



CSIS California School Information Services

Riverside County Office of Education

AB 139 Extraordinary Audit of the

Corona-Norco Unified School District

November 6, 2019

Michael H. Fine
Chief Executive Officer







CSIS California School Information Services

November 6, 2019

Judy D. White, Ed.D., Superintendent
Riverside County Office of Education
3939 Thirteenth Street
Riverside, CA 92501

Dear Superintendent White:

In September 2017, the Riverside County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for an AB 139 review. The county office has received information regarding possible fraud, misappropriation of funds or other illegal practices at the Corona-Norco Unified School District. Specifically, the agreement states that FCMAT will perform the following:

1. Determine whether adequate management controls are in place regarding the district's procurement activities and contractual commitments relative to facilities maintenance and/or construction projects of the district. Management controls include the process for planning, organizing, directing, and controlling program operations. Management controls evaluation will focus on the following:
 - a. Project scope, authorization, project delivery method and procurement practices
 - b. Bid processing including contractor and subcontractor selection and subsequent school board approval
 - c. Method and application of contractor payments including internal auditing and school board approval
 - d. Segregation of duties
 - e. Management's ability to override internal controls
2. Review project documentation and transactions for projects initiated and/or overlapping into fiscal years 2012-13 through 2017-18.

The main focus of this review is to determine, based on the sample testing performed and auditor's judgment, whether (1) adequate management and internal controls are in place regarding the district's procurement activities and contractual commitments relative to facilities maintenance and/or construction projects of the district, and (2) based on that assessment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

FCMAT

Michael H. Fine, Chief Executive Officer

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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 certainty about whether the district's financial transactions and activity were sufficiently accurate.

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

We appreciate the opportunity to serve you and we extend thanks to all the staff of the Riverside County Office of Education for their cooperation and assistance during fieldwork.

Sincerely,

A handwritten signature in black ink that reads "Michael H. Fine". The signature is written in a cursive, flowing style.

Michael H. Fine
Chief Executive Officer

Table of Contents

About FCMAT	iii
Introduction	I
<i>Background</i>	1
<i>Study Team</i>	5
<i>Conducting a Fraud Audit</i>	5
<i>Fraud Audit Scope, Procedures and Fieldwork</i>	6
Fraud, Occupational Fraud & Internal Controls.....	7
<i>Occupational Fraud</i>	7
<i>Internal Controls</i>	7
<i>Control Environment</i>	10
<i>Control Activities</i>	10
<i>Transaction Sampling</i>	11
Findings.....	13
<i>Neff Construction Experienced in Construction Management & Documentation</i>	13
<i>February 2, 2018 Interview at Neff</i>	14
<i>Requested Documents from Neff</i>	14
<i>Further Communication with Neff & Neff’s Failed Promise to Cooperate with Audit</i>	14
<i>District’s Failure to Enforce Its Own Contract with Neff</i>	18
<i>Ted Rozzi</i>	21
<i>Examples of Checks to Rozzi-Directed Accounts Facilitated by Neff</i>	21

<i>Change Order/Authorization Documentation</i>	31
<i>Additional Example of Checks to Rozzi</i>	39
<i>Diverted District Money</i>	43
<i>Available Neff Checks Directed by Rozzi Total \$1,176,956.50</i>	46
<i>Neff and Rozzi’s Close Relationship</i>	41
<i>Likely Total Amount of Irregular Rozzi-Directed</i>	
<i>Neff Checks is \$2,638,636.82</i>	55
<i>Analytical Analysis of Purchase Orders and Purchase Order Increases</i>	55
<i>Other Information</i>	59
<i>District is Fiscally Independent</i>	59
<i>IRS Form 1099</i>	59
Summary	61
Conclusion	61
<i>Potential for Fraud</i>	61
<i>Judgments Regarding Guilt or Innocence</i>	61
Recommendation	62
Appendix	63

About FCMAT

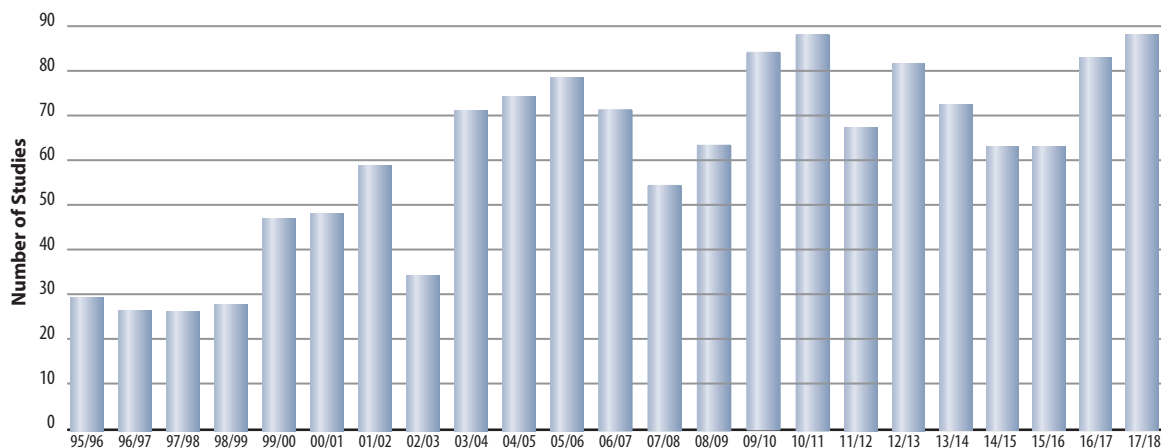
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related 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.

Studies by Fiscal Year



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 state-wide 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.

On September 17, 2018 AB 1840 was signed into law. This legislation changed the how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

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.

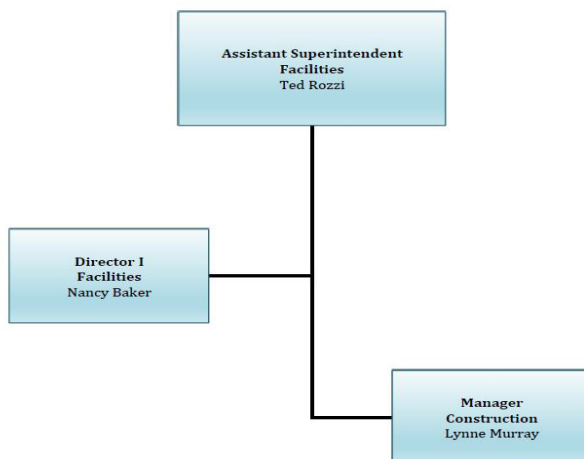
Introduction

Background

The Corona-Norco Unified School District serves the cities of Corona, Norco and Eastvale and nearby unincorporated areas of Riverside County; its main office is located in Norco, California. The district's 2018-2019 Local Control Accountability Plan indicates it has 50 schools, 5,478 employees, educates 53,120 students and an annual projected revenue of \$578,527,838. The district's Facilities Department administrative directors oversee construction projects, and the district has engaged in numerous of these administered by its former assistant superintendent of facilities, Ted Rozzi. Subsequent to the initial discovery of the circumstances described in this report, the organizational structure of the district's Facilities Department and Business Services Department is as follows:

Image 1A

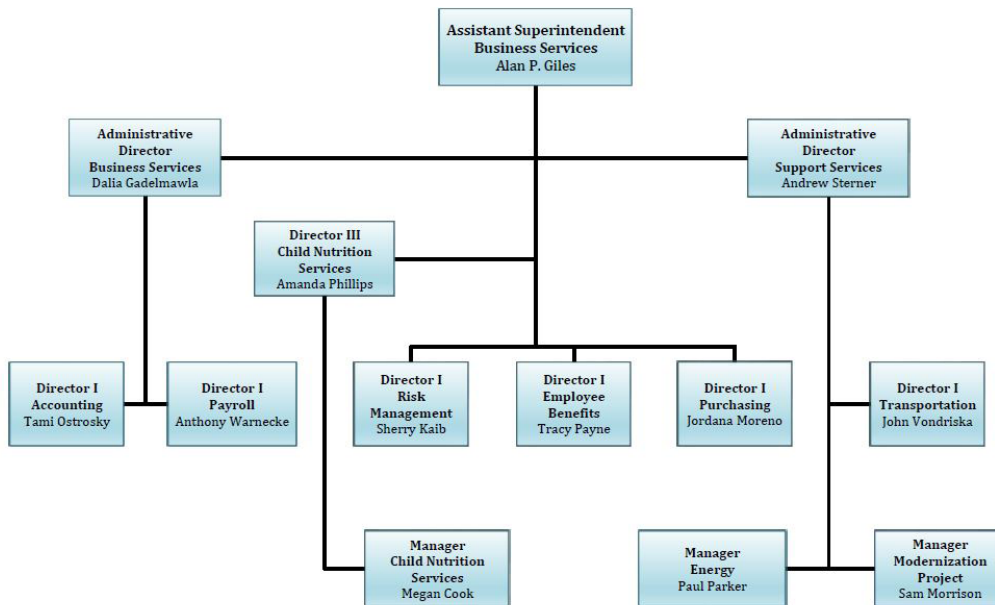
**CORONA-NORCO UNIFIED SCHOOL DISTRICT
2016-17 FACILITIES ORGANIZATIONAL CHART**



The organization chart in Image 1a shows that the Facilities Department is its own department, not part of the Business Department, and reports directly to the superintendent.

Organization chart 1b shows that the Business Department is its own department, the Facilities Department is not part of the Business Department, and reports directly to the superintendent.

