific areas reviewed.

Deficiencies and exceptions noted during FCMAT's review of the financial records and deficiencies in the district's internal control environment increase the probability of fraud, mismanagement and/or misappropriation. These findings should be of great concern to the Azusa Unified School District and the Los Angeles County Office of Education and will require immediate intervention to limit the risk of fraud, mismanagement and/or misappropriation of assets, or other illegal activities in the future.

Judgments Regarding Guilt or Innocence

The existence of fraud is solely the purview of the courts and juries, and FCMAT is not making statements that should be construed as a conclusion that fraud has occurred. Fraud is a broad legal concept and auditors do not make legal determinations of whether fraud has occurred. The primary factor that distinguishes fraud from error is whether the underlying action is intentional or unintentional. In accordance with Education Code Section 42638(b), action by the county superintendent shall include the following:

If the county superintendent determines that there is sufficient evidence that fraud or misappropriation of funds may have occurred, the county superintendent shall notify the governing board of the school district, the state controller, the superintendent of public instruction, and the local district attorney.

The district attorney serves the public by ensuring the completion of criminal and civil investigations in support of the prosecution effort. District attorney investigators are granted full peace officer powers according to Section 830.1(a) of the California Penal Code. Essentially this means these investigators have full powers of arrest and warrant.

Additionally, the investigators have the power of subpoena contrary to the limited authority granted under AB 139 extraordinary audits.

In accordance with Education Code Section 1241.5(b), the county superintendent shall report the findings and recommendations to the governing board of the district at a regularly scheduled board meeting within 45 days of completing the audit. The governing board of the district shall notify the county superintendent within 15 days after receipt of the report of its proposed actions regarding the county superintendent's recommendations.

Recommendation

The county superintendent should:

1. Notify the governing board of the Azusa Unified School District that insufficient evidence exists to indicate that fraud or misappropriation of district funds and/or assets or other illegal activities may have occurred.

Appendices

A: Overtime Spreadsheet

B: Study Agreement

Appendix A - Overtime Spreadsheet

Maintenance Department Overtime

2014-15

Employee	Date	Hours Worked	Monthly Cost
Employee A	01/09/2015	26.50	$1,001.70
Employee A	02/10/2015	89.00	$3,364.20
Employee A	03/10/2015	86.00	$3,250.80
Employee A	04/10/2015	77.50	$2,929.50
Employee A	05/08/2015	111.00	$4,195.80
Employee A	06/10/2015	72.00	$2,857.46
Employee A	07/10/2015	53.00	$2,103.41
Employee A	08/08/2014	35.50	$1,341.90
Employee A	09/10/2014	39.00	$1,474.20
Employee A	10/10/2014	37.00	$1,398.60
Employee A	11/10/2014	62.50	$2,362.50
Employee A	12/10/2014	133.00	$5,027.40
Total		822.00	$31,307.47

Employee	Date	Hours Worked	Monthly Cost
Employee B	02/10/2015	24.00	$907.20
Employee B	03/10/2015	44.50	$1,682.10
Employee B	04/10/2015	8.00	$302.40
Employee B	05/08/2015	44.00	$1,663.20
Employee B	06/10/2015	45.00	$1,785.92
Employee B	07/10/2015	17.50	$694.52
Employee B	08/08/2014	28.00	$1,058.40
Employee B	09/10/2014	36.00	$1,360.80
Employee B	10/10/2014	48.00	$1,814.40
Employee B	11/10/2014	58.00	$2,192.40
Employee B	12/10/2014	32.00	$1,209.60
Total		385.00	$14,670.94

Employee	Date	Hours Worked	Monthly Cost
Employee C	01/09/2015	114.00	$3,542.61
Employee C	02/10/2015	98.00	$3,045.40
Employee C	03/10/2015	83.50	$2,594.80
Employee C	04/10/2015	60.50	$1,880.07
Employee C	05/08/2015	108.00	$3,356.15
Employee C	06/10/2015	61.00	$1,990.67
Employee C	07/10/2015	22.00	$717.95
Employee C	10/10/2014	45.50	$1,413.94
Employee C	11/10/2014	69.50	$2,159.75
Employee C	12/10/2014	144.50	$4,490.41
Total		806.50	$25,191.75