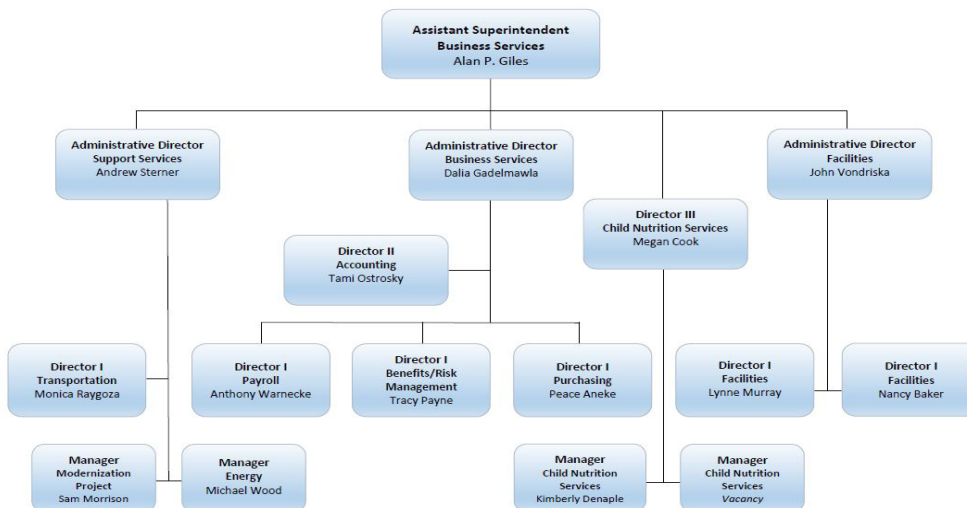
Image 1b



As of November 28, 2018, the district organization structure has been updated. The Facilities Department is no longer separate and reports through the Business Department as shown in Image 2.

Image 2

2018-19
BUSINESS DIVISION ORGANIZATIONAL CHART
CORONA-NORCO UNIFIED SCHOOL DISTRICT



Nancy Baker and Lynne Murray are two of the directors primarily responsible for construction projects with all construction-related contractors, including Neff Construction, Inc.

In May 2017, Baker and Murray became aware of checks that Rozzi requested from Neff allegedly payable to various nondistrict vendors and/or accounts. Baker initially came upon a document that indicated Rozzi requested a check from Neff written to Bank of America. Baker and Murray discussed the unusual check, and Baker contacted the district business office and learned that the district did not do business with that bank.

Murray contacted Neff's project manager and requested a front and back copy of the check issued to Bank of America. Neff's accounting department staff, Shelley Porter, sent a copy to Baker. Baker knew the check was irregular because the district does not bank with Bank of America, and no backup supporting documentation was available. After requesting a few more check copies from Neff, Baker and Murray became aware of several additional checks issued to AT&T and Chase Bank. Baker and Murray knew the Facilities Department also does not do business with these companies without documentation. Because there were more checks they discovered than just the one with Bank of America, they believed something was not right about the checks Neff was issuing at Rozzi's request.

Baker discussed the unsupported checks with Porter and questioned how long these types of checks have been processed by Neff. Porter indicated Neff had processed these types of checks since at least the year she started working for Neff, which was 2006. Baker and Porter continued their conversation as Baker sought more documentation supporting the irregular checks. Porter researched the checks written by Neff that she had processed and known about since 2006. In a follow-up phone call, Porter disclosed to Baker the total amount of checks like the ones identified so far written to Bank of America, AT&T and Chase Bank was \$2,638,636.82. However, after the follow-up phone call between Baker and Porter, communication from Porter stopped. As a result, Baker was unable to obtain additional data or backup documentation from Neff for the above amount other than the limited information Porter delivered in person in mid July 2017 to Baker and Murray in a manila envelope. Since July 1, 2008, the district has paid Neff over \$107 million.

On July 13, 2017, Baker asked Rozzi about the purpose of the check written to Bank of America. He responded that funds were needed as a transfer to be used on other projects. At this point Baker no longer believed Rozzi was being truthful with her.

Baker and Murray discussed with each other the suspicious transactions they discovered. Because these transactions were authorized by Rozzi, their supervisor, Baker and Murray, took their concerns and documentation directly to the Riverside County Sheriff's Office, whose Norco Station was next door to the district's offices. After Baker and Murray met with Riverside County sheriff's investigators, they met with the district's assistant superintendent of business services to disclose their findings. As the sheriff's investigation grew, the county office of education, district superintendent and senior district management became aware of the possibility of fraud, misappropriation of funds or other illegal fiscal activities at the district involving Rozzi-initiated transactions.

The district's internal controls financial authorization and review system differs from most other districts. As shown in Images 1a and 1b, the Facilities Department operates independently and is responsible for planning and implementing construction projects. Based on FCMAT's interviews and review of documents, Rozzi reported only to the district superintendent and had limited business office interaction other than processing the original construction contracts, setting up initial purchase orders, and processing warrants/checks.

The district's Business Department functions much like other districts except for the operation of the Facilities Department. Typical business office internal controls specific to the Facilities Department were not utilized. The district did not regularly use practices such as business office review and oversight of Facilities Department activities and transactions such as processing change authorizations, change orders, tracking of facility construction projects, issuing or modifying purchase orders to reflect change orders/authorizations, and ensuring facilities financial transactions were not processed before architect and district approvals.

According to the district, in response to information received from Baker and Murray, on August 11, 2017, the district superintendent met with Rozzi and three days later, August 14, 2017, Rozzi resigned. Rozzi had been employed by the district since November 9, 1992.

Pursuant to her authority under Education Code section 1241.5(b), the county superintendent requested a Fiscal Crisis and Management Assistance Team (FCMAT) Assembly Bill (AB) 139 extraordinary audit. In September 2017, FCMAT entered into an agreement with the county superintendent for extraordinary audit of the district to determine if fraud, misappropriation of funds or other illegal fiscal activities may have occurred at the district.

Education Code Section 1241.5(b) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school in the county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. This review or audit is known as an AB 139 extraordinary audit. Because the purpose of an AB 139 extraordinary audit (fraud audit) is to determine if fraud, misappropriation of funds or other illegal activities may have occurred, it is considered a fraud audit. On completion of the fraud audit, if evidence exists that fraud or misappropriation of funds may have occurred, Education Code Section 42638(b) states the following:

If the county superintendent determines that there is evidence that fraud or misappropriation of funds has 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 foundation of a fraud audit is to determine if sufficient evidence exists that fraud, misappropriation of funds, or other illegal acts may have occurred and document the findings for referral to the local district attorney's office and further investigation by law enforcement.

A FCMAT examination of the district Facilities Department purchases transactions identified numerous transactions approved by Rozzi, the assistant superintendent of facilities. Questionable transactions are specific to checks requested by Rozzi from Neff construction, Inc. The check examples obtained by FCMAT were documented in emails from Rozzi to Neff's president, CEO and chief financial officer, Ed Mierau. The evidence in this report shows that without Neff's assistance in writing checks from Neff's checking account to Rozzi directed vendors, the alleged diverted funds described in this report may have been more difficult for Rozzi to redirect.

FCMAT focused on the allegations that the district's management controls specific to construction project accounting may have been circumvented.

Study Team

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.

The FCMAT study team was composed of the following members:

Michael W. Ammermon, CPA, CFE, CRFAC, DABFA
FCMAT Intervention Specialist

Leonel Martínez
FCMAT Technical Writer

Each team member reviewed the draft report to confirm its accuracy and to achieve consensus on the final recommendations.

Conducting a Fraud Audit

The fraud audit is conducted based on the team's experience and judgment. Fraud audits have many components including performing fieldwork, obtaining and examining available original source documents; when possible corroborating documents and information through third-party sources; interviewing potential witnesses; gaining an understanding of internal controls applicable to the scope of the fieldwork; and assessing factors such as intent, capability, opportunity, and possible pressures or motives.

Although there are many different types of fraud, occupational fraud, including asset misappropriation and corruption, may occur when employees are in positions of trust and have access to assets. Embezzlement occurs when someone who is lawfully entrusted with property takes it for his or her personal use. Common elements in all fraud include the following:

- Intent, or knowingly committing a wrongful act
- Misrepresentation or intentional false and willful representation(s) of a material fact
- Reliance on weaknesses in the internal control structure or an individual relies on the fraudulent information
- Concealment to hide the act or facts
- Damages, loss or injury by the deceived party

Fraud Audit Scope, Procedures and Fieldwork

Fraud audit fieldwork consists of gathering information and documentation pertaining to specific allegations; establishing an audit plan, interviewing potential witnesses and assembling evidence from internal and external sources; performing various audit procedures to determine whether fraud may have occurred; evaluating the loss associated with the alleged fraud; and determining who was involved and how it may have occurred.

FCMAT conducted interviews with district management and staff, architects, and contractors. The interviews and fieldwork were designed to obtain information related to the district's construction project business practices. FCMAT also reviewed, analyzed and examined business records, general ledgers, purchasing activity, vendor detail reports, change orders, change order proposals, change order authorizations; information bulletins, board policy and administrative regulations; email correspondence, contracts, and other internal documents secured from the district and independent third-party sources.

School district construction project delivery methods are typically Design-Bid-Build, Lease-Leaseback, Construction Management Multi-Prime, Construction Manager At-Risk, Design-Build, Developer Built, or General Contractor. These types of delivery methods are described in the "2018 Delivery Handbook, A Guide to California School and Community College Facility Delivery," known as the ACCM Project Delivery Handbook, published by the Association of California Construction Managers at <http://www.accm.com/Handbook.htm>. The district utilizes several of these delivery methods. The scope of this audit and findings do not differentiate between these delivery methods. Because of the separation of the Facilities Department from the Business Department and internal control weaknesses described in this report, the delivery method is not considered material to the findings. And, because the delivery methods were modified by the facilities department and the type of delivery method is not known for every transaction identified in this report, the findings are not compiled or described by delivery method.

The FCMAT study team's fieldwork took place between January 2018 and February 2019. The fieldwork focused on determining whether there is sufficient evidence to indicate that fraud, misappropriation of district construction funds, or other illegal acts may have transpired because of poor management controls.

Fraud, Occupational Fraud and Internal Controls

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts. Occupational fraud and abuse is defined as “the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.” (Wells, Corporate Fraud Handbook, Preventing and Detection, 2nd Ed., 2007.)

Occupational fraud includes asset misappropriation, corruption, and fraudulent financial statements. Asset misappropriation is the largest group of occupational schemes that include 21 separate fraudulent disbursements schemes.

Although all employees have some degree of responsibility for internal controls, the governing board, superintendent and senior management are ultimately responsible.

Occupational Fraud

An organization’s owners, executives, managers or employees may commit occupational fraud using various schemes. Occupational fraud occurs when an organization’s owners, executives, managers or employees use their position within the organization 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 fraud includes cash skimming, falsifying expense reports, payroll, accounts payable, inventory and/or forging company checks. Corruption schemes involve an employee(s) 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; conflicts of interest fall into this category. Financial statement fraud includes the intentional misstatement or omission of material information in the financial reports.