2015-16

Employee	Date	Hours Worked	Monthly Cost
Employee A	01/08/2016	57.00	$2,262.16
Employee A	02/10/2016	57.00	$2,262.16
Employee A	03/10/2016	79.00	$3,135.27
Employee A	04/08/2016	41.00	$1,627.17
Employee A	05/10/2016	66.00	$2,619.34
Employee A	06/10/2016	23.00	$912.80
Employee A	07/08/2016	24.50	$972.33
Employee A	08/10/2015	16.00	$634.99
Employee A	09/10/2015	89.00	$3,532.14
Employee A	10/09/2015	85.00	$3,373.40
Employee A	11/10/2015	104.50	$4,147.29
Employee A	12/10/2015	79.50	$3,155.12
Total		721.50	$28,634.17

Employee	Date	Hours Worked	Monthly Cost
Employee B	01/08/2016	3.00	$119.06
Employee B	02/10/2016	29.00	$1,150.92
Employee B	04/08/2016	17.00	$674.68
Employee B	05/10/2016	41.50	$1,647.01
Employee B	06/10/2016	4.50	$178.59
Employee B	07/08/2016	8.00	$317.50
Employee B	08/10/2015	2.00	$79.37
Employee B	09/10/2015	56.00	$2,222.47
Employee B	10/09/2015	21.00	$833.43
Employee B	11/10/2015	30.00	$1,190.61
Employee B	12/10/2015	36.50	$1,448.58
Total		248.50	$9,862.22

Employee	Date	Hours Worked	Monthly Cost
Employee C	01/08/2016	54.00	$1,850.53
Employee C	02/10/2016	16.00	$548.30
Employee C	03/10/2016	79.00	$2,707.25
Employee C	04/08/2016	70.50	$2,415.96
Employee C	05/10/2016	49.50	$1,696.32
Employee C	06/10/2016	25.00	$856.73
Employee C	07/08/2016	35.00	$1,199.42
Employee C	08/10/2015	15.00	$489.51
Employee C	09/10/2015	82.00	$2,675.99
Employee C	10/09/2015	61.00	$2,090.41
Employee C	11/10/2015	107.00	$3,666.78
Employee C	12/10/2015	82.00	$2,810.06
Total		676.00	$23,007.26

2016-17

Employee	Date	Hours Worked	Monthly Cost
Employee A	01/10/2017	13.00	$531.45
Employee A	02/10/2017	43.00	$1,757.88
Employee A	03/10/2017	32.00	$1,308.19
Employee A	04/10/2017	32.00	$1,308.19
Employee A	05/10/2017	40.00	$1,635.24
Employee A	06/09/2017	40.50	$1,655.68
Employee A	07/10/2017	26.50	$1,083.35
Employee A	08/10/2016	32.00	$1,308.19
Employee A	09/09/2016	51.00	$2,084.93
Employee A	10/07/2016	41.50	$1,696.56
Employee A	11/10/2016	44.50	$1,819.20
Employee A	12/09/2016	63.50	$2,595.94
Total		459.50	$18,784.80

Employee	Date	Hours Worked	Monthly Cost
Employee B	01/10/2017	9.00	$367.93
Employee B	02/10/2017	9.00	$367.93
Employee B	05/10/2017	14.25	$582.55
Employee B	06/09/2017	17.00	$694.98
Employee B	07/10/2017	11.00	$449.69
Employee B	09/09/2016	14.00	$572.33
Employee B	10/07/2016	9.50	$388.37
Employee B	11/10/2016	23.00	$940.26
Employee B	12/09/2016	16.25	$664.32
Total		123.00	$5,028.36

Employee	Date	Hours Worked	Monthly Cost
Employee C	01/10/2017	23.50	$871.03
Employee C	02/10/2017	44.00	$1,630.86
Employee C	03/10/2017	52.00	$1,927.38
Employee C	04/10/2017	27.00	$1,000.76
Employee C	05/10/2017	53.00	$1,964.45
Employee C	06/09/2017	33.00	$1,223.15
Employee C	08/10/2016	16.00	$564.79
Employee C	09/09/2016	44.00	$1,553.18
Employee C	10/07/2016	24.00	$889.56
Employee C	11/10/2016	28.00	$1,037.82
Employee C	12/09/2016	40.50	$1,501.13
Total		385.00	$14,164.11