Occupational fraud is one of the most difficult types of fraud and abuse to detect. However, the most common method of detection is receiving tips from employees, customers and anonymously, accounting for 40% of detection methods overall. According to the 2018 Report to the Nations on Occupational Fraud and Abuse prepared by the Association of Certified Fraud Examiners, Inc. (ACFE), 31% of local governments are victimized by occupational fraud with a median loss of \$92,000.

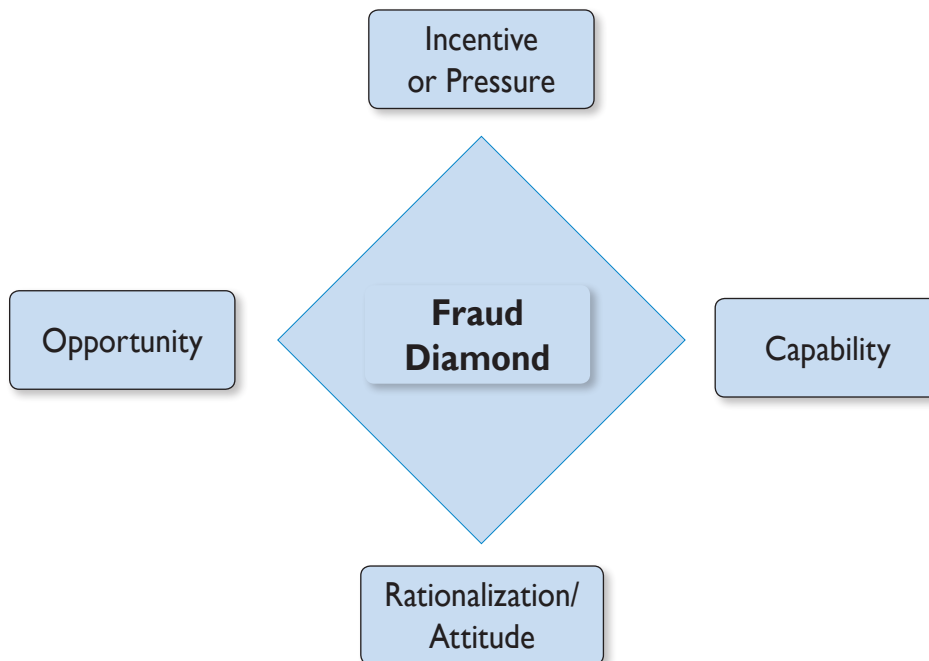
Based on survey to respondents in the ACFE 2018 report, another section explains that 30% of all cases cite that “a simple lack of controls was the main factor that enabled the fraud to occur, while another 19% of cases occurred because the perpetrator was able to override the controls that had been put in place.”

The primary internal control weaknesses that contribute to occupational fraud, according to the ACFE report, are as follows:

- Lack of internal controls, 30%
- Override of existing controls, 19%
- Lack of management review, 18%
- Poor tone at the top, 10%
- Lack of competent personnel in oversight roles, 8%
- Others, 15%

Based on this report, the perpetrator's position and authority in the organization have a direct correlation with the losses incurred. ACFE reports that, 44% of fraudsters were employees, 34% were managers, 19% were owner/executives, and 3% other categories.

Essential elements of fraud must be present for a perpetrator's unethical behavior to occur. The fraud triangle (Cressey, 1953) includes three factors: incentive/pressure/motivation, opportunity, and rationalization/attitude. An extension of the fraud triangle is the fraud diamond, which adds capability to the mix (Wolfe and Hermanson, 2004).



To commit fraud, the perpetrator usually has the following characteristics:

- Incentive/Pressure/Motivation
- Needs to get something accomplished, self-promoting, has financial pressures or personal reputation to protect
- Opportunity
- In a position of authority or provides an essential function in the organization
- Rationalization/Attitude:
- Confident that fraudulent behavior will go undetected

- Capability
- Able to understand the systems (financial/accounting) and can override internal controls
- This report presents findings demonstrating the former assistant superintendent of facilities, Rozzi, had the opportunity, rationalization/attitude, and capability to allegedly divert district funds for nondistrict purposes

Internal Controls

Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts and protecting the district from fraud or misappropriation of funds. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts.

An effective system of internal control provides a foundation for sound financial management and provides reasonable assurance that a district's operations are effective and efficient, the financial information produced is reliable, and the district operates in compliance with all applicable laws and regulations. Board policies, procedures, checks and balances are specific internal control elements intended to ensure that financial information provided to senior management and the governing board for decision-making is reliable and complies with laws and regulations.

Management and employees with administrative responsibility have a fiduciary duty and a higher standard of conduct to the district in the course of their employment and are entrusted to safeguard assets and ensure that internal controls function as intended.

Internal control elements 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.

<i>Internal Control Element</i>	<i>Definition</i>
Control Environment	Commonly referred to as the moral tone of the organization, the control environment includes a code of ethical conduct; policies for ethics, hiring and promotion guidelines; 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.
Fraud Risk Assessment	Identification and assessment of the organization's objectives to develop a strategy to react in a timely manner.
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	Establish effective fraud communication. Ensure that employees receive information regarding policies and opportunities to discuss ethical dilemmas. Establish clear means of communication within an organization to report suspected violations.
Monitoring	Conduct ongoing monitoring that includes periodic performance assessments to help deter fraud by managers and employees.

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

- Failure to adequately enforce and/or segregate duties and responsibilities related to authorization.
- Failure to limit access to assets or sensitive data (e.g. cash, fixed assets, payroll and personnel records).

- Failure to record transactions, resulting in lack of accountability and the possibility of theft.
- Failure to reconcile assets with the correct records.
- Unauthorized transactions, resulting in 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 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, typically referred to as soft controls, include management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct.

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

Based on the scope of this audit, the control environment and control activities relate directly to the breakdown of internal controls that include many of the deficiencies listed above, which are described throughout this report. The internal controls most affected at the district were the control environment and control activities.

Control Environment

The internal control environment is critical because it establishes the district's moral tone. Though 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 achieving the goals and objectives to prevent and/or deter fraud or illegal acts. It sets the tone for the district, provides discipline and control, and includes factors such as integrity, ethical values and competence of employees.

The control environment is weakened significantly by a lack of experience in financial management and the absence of an effective internal control structure and oversight.

The district's control environment was weakened because Rozzi as a member of the senior executive team was able to override other management oversight because the district's Facilities Department was a separate division, without the normal and expected control activities.

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:

1. Performance reviews, which compare actual data with expectations. In accounting and business offices, this most often occurs when budgeted amounts are compared with actual expenditures to identify variances.

2. Information processing, which includes the approvals, authorizations, verifications and reconciliations necessary to ensure that transactions are valid, complete and accurate.
3. Physical controls, which are the processes and procedures designed to safeguard and secure assets and records.
4. Segregation of duties, which consists of processes and procedures that ensure that no employee or group is placed in a position to be able to commit and conceal errors or fraud in the normal course of duties. In general, segregation of duties includes separating 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.

FCMAT examined board policies and administrative regulations, and internal controls as considered necessary. Rozzi's tenure at the district predates Baker and Murray, many administrators, and many individuals he reported to or supervised. For this reason, he was highly trusted and viewed as the expert for everything related to facilities. According to Baker, Rozzi set up the Facilities Department as its own unit with little business office interaction, was instrumental in developing the Facilities Department's operation, and knew its weaknesses, if not intentionally designed the structure to have weaknesses in the control environment. He had the authority to orchestrate transactions outside of the business office monitoring and purchasing system. As a result, he could do anything he wanted, circumvent any system, override internal controls, or fail to correct internal control weaknesses, which could later be exploited.

Rozzi's authority was broad, with little to no oversight, management control, or segregation of duties separating him from authorizing payments to nondistrict vendors and accounts. Because he enjoyed a great amount of trust, knowledge and statewide recognition, he was not required to submit verification for transactions he initiated. The nature of this organizational structure was acceptable and supported by the previous and current board and district leadership, who initiated and maintained the structure. When internal controls, policies, procedures and other safeguards, such as internal and external auditing break down, other approval processes have less value and effect. Ultimately, the findings in this report may have gone undetected were it not for Baker and Murray.

Transaction Sampling

FCMAT developed and conducted audit procedures to analyze and evaluate allegations and identify potential outcomes. Fraud audit scope, objectives, and substantive transaction testing was based on the audit team's experience and professional judgment and did not include the testing or evaluation of all available transactions and records. Transactions sampled are derived from random selection and/or specifically selecting samples based on auditor judgment.

Transactions selected, when applicable, are analyzed and compared with board policy, administrative regulations, operational procedures and industry standard or best practice procedures and evaluated for proper authorizations and reasonableness based on the team's judgment and technical expertise in school business operations, internal controls, and accounting best practices.

Sample testing and examination results are intended to provide reasonable, but not absolute assurance of the accuracy of the transactions and financial activity and/or to identify if fraud, misappropriation of funds or other illegal fiscal practices may have taken place during the period under review.

FCMAT examined numerous bankers' boxes containing Neff and non-Neff or other contractor construction-type documents located in a large storage container, the district facilities department office, and at the offices of four architect firms. Construction-related documents are contracts, purchase orders, change orders, schematics, maps, accounting records, authorizations letters, proposals, checks, disbursement registers, general ledger accounting reports, job cost and job progress reports, emails, etc.

Based on the sampling of documents, FCMAT did not identify any transactions with other contractors that were similar in nature to the irregular transactions discovered involving Rozzi and Neff. The Rozzi/Neff-type transactions are primarily comprised of Rozzi directing Neff to write checks from Neff's bank account to specific nondistrict vendors and accounts. Those accounts are shown in this report as Bank of America, Chase Bank, Citi Bank/AT&T, Wells Fargo Bank, and Union Bank. The findings in this report further describe other transaction sampling used to develop the information presented.

Findings

Neff Construction – Experienced in Public School Construction Management and Documentation

A review of the Neff Construction, Inc's website on April 23, 2019 at www.neffcon.com/home describes the company as follows;

With an unwavering dedication to integrity and team building, Neff construction has established and maintains solid, long-term relationships with school districts, designers, trade contractors, state agencies and other stakeholders. This level of dedication reinforces our belief that excellent school facilities support excellent educational opportunities for children.

Our long-term success is primarily the result of our belief in developing and promoting the highest caliber of construction experts possible. Our staff brings experience and a level of commitment to excellence that is unmatched in the school construction industry. This sustained desire to excel have fostered innovative solutions which enable us to consistently deliver litigation-free projects on time and within budget.

Other core values that we uphold include - clear and transparent reporting, continual development and training for staff and future school district construction leaders, accessibility of Neff Construction principals.

Regardless of the complexity and challenges associated with a project, we at Neff Construction are equipped to provide the highest level of service and performance.
(Emphasis Added)

Neff is led by Ed Mierau, president/chief executive officer (CEO) and chief financial officer (CFO). Mierau is also the director at the Coalition for Adequate School Housing (CASH). The CASH School Facilities Leadership Academy Participant Application 2019/2020 describes at http://www.cashnet.org/wp-content/uploads/2018/10/SFLA_ParticipantApp.pdf, the purpose of the academy as follows:

To fulfill the trust of California's taxpayers and to meet the expectations of the state's parents, teachers, and students, the CASH School Facilities Leadership Academy was established to give tomorrow's school facilities leaders the opportunity to learn from today's experts. The program's instructors are the unquestioned authorities on the subjects they teach.

The application contains profiles of the five-core academy faculty. Mierau is one of the faculty and CASH describes his experience as follows:

Ed Mierau has over 30 years of K-12 school construction building and management experience. He has functioned as CEO of Neff Construction, Inc. for the last 19 years. His experience includes all aspects of the school planning and building process. Ed previously served on the Board of Directors and as the Treasurer of the Coalition for Adequate School Housing (CASH). Over the years Ed has contributed to numerous State Agency and CASH publications on topics related to school construction.

Mierau is also one of the five contributor authors to the Guide to California School and Community College Facility Delivery 2018 Delivery Handbook and a co-author of “Is an Alternative Project Delivery Method Right for your K-12 District.”

Neff’s chief operating officer (COO) is Ronald Kuehl. His LinkedIn profile identifies he is the Neff COO and was the senior project architect at WLC Architects, Inc. from April 1986–April 1995. Kuehl’s LinkedIn profile states the following:

COO, Neff Construction, Inc., April 1995 – Present...As COO my duties include: management of the company, marketing, personnel. As a Principal and Senior Project Director, my duties include: client relations, project development, project oversight.

Senior Project Architect, WLC Architects, Inc., April 1986-April 1995...During my years of practicing Architecture, my responsibilities included: project development, programming, design, construction documents, consultant selection...construction administration.

February 2, 2018 Interview at Neff

In an interview on Friday, February 2, 2018 at 9 a.m. at Neff’s Ontario office, Mierau explained to FCMAT that before he became president of Neff, he worked as the company’s controller. He is president/chief executive officer and chief financial officer of Neff and indicated he would fully cooperate with the FCMAT audit. Also present in the meeting was Kuehl and Rod Pacheco, attorney for Neff.

Requested Documents from Neff

Mierau and Kuehl stated they would fully cooperate with the FCMAT audit. Both are experienced with construction documentation. Because of their stated willingness to cooperate, it was not considered necessary to request a lengthy list of all documents available at Neff. FCMAT provided a short, specific, handwritten list of documents requested centered around checks written to vendors directed by Rozzi. The request included documents from calendar years 2006 through 2017. The documents included a detail general ledger and vendor detail report for vendors Union Bank, Bank of America, AT&T, Chase, AT&T Universal, Wells Fargo Bank, and all other vendors with checks that were written by Neff on behalf of Rozzi. Because the Neff meeting took place early in the audit, FCMAT did not have a complete understanding of all possible vendor names Neff had written checks on behalf of Rozzi, which is why all other vendors associated with checks directed by Rozzi were requested.

Neff never provided FCMAT with the documents requested.

Further Communication with Neff and Neff’s Failed Promise to Cooperate with Audit

After FCMAT’s February 2, 2018 meeting with Neff, the team made several attempts via email to obtain the documents Mierau said he would provide.

Emails between Ammermon and Mierau are summarized as follows:

- February 2, 2018, 2:44 p.m.: An email from Ammermon thanked Mierau and Kuehl for meeting, and Mierau responded that he would get back to Ammermon shortly with an estimate of the time to produce the reports discussed in his office. Ammermon stated the following:

Thank you for meeting with me today. I'm grateful we can start off well. Please let me know an estimate of when the vendor detail report for all vendors and the general ledger report (excel and PDF format) may be ready for me to pick up. If you or your staff have any questions about the data, please contact me any time.

- February 2, 2018 2:51 p.m.: Mierau responded stating he would get back to Ammermon shortly with an estimate of the time to produce the reports discussed in his office, stating the following. "Thank you for meeting with us today. We will get back to you shortly with a best estimate of the time required to produce these reports."
- February 13, 2018 3:19 p.m.: An email from Ammermon followed up with Mierau about when the records would be ready as follows: "I'm just following up about when you believe the data will be ready. Hope all is well."
- February 14, 2018 12:40 p.m.: An email from Mierau to Ammermon, with no other recipients copied, said the following:

I checked with Myava this AM and she is just finishing up the backlog portion of our yearly financial audit process. Our auditors will be in our offices next Monday and she is making sure the audit goes as efficiently as possible. She indicated that she may have a chance on Friday PM to look at running these reports. I will keep you posted. Were you able to get the change order data discussed during our meeting from CNUSD?

(Myava Anderson is the controller at Neff.)

- February 14, 2018 5:33 p.m.: Ammermon replied to Mierau, thanked him, and said he would check back with him on February 23, 2018. Ammermon also stated to Mierau that the alleged boxes of change orders and a thumb drive he and Kuehl said were delivered to the district were actually never received. The email indicates FCMAT's continued effort to receive the information requested from Neff's personnel. This is important because three months later, in a letter from Neff's attorney dated May 10, 2018 to the district's counsel, the attorney writes that copies of documents will be provided as follows:

We further made clear to Mr. Ammermon that if for some reason CNUSD could not provide the records we had given to CNUSD in August 2017 we would provide copies of them to him. We presume he received them from your client.

FCMAT's email to Neff dated February 14, 2018 5:33 p.m. clearly indicates that Ammermon explained that the district never received any documents or a thumb drive as follows:

Thank you Ed. I look forward to the data. Regarding the change order data, the information at the district is not as you described with two full boxes of change orders. I'm told that Nancy and Lynn at the district were provided by Shelly Porter at Neff some additional change order documents, but it was a small number of documents, not two full boxes of change orders as perhaps you thought. The district was also told they would receive a thumb drive, but I'm told your attorney instructed your staff to turn over the flash drive to perhaps the district attorney or sheriff. I'm sure there are a lot of moving parts and sometimes it is difficult to track where documents and flash drives, etc. are going or

if something becomes left off the list. But, once I receive the data from Myava, I'm hopeful we can figure out the best way to compile the data with the least amount of waste and a good chain of custody.

I'll check back with you and Myava around Thursday, February 23rd. Myava probably will need more time if she is still closing you books and meeting with auditors. Thank you for the update.

After this correspondence, Mierau discontinued emails with FCMAT.

- March 1, 2018 11:09 a.m.: Because Mierau had not responded, Ammermon emailed him again and explained that Porter, the accountant at Neff, had determined the exact amount of Neff checks directed by Rozzi is \$2,638,636.82 as follows:

I'm following up again since our last email fifteen days ago. To better help you, I was able to find out that Shelly Porter from your accounting office had told the district the amount of checks written, in the categories you and I discussed at your office, total \$2,638,636.82.

Since Shelly does have an exact amount of the checks, it is likely the associated reports, change orders and other related supporting documentation may have already been prepared. Hopefully your books are closed, and the auditors have completed their fieldwork.

Please let me know what Myava and Shelly can do on their end to provide the information to me possibly in the next week or two. It would be helpful to provide me a possible date so I can check my schedule for when I can pick up the documents.

- May 9, 2018 4:43 p.m.: Rod Pacheco, wrote Douglas N. Yeoman, an attorney at Parker & Covert LLP, counsel for the district. Neff's attorney, Pacheco, responds to correspondence sent by Yeoman on behalf of the district, requesting documents pursuant to provisions in the construction agreements between the district and Neff. After months of waiting for Neff to provide the documents initially requested by FCMAT on February 2, 2018 and communicating directly with Neff via email, Pacheco responds to Yeoman implying Ammermon was not allowed to speak with Neff without Pacheco's permission as follows:

Mr. Yeoman

Previously you sent correspondence dated May 3, 2018 to my client, Neff Construction, on behalf of your client, Corona-Norco Unified School District (CNUSD) wherein you demanded a response no later than today, May 9, 2018. You will be receiving that response from me shortly.

In the future do not communicate with my client without my express written permission. I am concerned that you did so in spite of your client's knowledge that I represent Neff, and in spite of Mr. Ammermon's knowledge of my representation. Please direct all future correspondence to me.

Both Mierau and Ammermon freely communicated throughout February 2018 without any objections from Pacheco until Pacheco raised his objections in the May 9, 2018 letter. Furthermore, neither Neff nor Pacheco ever indicated that communication was restricted as evidenced by Mierau's direct email communications with Ammermon. Neither Yeoman nor Parker & Covert LLP represent FCMAT in this matter; and further, the district is not FCMAT's client in this matter.

If restrictions were in effect, Mierau would not have communicated directly with Ammermon. This is important because between February 2, 2018 and May 3, 2018, FCMAT assumed that Mierau and the corporation he represents, Neff, would honor its repeated commitment to assist with the audit. Instead, Neff delayed, issued excuses, and further delayed responses, then finally stopped communicating altogether. After waiting three months, FCMAT requested the district to write Neff to request cooperation and provide documents in accordance with the contractual agreement between the district and Neff associated to various construction projects.

- In a letter responding to the district's request for documents dated May 10, 2018 and sent to Yeoman, Pacheco alleges Neff has provided countless documents to law enforcement and the district. However, based on FCMAT's review of documents the district and law enforcement provided, the documents Neff allegedly provided to the district or law enforcement specific to the \$2,638,636.82 in Neff checks to Rozzi-directed vendors are simply not available. Nor has Neff presented any chain of custody logs or other proof these specific documents were ever provided.