Appendix B - Study Agreement

FCMAT
FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM
CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 DRAFT STUDY AGREEMENT
July 28, 2017

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Los Angeles County Office of Education, hereinafter referred to as the COE, mutually agree as follows:

1. BASIS OF AGREEMENT

The team provides a variety of services to local educational agencies (LEAs). Pursuant to the provisions of Education Code (EC) Section 1241.5 (b), a county superintendent of schools may review or audit the expenditures and internal controls of any school in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The extraordinary audits conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

All work shall be performed in accordance with the terms and conditions of this agreement.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The Los Angeles County Office of Education has requested FCMAT to assign professionals to conduct an AB 139 Extraordinary Audit. This audit will be conducted pursuant to Education Code Section 1241.5 (b). The COE has received documentation of possible fraud, misappropriation of funds or other illegal practices at the Azusa Unified School District and is requesting that FCMAT review the internal controls and specifically the purchasing practices of the Maintenance, Operations and Transportation (MOT) Department on behalf of the district.

The primary focus of this review is to determine, based on the testing performed, whether (1) adequate management and internal controls are in place regarding the district's reporting, monitoring, and authorization of financial transactions, purchases, work orders, and inventory of supplies, parts, and other assets, and that such assets are properly segregated and accounted for in the MOT Department, and (2) based on that assessment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific audit objectives will include evaluating the establishment, implementation and effectiveness of policies, procedures and internal control activities through the review of financial transactions, and policies and procedures of the district relative to the following:

- Vendor selection and levels of authorization to approve and assign work
- Vendor backgrounds and affiliation with the district
- Vendor payments compared to work performed, invoiced, and other documentation
- Purchases of equipment and supplies including the pricing of equipment and supplies compared to other vendor prices
- Inventory of supplies, parts, and other assets; receiving of supplies, equipment and parts, recording into inventory, use of supplies and reconciliation to ending inventory
- Work order authorization and completion process; reconciliation of work orders completed with supplies, parts and other assets usage
- Sale or disposition of scrap items, i.e., scrap metal
- Expenditure of funds for personal or other non-district business purposes
- Use of district equipment, parts, or supplies for personal or other non-district business purposes

The team will review and test recorded transactions for fiscal years 2013-14 through 2016-17 to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on a sample of transactions and records for this period. Testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the district's financial transactions and activity to accomplish the following:

1. Provide reasonable assurance to management that an adequate system of internal control is established, implemented and monitored. This includes controls that reduce the risk of management override.
2. Help identify and correct inefficient processes.
3. Ensure that employees are aware of the proper internal control expectations.

The review will include but not be limited to the following:

1. Evaluate the adequacy of the district's MOT department internal control structure including the development, implementation and monitoring of policies and procedures and other control activities.

2. Evaluate whether lines of authority, responsibility and monitoring are clearly established within and between the district's departments and are documented in organizational charts and policies and procedures.

3. Evaluate whether proper segregation of duties exists.

4. Evaluate policies and procedures:

   a. Review policies and procedures including, but not limited to, those in the areas related to specific engagement objectives noted above.
   b. Review policies and procedures for recording and tracking assets to determine whether adequate controls are in place for safeguarding district assets.
   c. Determine if procedures are appropriate and consistently followed.

5. Evaluate the reliability and integrity of financial transactions.

6. Assess internal control monitoring processes:

   a. Evaluate monitoring procedures and verify that controls are operating properly.
   b. Evaluate controls to determine that they are designed to prevent management from overriding internal controls to detect or deter misappropriation of funds.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the district to brief management and supervisory personnel on the team's procedures and the purpose and schedule of the study.

2. On-site Review - The team will conduct an on-site review at the district office and at school sites if necessary; and will continue to review pertinent documents off-site.