Regardless of the value, quantity, and contents of any alleged documents Mierau/ Neff or Neff's attorney claim they have provided to law enforcement or the district, Neff has done the following:

- Failed to cooperate with the FCMAT audit.
- Failed to provide the specific documentation requested by FCMAT.
- Failed to explain why the company could not or would not provide a second set of alleged previously provided documents.

Mierau should know about the checks written to vendors directed by Rozzi because Mierau is not only the CEO but chief financial officer of Neff. In fact, Neff's own accountant, Porter, possessed sufficient knowledge of this area that she told district facilities staff, Baker, the exact amount of checks written by Neff was precisely \$2,638,636.82, down to the penny. Porter is a member of the Neff organization who cooperatively reported the amount to the district's staff upon their inquiry.

In other words, because of Porter, Neff knows how much money was paid to Rozzi-directed vendors and has refused to assist FCMAT, law enforcement, and the firm's own client, the district. Furthermore, if Neff has truly provided the district the documentation as alleged, it should have reproduced it, especially considering the expertise Neff and its principal officers purport to have in school district construction and management.

In the May 10, 2018 letter, Pacheco wrote district council Yeoman stating the following:

As it specifically relates to Mr. Ammermon, we made clear to him that we had provided documents, four (4) years' worth, to CNUSD upon Lynne Murray's request in August 2017. Those documents contained much of what you are requesting in your correspondence. Which seems to us to be a bit duplicative and unusual as we had these records hand delivered to CNUSD in August 2017. Those records contained copies of checks, emails from Rozzi, and countless forms relevant to every request. I would specifically note that these records should be within your own client's actual possession as they were routinely

presented and signed by CNUSD personnel, including the Superintendent, and most were reviewed and approved by the CNUSD School Board in public session. That you are requesting the records within your own possession is quixotic. And we informed Ammermon of all these facts and more. We even showed him examples of records we had provided CNUSD.

We further made clear to Mr. Ammermon that if for some reason CNUSD could not provide the records we had given to CNUSD in August 2017 we would provide copies of them to him. We presume he received them from your client. If so, we expect confirmation from you so we can dispense with discussing those items further. *(Emphasis added)*

As detailed above, the only meeting between Neff and FCMAT (Ammermon) occurred on February 2, 2018 at Neff headquarters. There, FCMAT provided a handwritten list of the items requested. Neff indicated it would fully cooperate, but never provided any of the documents requested.

Neff's May 10, 2018 letter is written more than four months after the February 2, 2018 meeting with FCMAT. The May 10, 2018 letter implies that Neff showed FCMAT examples of records; however, FCMAT does not recall being shown these examples during the meeting. Even if documents were shown, FCMAT was not provided with any copies. More important is the fact that Neff's May 10, 2018 letter attempts to recast the written facts about the alleged documents Neff claims it provided to the district or law enforcement.

FCMAT's email dated February 14, 2018 5:33 p.m. clearly indicated that the district did not receive any boxes of documents or a thumb drive. Neff knew in February 2018 that neither FCMAT nor the district had any of the records Neff alleges it provided.

Three months after this notification, Neff's counsel wrote a May 10, 2018 letter stating the following:

We further made clear to Mr. Ammermon that if for some reason CNUSD could not provide the records we had given to CNUSD in August 2017 we would provide copies of them to him.

For Neff to assure that it will provide records if requested when it already knew of the February 14, 2018 5:33 p.m. email is misleading and disingenuous. At this point, it became clear to the district and FCMAT that Neff would not assist in the audit or provide any records.

Neff discontinued communicating with FCMAT, at no time provided any alleged documents to FCMAT, and effectively stalled and lengthened the audit process because of their failure to cooperate. Instead, as the correspondence highlighted above demonstrates, Neff gave repeated excuses about providing documentation and then discontinued communicating with FCMAT. Neff attempts to redefine the events to appear cooperative but fails repeatedly to do the one thing it was asked, which is to provide the requested records. Even if the district somehow lost any alleged records Neff believes it provided, or the records were sent somewhere else, Neff surely knows what they are, allegedly has copies, and could have provided them as requested.

District's Failure to Enforce Its Own Contract with Neff

When it became clear that Neff was unwilling to assist in the audit or provide records directly to FCMAT, the district requested Neff to provide records. In a letter dated May 3, 2018, Yeoman wrote Neff regarding, "Audit Request of Construction Documents." In this letter, directed to Mierau, a list of ten items was requested including "Copies of checks paid to payees directed by Ted Rozzi such as but not limited to the following alleged payees:

- A. Bank of America;
- B. Citi Bank;
- C. AT&T;
- D. Union Bank;
- E. Wells Fargo;
- F. Chase Bank;”

The letter also addressed the attempts by FCMAT to obtain information from Neff and cited the audit provisions in contracts between Neff and the district as follows:

It is our understanding that an audit of the aforementioned records has been requested by FCMAT in part based upon the information provided by Shelly Porter, one of your accountants, who informed District Facilities staff that the total amount of alleged checks written to alleged payees directed by Ted Rozzi is \$2,638,636.82. Although a number of attempts have been made by Mr. Ammerman to secure these documents as part of its audit, as of yet, no documents have been provided.

As you are aware, each construction contract that has been entered into between the District and Neff Construction, Inc., contains substantially the following provision:

“At its own cost, District shall have the right to review and audit, upon reasonable notice, the books and records of Contractor concerning any monies associated with the Project. Any such audit shall be performed by an independent auditor, having no direct or indirect relationship with the functions or activities being audited or with the business conducted by Contractor or District.”

Neff’s attorney, Pacheco responded in the May 10, 2018 letter referenced above. Yeoman summarized Pacheco’s May 10, 2018 response about the records in an email to the district and FCMAT dated May 10, 2018 as follows:

Although Mr. Pacheco is correct as to the primary purpose for the audit provision contained in our DBB and LLB documents and the 4-year duration for maintaining those documents, since he does not deny having the requested documents, I can only assume he has the documents.

Because Neff failed to cooperate, FCMAT requested the district to enforce the audit provisions of the contracts. On May 22, 2018, the district emailed FCMAT and Yeoman stating the following:

The district is in receipt of the letter from Mr. Pacheco, dated May 10, 2018 and has decided to not make any further requests for documentation from Neff Construction. Please let me know if you have any questions or need additional information.

The district’s failure to enforce its own contract provisions with Neff that it knows may have assisted Rozzi in allegedly diverting funds from the district was unexpected. Also unexpected was that even after the district was aware of the nature of transactions of Rozzi directed checks through Neff and after Rozzi retired, the district still awarded another construction contract to Neff on October 17, 2017 with a value of over \$41 million.

Ted Rozzi

Example of Checks to Rozzi Directed Accounts Facilitated by Neff

Questionable transactions identified during early stages of the audit consisted of checks requested by Rozzi through Mierau. Under the presumed direction of Mierau, Neff issued checks to vendors directed by Rozzi. The Rozzi directed vendors were Bank of America, Chase Bank, Citi Bank/AT&T, Wells Fargo Bank, and Union Bank. According to Baker, the district does not have accounts with any of the vendors described above in which a contractor would be making payments on behalf of the district.

Working with the Facilities Department and district management, the district provided FCMAT with the documents and information that were available either in its files or were reconstructed. Table 1 presents Rozzi-directed checks; for most, the Facilities Department was able to provide a summary spreadsheet of the contract, purchase order, the email from Rozzi to Mierau requesting a check, and other documents. Based on available records at the district and other sources, and without the benefit of any records possessed by Neff, this review was able to substantiate \$494,395.78 worth of payments made by Neff as directed by Rozzi that corresponds to identifiable district school construction projects.

Table 1

Ref	Check No.	Check Date	Amount	Vendor/Payee	Check Memo Acct No.'s	School Name	Corona-Norco Purchase Order Number	Summary Spreadsheet
A1	35924	07/10/14	\$ 43,788.15	Bank of America	5401-2617-8259-5252	Yorba ES-Ronald Reagan	PO148394	Yes
A2	36819	10/06/14	37,891.45	Chase Bank	4417-1295-8390-0283	Santiago HS	PO152041	Not Available
A3	37575	12/19/14	36,871.44	Bank of America	5401-2617-8259-5252	Yorba ES-Ronald Reagan	PO148394	Yes
A4	38636	03/24/15	38,751.12	Citi Bank/AT&T	5401-1303-1211-4473	Yorba ES-Ronald Reagan	Not Available	Not Available
A5	39535	06/09/15	39,701.12	Bank of America	5280-7128-3806-1042	Yorba ES-Ronald Reagan	PO148394	Yes
A6	40564	09/02/15	35,455.38	Bank of America	5280-7128-3806-1042	Yorba ES-Ronald Reagan	PO148394	Yes
A7	41371	10/27/15	24,721.80	Bank of America	5280-7167-6748-6732	Yorba ES-Ronald Reagan	PO148394	Yes
A8	41370	10/27/15	19,110.15	Bank of America	4147-3420-1792-1331	Yorba ES-Ronald Reagan	PO148394	Yes
A9	42346	01/13/16	24,788.00	Bank of America	4147-3420-1792-1331	Corona HS	PO162967	Yes
A10	43944	05/02/16	19,100.50	Bank of America	4147-3420-1192-3333	Eleanor Roosevelt HS	PO167662	Not Available
A11	45200	07/27/16	39,488.15	Bank of America	5280-7167-6748-6732	Santiago HS	PO167893	Yes
A12	45917	09/21/16	29,772.48	Bank of America	4147-3420-2196-1695	Santiago HS	PO167893	Yes
A13	47023	12/13/16	29,455.72	Bank of America	4147-3420-2196-1695	Norco HS	PO174556	Yes
A14	47896	03/01/17	39,756.17	Bank of America	5524-3308-5320-9176	Roosevelt HS	PO177469	Yes
A15	48852	05/12/17	35,744.15	Bank of America	5524-3308-5320-9176	Roosevelt HS	PO177469	Yes
	15		\$494,395.78					

Table 2 summarizes from Table 1 the checks issued by Neff to Rozzi directed vendors.

Table 2

Summary	Vendor/Payee
\$ 417,753.21	Bank of America
38,751.12	Citi Bank/AT&T
37,891.45	Chase Bank
\$494,395.78	

Table 1 identifies certain checks that correlate to a district summary spreadsheet. The spreadsheet is a Microsoft Excel spreadsheet prepared by the district Facilities Department that tracks a construction project's financial transactions. When a summary spreadsheet is available, it identi-

fies the total contract amount, change orders, invoice data from Neff requesting payments, and the amount paid by the district. This is important because if Rozzi-directed vendor checks were paid from district construction project funds, the funds paid by Neff to Rozzi’s vendors would be allegedly misappropriated from the district.

To determine if the funds Rozzi allegedly received came from the district, FCMAT identified the construction project that Rozzi directed Mierau to assign the check. FCMAT compared the district’s construction project summary spreadsheet data, which includes the total contract price and change orders that affect the total contract price, to the checks the district paid to Neff to confirm if a project was fully paid off.

If the total amount of payments made by the district to Neff agree with the total construction project contract amount, and a Rozzi-directed check is part of the payments from the district to Neff, the funds used to pay these checks came from the district. Therefore, this analysis contributes in determining if district funds were directed through Neff to allegedly enrich Rozzi and defraud the district.

Image 3 is the district’s Santiago High School Bleacher Expansion construction job summary spreadsheet. The summary spreadsheet information was traced through available district documents. Images 3 through 11 represent one example of the method used by Rozzi and Neff to potentially enrich Rozzi and defraud the district. Other examples are provided in other images throughout this report.

Image 3

Santiago Bleacher Expansion

Ted Rozzi Directed Check Ref. No

Ref. No	Amount
11	39,488.15
12	29,772.48

Amount of Contract Paid in full

PO Number

Vendor: Neff Construction
 P.O. # 167893
 Budget Code 25-6270-760-8530-0001

SHS-Bleacher Exp
 Board Approved 3-1-16
 Resolution No. 76

Tenant Imp. Payments	\$1,396,153.00	NOC -Date Filed:	11/17/2016
Sublease Payments	(\$209,422.95)	Less 15% for Sublease Payments	
Total Contract	\$1,186,730.05		
CO #1 (11-18-16)	-\$40,063.37	Memorandum of Commencement Date:	10/31/2016
CO #2			
CO #3			
CO #4			
CO #5			
CO #6			
Total	\$1,146,666.68		

Original Contract Amount

Pmt Period	Date Processed	Bill #	Invoice #	Invoice Amt	Pay Amount	Balance to Finish
Apr-16	6/15/2016	1	8013	279,990.83	279,990.83	0.00
May-16	6/15/2016	2	8041	254,109.96	254,109.96	0.00
Jun-16	6/15/2016	3	8079	237,046.05	237,046.05	0.00
Jul-16	8/5/2016	4	8136	229,470.24	229,470.24	0.00
Aug-16	8/31/2016	5	8172	38,889.56	38,889.56	0.00
Sep-16	9/30/2016	6	8225	105,553.99	105,553.99	0.00
Dec-16	2/23/2017	7	8404	1,606.00	1,606.00	0.00
TOTALS				1,146,666.63	1,146,666.63	\$0.05

Net Contract agrees to district total payments

District Payments of Neff Invoices which agree to the district general ledger and vendor history report

Agree to bill

(Highlights and handwritten and typed notes are added by FCMAT.)

As shown in Image 4, the district’s purchase order number 167893 for \$1,396,153 agrees with the original contract amount of \$1,396,153 displayed in Image 3.

Image 4

INVOICE IN DUPLICATE TO:

CORONA-NORCO UNIFIED SCHOOL DISTRICT
 2820 CLARK AVENUE NORCO, CALIFORNIA 92860
 (951) 736-5050

PURCHASE ORDER **No. 167893**
MERCHANDISE AND/OR SERVICES MUST SHOW THIS NUMBER ON INVOICES, PACKAGES AND CORRESPONDENCE.

SHIP TO:
 CORONA-NORCO UNIFIED SCHOOL DISTRICT
 300 S. BUENA VISTA AVENUE
 CORONA, CA 92882

TO: NEFF CONSTRUCTION CO**
 P.O. BOX 1488
 1701 S. BON VIEW STE 104
 ONTARIO CA 91762

Vendor Phone: (909)947-3768 Vendor Fax: (909)947-3823

DELIVER BY		FOB DEST	TERMS Net 30	BUYER		
ORDER DATE 04/04/2016	SUBMITTED BY TROZZI/SMORRISON/PGRUMLING		SITE NAME FACILITIES	VENDOR NO. 031110	REQ. NO. 608025	
By accepting this Purchase Order you are accepting Corona-Norco Unified School District's terms and conditions which can be found at: http://www.cnusd.k12.ca.us/Page/33160						
ITEM NO.	QUANTITY	UNIT	DESCRIPTION	UNIT PRICE	TOTAL PRICE	STORES NO.
1	1	EA	AWARD OF CONTRACT FOR THE CONSTRUCTION OF THE BLEACHER EXPANSION PROJECT AT SANTIAGO HIGH SCHOOL. BOARD APPROVED: MARCH 1, 2016 RESOLUTION NO. 76	1,396,153.000	1,396,153.00	

(Highlights are added by FCMAT.)

The original contract amount in Image 3 is shown as adjusted for sublease and change orders, resulting in a net contract amount of \$1,146,666.68 owed to Neff. Neff billed to the district seven invoices totaling this amount, and the district paid all of them, meaning the contract was paid in full except for a five-cent difference as shown in Image 3.

To verify this information, FCMAT traced each payment to the district’s accounting books general ledger detail report and vendor history report. Image 5 represents district payments to Neff as reported in the district’ general ledger detail report correlating to items 1–7 circled in red in Image 3.

Image 5

RCOE AB139-Corona-Norco USD			Neff Transaction Analysis			General Ledger Detail Report	
DATE	REFERENCE	ACCOUNT CODE	DESCRIPTION		DEBIT	CREDIT	
5/18/2016	PO-162967	25-6270-730-8555-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8012756	565,205.04		0
6/6/2016	PO-162967	25-6270-730-8555-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8013542	508,056.57		0
6/22/2016	PO-162967	25-6270-730-8555-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8014709	107,742.80		0
6/22/2016	PO-167893	25-6270-760-8530-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8014709	237,046.05		0
6/22/2016	PO-167893	25-6270-760-8530-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8014709	279,990.83		0
6/22/2016	PO-167893	25-6270-760-8530-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8014709	254,109.96		0
6/30/2016	EP-160710	25-6270-755-8505-0000-9014-0	NEFF CONSTRUCTION CO**	31110	43,869.85		0
6/30/2016	EP-160713	25-6270-760-8530-0000-9014-0	NEFF CONSTRUCTION CO**	31110	210,950.26		0
8/22/2016	PO-167893	25-6270-760-8530-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8017358	771,146.84		0
9/28/2016	PO-167893	25-6270-760-8530-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8019476	38,889.56		0
10/17/2016	PO-167893	25-6270-760-8530-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8020428	105,553.99		0
11/7/2016	PO-174556	25-6270-750-8562-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8021731	340,552.50		0
11/16/2016	PO-162967	25-6270-730-8555-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8022256	364,834.52		0
11/16/2016	PO-174556	25-6270-750-8562-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8022256	103,646.15		0
12/14/2016	PO-174556	25-6270-750-8562-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8023927	145,903.23		0
1/30/2017	PO-174556	25-6270-750-8562-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8025994	309,124.49		0
1/30/2017	PO-167893	25-6270-760-8530-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8025994	70,607.78		0
2/6/2017	PO-167893	25-6270-760-8530-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8026440	35,194.69		0
2/6/2017	PO-162967	25-6270-730-8555-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8026440	133,577.17		0
2/6/2017	PO-174556	25-6270-750-8562-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8026440	23,187.17		0
2/8/2017	PO-167893	25-6270-760-8530-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8026667	229,470.24		0
3/15/2017	PO-167893	25-6270-760-8530-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8028610	35,121.98		0
3/15/2017	PO-167893	25-6270-760-8530-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8028610	1,606.00		0
4/19/2017	PO-162967	25-6270-730-8555-0000-9014-0	NEFF CONSTRUCTION CO**	31110 8030723	133,577.17		0

(Highlights and handwritten and typed notes are added by FCMAT.)

The general ledger detail report identifies the payment information and amount and check number, which is cross confirmed in the vendor history report in Image 6.

Image 6

024 CORONA-NORCO UNIFIED DISTRICT Neff-Reagan Fy1516		Vendor History Report Activity dated 07/01/2015 - 06/30/2016		J47856 VR0300 L.00.15 12/19/17 PAGE 5	
Fund	:25 CAPITAL FACILITIES FUND	Location:760	SANTIAGO HIGH SCHOOL		
FD OBJT LOC FUNC GOAL RESC Y	Reference Entered	Description Paid	Warrant #	Encumbered	Payment 1099 UT
31110 NEFF CONSTRUCTION CO**	Last paid: 12/06/2017 Last edit: 03/24/2014		1099: N TIN: 953437347		
25-6270-760-8530-0000-9014-0	PO-167893	MAIN BUILDING CONTRACT		1,396,153.00	
25-6270-760-8530-0000-9014-0	PO-167893 1	06/22/2016 06/22/2016 08014709	1	279,990.83	279,990.83 N N
25-6270-760-8530-0000-9014-0	PO-167893 2	06/22/2016 06/22/2016 08014709	2	254,109.96	254,109.96 N N
25-6270-760-8530-0000-9014-0	PO-167893 3	06/22/2016 06/22/2016 08014709	3	237,046.05	237,046.05 N N
25-6270-760-8530-0000-9014-0	EP-160713	06/30/2016 06/30/2016		210,950.26	
25-6270-760-8530-0000-9014-0	PO-167893	SEE DC#170021		414,055.90	
25-6270-760-8530-0000-9014-0	PO-167893 5	09/28/2016 09/28/2016 08019476	5	38,889.56	38,889.56 N N
25-6270-760-8530-0000-9014-0	PO-167893 6	10/17/2016 10/17/2016 08020428	6	105,553.99	105,553.99 N N
25-6270-760-8530-0000-9014-0	PO-167893	C/081		269,612.35	
25-6270-760-8530-0000-9014-0	PO-167893	C/081		229,548.98	
25-6270-760-8530-0000-9014-0	PO-167893	1		70,607.78	70,607.78 N N
25-6270-760-8530-0000-9014-0	PO-167893	2		35,194.69	35,194.69 N N
25-6270-760-8530-0000-9014-0	PO-167893	SEE DC#170021		123,746.51	
25-6270-760-8530-0000-9014-0	PO-167893	SEE DC#170021		480,837.45	
25-6270-760-8530-0000-9014-0	PO-167893 1	02/08/2017 02/08/2017 08026667	1	229,470.24	229,470.24 N N
25-6270-760-8530-0000-9014-0	CL-160713	CLS PER NANCY		210,950.26	
25-6270-760-8530-0000-9014-0	PO-167893	3		35,121.98	35,121.98 N N
25-6270-760-8530-0000-9014-0	PO-167893 7	03/15/2017 03/15/2017 08028610	7	1,606.00	1,606.00 N N

(Highlights and handwritten notes are added by FCMAT.)