3. Progress Reports - The team will inform the COE of material issues as the review is performed.

4. Exit Meeting – The team will hold an exit meeting at the conclusion of the on-site review to inform the COE of any significant findings to that point.

5. Draft Report – When appropriate, electronic copies of a preliminary draft report will be delivered to the COE's administration for review and comment on a schedule determined by the team.

6. Final Report - Electronic copies of the final report will be delivered to the COE and/or district following completion of the review. Printed copies are available from the FCMAT office upon request.

7. Follow-Up Support – If requested, the team will meet with the COE and/or district to discuss the findings and recommendations of the report.

3. **PROJECT PERSONNEL**

The FCMAT study team may also include:

A.	To be determined	FCMAT Staff
B.	To be determined	FCMAT Consultant
C.	To be determined	FCMAT Consultant

Other equally qualified staff or consultants will be substituted in the event one of the above individuals is unable to participate in the study.

4. **PROJECT COSTS**

The cost for studies requested pursuant to EC 42127.8 (d) (1) shall be:

A. $950 per day for each staff team member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate for all work performed.

B. All out-of-pocket expenses, including travel, meals and lodging.

Based on the elements noted in Section 2A, the total estimated cost of the study will be $38,000.

C. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT services may be reimbursed from funds pursuant to EC 1241.5 set aside for this purpose. Other payments, when deemed necessary, are payable to Kern County Superintendent of Schools - Administrative Agent located at 1300 17th Street, City Centre, Bakersfield, CA 93301.

5. **RESPONSIBILITIES OF THE COE AND/OR DISTRICT**

A. The district will provide office and conference room space during on-site reviews.

B. The district will provide the following if requested:

1. Policies, regulations and prior reports addressing the study request
2. Current or proposed organizational charts
3. Current and two (2) prior years' audit reports
4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in an electronic format
5. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date and/or completion date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository where the district shall upload all requested documents.

C. The COE and/or district's administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The district shall take appropriate steps to comply with EC 45125.1(c).

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for different phases of the study and will be established upon the receipt of a signed study agreement:

Orientation:	***To be determined***
Staff Interviews:	***To be determined***
Exit Meeting:	***To be determined***
Preliminary Report Submitted	***To be determined***
Final Report Submitted	***To be determined***

7. COMMENCEMENT, TERMINATION AND COMPLETION OF WORK

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The team will work expeditiously to complete its work and deliver its report, subject to the cooperation of the district and any other parties from which, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a preliminary draft report and a final report. Prior to completion of fieldwork, the COE may terminate its request for service and will be responsible for all costs incurred by FCMAT to the date of termination under Section 4 (Project Costs). If the COE does not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its report and the COE will be responsible for the full costs. The COE understands and agrees that FCMAT is a state agency and all FCMAT reports are published on the FCMAT website and made available to interested parties in state government. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a report once fieldwork has been completed, and the COE shall not request that it do so.

8. INDEPENDENT CONTRACTOR

FCMAT is an independent contractor and is not an employee or engaged in any manner with the COE. The manner in which FCMAT's services are rendered shall be within its sole control and discretion. FCMAT representatives are not authorized to speak for, represent, or obligate the COE in any manner without prior express written authorization from an officer of the COE.

9. **INSURANCE**

During the term of this agreement, FCMAT shall maintain liability insurance of not less than $1 million unless otherwise agreed upon in writing by the COE, automobile liability insurance in the amount required under California state law, and workers compensation as required under California state law. FCMAT shall provide certificates of insurance, with Los Angeles County Office of Education named as additional insured, indicating applicable insurance coverages upon request.

10. **HOLD HARMLESS**

FCMAT shall hold the COE, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, the district shall hold FCMAT, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement.

11. **CONTACT PERSON**

Contact: Patricia Smith
Telephone: (562) 922-6421
E-mail Address: smith_pat@lacoe.edu

Debra Duardo 8-1-17

Dr. Debra Duardo, Superintendent — Date
Los Angeles County Office of Education

Michael H. Fine — July 28, 2017

Michael H. Fine — Date
Chief Administrative Officer
Fiscal Crisis & Management Assistance Team