Paying the contract in full means the district fully paid all components of the contract or guaranteed maximum price (GMP), including contractual components such as contingency and allowance amounts. Contingency and allowance amounts represent dollars set aside within the contract that either the contractor or district, may use to pay for additional costs. Changes in costs are typically evidenced by a change authorization and change order.

If the contingency or allowance amounts are not used in a contract or if a balance is remaining, the balance represents additional savings to the district that would not be paid to the contractor. Because Rozzi controlled how funds were spent on Neff construction projects, Rozzi could control the time and purpose the funds would be spent from the contract's contingency and allowance accounts. More about contingency and allowance transactions is discussed later in this report in the section titled Change Order/Authorization Documentation.

Based on the emails sent by Rozzi to Mierau, Neff paid the transactions presented in Table 1 primarily through change authorizations affecting the allowance or contingency account. The payments were arranged through emails between Rozzi and Mierau. Based on the documents reviewed, the only requirement for Rozzi to receive a check from Neff was an email from Rozzi describing the amount and the payee.

Table 1 and Image 3 identify the amount of \$39,488.15. This amount is described in an email from Rozzi to Mierau sent on Tuesday, July 26, 2016 at 3:59 p.m. Rozzi states in the email as follows: "Need check for \$39,488.15 – Bank of America (charge to Santiago HS bleachers allowance/bid savings)."

Rozzi's email to Mierau is shown in Image 7.

Image 7

From: Ted Rozzi [mailto:trozzi@cnusd.k12.ca.us]
Sent: Tuesday, July 26, 2016 3:59 PM
To: Ed Mierau <Ed@neffcon.com>
Subject: Misc.

1. Need check for \$39,488.15 – Bank of America (charge to Santiago HS bleachers allowance/bid savings)
2. Need to clarify scope of NHS major categories with WLC; Erickson-Hall slightly lower for Phase 1 but includes significant differences in costs for electrical, HVAC, concrete, & lath/plaster/drywall categories. I will let you know ASAP
3. Are you guys around in August, Sonya would like to schedule a Friday night at Mario's for dinner we won at fundraiser

Ted E. Rozzi
 Assistant Superintendent, Facilities
 Corona-Norco Unified School District
 951-736-5045 Office
 951-285-8299 Mobile
trozzi@cnusd.k12.ca.us

("Sonya" in item #3 of the email in Image 7 is Rozzi's then-wife, now alleged ex-wife.)

Image 8 is Mierau's Wednesday, July 27, 2016 at 7:48 a.m. response stating, "Will have the ck. Ready this PM."

Based on the emails reviewed by FCMAT, Mierau does not question why Rozzi needed the money, why the check is written to Bank of America, or require detailed documentation to support the payment from Neff's checking account. FCMAT examined other change order requests processed by and from Neff. As the general contractor, Neff's subcontractors would also propose changes to the job's construction specifications and run the changes through Neff as a change order.

An examination of change orders submitted to Neff by Neff subcontractors found that most required highly detailed explanations along with pages of documentation. In contrast, Rozzi simply sends an email to Mierau and the check is ready, often the same day. See Image 7.

Image 8

From: Ed Mierau
Sent: Wednesday, July 27, 2016 7:48 AM
To: Ted Rozzi
Subject: RE: Misc.

Ted,

We are available the 12th, 19th, and 26th. Jody is in Montana for the next two weeks with Karen Taylor. On the Norco HS thing, we provided an inclusion sheet which may also differ somewhat from the scope contained in Erickson-Hall's price. Will have the ck. ready this PM.

Thanks,

Ed Mierau
CEO
NEFF CONSTRUCTION, INC.
1701 S. Bon View Ave., Ste. 104 - Ontario, CA 91761
PH 909.947.3768 FAX 909.947.3823
ed@neffcon.com

To document the checks requested by Rozzi, based on the emails examined, Neff's Accounting Department places a stamp on the email request and handwrites the job number, check number, date paid, account number, and check amount.

Image 9, as received from the district, identifies the handwritten information included within the squared off stamp section. The stamp includes Neff construction job and account codes, the date the check was paid, July 27, 2016, the check number, 45200, and the total amount paid, \$39,488.15. The stamp also shows that the account and job number were split as \$28,009 into job 516/80000, account 50001, and \$11,479.15 to job 516/68000, account 50001.

Image 9

Ed Mierau

From: Ted Rozzi <trozzi@cnusd.k12.ca.us>
Sent: Tuesday, July 26, 2016 3:59 PM
To: Ed Mierau
Subject: Misc.

- 1. Need check for \$39,488.15 – Bank of America (charge to Santiago HS bleachers allowance/bid savings)
- 2. Need to clarify scope of NHS major categories with WLC; Erickson-Hall slightly lower for Phase 1 but includes significant differences in costs for electrical, HVAC, concrete, & lath/plaster/drywall categories. I will let you know ASAP
- 3. Are you guys around in August, Sonya would like to schedule a Friday night at Mario’s for dinner we won at fundraiser

Ted E. Rozzi
 Assistant Superintendent, Facilities
 Corona-Norco Unified School District
 951-736-5045 Office
 951-285-8299 Mobile
trozzi@cnusd.k12.ca.us

Statement of Confidentiality: The contents of this e-mail message and any attachments are intended solely for the addressee. The information may also be confidential and/or legally privileged. This transmission is sent for the sole purpose of delivery to the intended recipient. If you have received this transmission in error, any use, reproduction, or dissemination of this transmission is strictly prohibited.

Ven #	Inv Date	By	MA
Amt.	Job Phs	Acct. #	
39,488.15	516/164000	50001	
28,009-	516/80000	50001	
11,479.15	516/168000	11	
Date Paid	Ck #	Fl	Amt Paid
7/27/16	45200	11-13	39,488.15

(Highlights are added by FCMAT.)

Image 9 is the same email as image 7 except that it shows at the bottom of the email Neff’s job allocation stamp. Rozzi’s email limits his request to charging the Santiago High School bleachers allowance/bid savings. From this point on, no emails or other documentation from Neff is available or has been provided by Neff explaining how or why Neff determines to allocate the \$39,488.15 between an errors and omissions contingency of \$28,009 and a plumbing allowance of \$11,479.15 as shown in Image 9’s job allocation stamp and Image 10’s change order proposal

Neff documented its allocation of Rozzi’s request by preparing an internal change order proposal shown in Image 10. The change order proposal identifies the request as “District GMP Disbursement.” It also indicates that the charge is to the allowance for E&O contingency (errors and omissions) and plumbing allowance. Also written across three columns is “Check to District,” “Corona-Norco USD,” and “\$39,488.15”; however, the check Neff prepared is actually written to Bank of America, not “Corona-Norco USD” as is shown circled below. The district stated it has no record of a of \$39,488.15 check from Neff. The change order proposal is dated August 3, 2016, a week after the check was actually issued and delivered to Rozzi.

Image 10

DocuSign Envelope ID: 5D348DF2-72A0-4E62-A96C-045DC47CC508



Change Order Proposal

Project: SANTIAGO H.S. VISITOR BLEACHER EXPANSION #516
COR Title: District GMP Disbursement
Subject:

Date: 8/3/16
COR No. 07
CCD No. N/A
RFI No. N/A

Description: Disburse a portion of the remaining guaranteed maximum price to the District at District's request.

Labor

Classification	Labor Cost Code	Description	Hours	Rate	Cost
					\$0.00
					\$0.00
Subtotal Labor					\$0

Equipment

Type	Equip Cost Code	Description	Hours	Rate	Cost
					\$0.00
					\$0.00
Subtotal Equipment					\$0

Materials

Description	Material Cost Code	Qty	Unit	Cost	Total
Check to District	Corona-Norco USD	1	39488.15	\$39,488.15	
				\$0.00	
Subtotal Materials					\$39,488

		Rate	Amount	Total
Charge to Allowance	E&O Contingency	(1)	\$28,009	(\$28,009)
Charge to Allowance	Plumbing Allowance	(1)	\$11,479	(\$11,479)
Subtotal After Allowance				\$0
Lease Lease-Back OH&P	Per GC Section 7.7.2	5%	\$0	\$0
				(\$39,488)
Subtotal Total Cost				\$0
Bond		1%	\$0	\$0
Insurance		1%	\$0	\$0

Total Cost \$0

(Highlights and circled items are added by FCMAT.)

Image 11 presents the Neff change order request (COR) document. The COR is authorized by WLC Architects, Inc. and the district. Neff’s COR fails to explain or describe why Rozzi directed the check to be paid to Bank of America. No explanation is included of why Neff’s COR states in the subject section, “Disburse a portion of the remaining guaranteed maximum price to the District at District’s request” when Neff’s document shows the check is not written to the district.

Neff's change order proposal fails to disclose the check is to Bank of America, which misidentifies the payee as the district. Like the change order proposal in Image 10, the change order request is dated August 3, 2016, a week after the check was issued.

Image 11

DocuSign Envelope ID: 5D348DF2-72A0-4E62-A96C-045DC47CC508



1701 South Bon View Avenue, Ontario, CA 91761

Telephone: (909) 947-3768 FAX: (909) 947-3823

August 3, 2016

Sam Morrison
Corona-Norco USD
 2820 Clark Avenue
 Norco, CA 92860

Via E-Mail; smorrison@cnsud.k12.ca.us

RE: **SANTIAGO H.S. VISITOR BLEACHER EXPANSION**
 1395 E. Foothill Parkway, Corona, CA 92881
COR 07 – District GMP Disbursement

Sam:

Below is our cost proposal:

COR #	AMOUNT	CONTRACT TIME EXT.	ACTIVITY DURATION TIME EXT.	SUBJECT
07	<\$0.00>*	0	0	Disburse a portion of the remaining guaranteed maximum price to the District at District's request.

* \$28,009.00 charged to E&O Contingency
 \$11,479.15 charged to Plumbing Allowance
 \$39,488.15 total charged to contingency & allowance

Respectfully,
NEFF CONSTRUCTION, INC.

Dana Vallimont
 Project Manager

Your approval signatures below will provide Neff Construction, Inc. with a formal Notice to Proceed with this change. *This document is effective only when signed by the District and the Architect*

DocuSigned by:

 WLC Architects, Inc. _____ 8/4/2016
 Date

DocuSigned by:

 Corona-Norco USD _____ 8/4/2016
 Date

- c: - Mike Riker, Superintendent
 - Wade Clark, Project Inspector
 - Shelley Porter - Accounting, Neff
 - Mark McKnight, WLC Architects
- file: 516 - COR # 07

(Highlights are added by FCMAT.)

(Sam Morrison is construction project manager of the district.)

Neff's change order request also fails to disclose the check is to Bank of America, which also misidentifies the payee as the district.

Other change order inconsistencies include:

- Neff's change order request fails to identify Bank of America as the payee.
- The COR subject box reads, "Disburse a portion of the remaining guaranteed maximum price to the District at District's request." (emphasis added)

Stating the funds are "...to the District" is supported by Neff's change order proposal in Image 10, which states, "Check to District." Neff is alleged to be experienced in construction management and documents and therefore, is presumed to be aware it is not paying a check to the district.

- Neff's change order request number 07 (Image 11) indicates that \$28,009 is to be charged to E&O Contingency and \$11,479.15 is to be charged to Plumbing Allowance. However, there is no disclosure regarding how, why, or under whose authority it was to allocate the Bank of America check to E&O Contingency and Plumbing Allowance. Rozzi's email in Image 9, line item #1, only specifies "Santiago HS bleachers allowance/bid savings", not E&O Contingency and Plumbing Allowance.

Again, it is unknown how Neff converted Rozzi's instructions from "bleachers allowance/bid savings" to dividing the amount between the E&O contingency and plumbing allowance. Neff should have detailed how a check to Bank of America directed for bleachers allowance and bid savings was converted to errors and omissions and plumbing, but did not.

- Neff Constructions' project manager approves the change order request, giving the document authenticity, and the document is signed by the district's architect, WLC Architects, Inc. dated August 4, 2016 and approved by the district.
- The Rozzi email date requesting the \$39,488.15 is dated July 26, 2016, and the Neff check is dated July 27, 2016 (Image 9); however, both the change order proposal and change order request (Images 10 and 11) are dated August 3, 2016, a week after the check was issued.
- Neither the Neff change order proposal nor change order request identify or describe why or how Neff has the authority or ability to issue a check based on an email request from Rozzi before the change order authorization dated August 4, 2016 was approved and processed by the architect. (Table 3)

The transaction sample provided by the district did not include any other supporting documents, notes, or other information demonstrating that Neff requested further clarification for the purpose of the \$39,488.15 check to Bank of America requested by Rozzi.

Change Order/Authorization Documentation

Change orders are required to approve changes to a construction contract for various reasons. Most change orders are architect, engineer or subcontractor-initiated modifications to specific components of the work required, which often affects the cost of the associated work. They typically start as change order requests/proposals, become change authorizations, and complete the process as a change order. The change order is typically the document used to obtain the governing board's approval, to approve payment for the changes and is supported by the necessary information and backup.

As the general contractor, Neff and its experienced management and staff review requested job modifications and submit the proposed changes to the architect and district for approval. Formal approval for change order proposals is made through a change order authorization and/or change order request signed by the architect. According to architects FCMAT interviewed, no activity, including checks written, should occur at least until the day the architect signs the change authorization.

The architects explained that in some cases, they are not responsible for approving change authorizations to the contractor allowance and contingency because these costs are between the district and the contractor. The architect would approve a change authorization when the actual construction work results in a modification. Murray indicated that in a typical contract, five percent may be set aside for allowance or contingency costs, which ordinarily do not require documentation through the change authorization process. Because Murray was not receiving cooperation and documentation from Neff and Rozzi about the purpose of certain contract expenditures such as payments to Bank of America through Neff, she began requiring Neff to submit change authorization forms for contingency and allowance transactions. This means until she required the uncharacteristic use of the change authorization forms for contingency and allowance transactions, Neff or Rozzi provided little or no documentation about those transactions. More troubling is that Murray was not the only person administering projects, which means other district project managers may not have required any change authorizations or detailed supporting documentation for contingency or allowance transactions between Neff and Rozzi. According to and until Murray and Baker discovered use of the contingency and allowance accounts for payments to Rozzi-directed accounts Bank of America, Chase Bank, AT&T, etc., neither Neff nor Rozzi were transparent about the transactions.

Architects explained, because allowance and contingency costs are for transactions negotiated with the contractor and district, they may or may not be involved or their involvement may be to only process the paperwork. Therefore, architects may choose whether to sign a change authorization, and in some cases may not even receive it from the contractor or district for allowance and contingency changes. In some instances, the architect may process a change authorization as part of the change order document package for payment, but not have responsibility for it. Therefore, when the architect is not required to vet an allowance or contingency change authorization such as the Rozzi-directed contractor allowance and contingency change authorizations for payments, a weakness can be exploited in the control environment, monitoring, and approval internal controls. Nevertheless, there is a contradiction in the architect authorization process and the internal controls that process represents. Even though architects explain they may not have responsibility for change authorizations, as shown in Image 11, the change order request states the following:

Your approval signatures below will provide Neff Construction, Inc. with a formal Notice to Proceed with this change. This document is effective only when signed by the District and the Architect.

Image 13 is a change authorization and it also states their approval is required to proceed as follows:

Your approval signatures below will provide Neff Construction, Inc. with an approved authorization to proceed with this change with the knowledge of a formal Change Order (CO) to follow. This document is effective only when signed by the District, and the Architect.

Architects continue to explain when the change authorization represents a contractor allowance or contingency, their signature may merely mean they are approving change authorizations as a pass-through transaction, they will process the change authorization as part of the change order for payment but may not know or be responsible for how contingency and allowance funds will be used, and the district is the primary authorizer. Table 3 further below demonstrates that Neff actually issued Rozzi directed checks even before the change authorization date.

Regardless whether or not the architect has responsibility for allowance or contingency transactions, the experienced Neff staff and senior management such as Mierau should know that as a contractor they would normally only issue checks to subcontractors, vendors for materials, their own staff to perform work, or as refunds or other disbursements where the check is actually written to the name of the district.

Yet Neff, with Mierau's alleged knowledge and cooperation, continued to write checks as directed by Rozzi to non-Neff-subcontractors, not their own staff, but to unrelated vendors and accounts. And the checks were not made payable to the name of the Corona-Norco Unified School District as shown in Neff's change order proposal and change-order request documents. Mierau has 30-plus years of experience in school facility construction management and even teaches school facilities professionals across California. Information describing Mierau's experience presented in this report indicates he is intimately familiar with school district processes and procedures. There is no evidence that suggests Mierau questioned Rozzi, alerted the district to concerns about Rozzi's directed payments, or alerted regulators or law enforcement. In fact, the evidence demonstrates that Mierau facilitated the diverted checks for Rozzi.

From the district's archived file storage, FCMAT sampled the available documents stored in 25 boxes containing folders related to archived district construction projects. The boxes and folders sampled consisted of at least 53 vendors, 162 change orders, and more than 4,000 pages of change order documents, communications, payments, and accounting and financial reports. The vast majority of the construction documents examined contained details supporting the transactions. This documentation was in such detail that the Neff subcontractors even provided pictures, parts listings, drawings, brochures, and other details to substantiate change order proposal requests. District warrant number 07941167, dated April 4, 2012, for \$79,083.08, of Neff's documentation to the district even contained pages of daily shipment detail reports.

Even change orders of only \$459.70 had five pages of documents supporting the requested change. Details of the change order are as follows:

The subcontractor submitted a \$459.70 change order request dated January 11, 2012 for dressing room and toilet area revisions at the district's Centennial High School-Phase II project. Neff submitted the subcontractor's request to the architect on February 15, 2013 citing the cost, subcontractor name, a statement that Neff had reviewed the cost and found it acceptable, and provided details of the changes as follows:

Please review the attached Change Order Request Proposal...for the added acoustical ceilings per IB #55, which revises the Green Room B134 & Storage Room B135 to become the new Girls & Boys Dressing Rooms B154 & B155 and revises the Toilet Rooms to become Girls & Boys Toilet Rooms B152 & B153.

(IB is an Information Bulletin which is typically how a change authorization begins.)

- The architect sent a transmittal dated February 15, 2013 to the district referencing the attached change order for the district's review and approval. The architect states in the transmittal that it has reviewed the change order "...and feels that the proposed amount is reasonable and recommend it be approved."
- The district responded in a letter to the architect dated February 15, 2013 with a fax date of February 19, 2013, by reciting the changes and room numbers affected, approved the changes by writing, "...addition of \$459.70 is acceptable"
- The architect was directed to "Please notify Neff Construction, Inc. that they may proceed accordingly."

FCMAT contends that California school facilities, facility accounting and purchasing professionals would opine that this is the typical change authorization process, and many would add that the timeframe would customarily be longer and include district governing board approval.

When it came to request a check from Neff, Rozzi's pattern is the only documentation he submitted to Neff was an email to Mierau. Essentially, based on the information available, all Rozzi had to do was ask for money from Neff, the check was granted by Neff, and was hand-delivered to Rozzi by Mierau (Image 21).

Table 3 is an analysis of Rozzi check dates compared to change authorization dates signed by architects. The table establishes within the sample examined that Rozzi checks from Neff were often dated between one day and 126 days before the architect's change authorization request date. This means the architect did not receive the change order request for a Rozzi check until after Neff had written it.

Another example of the disparity between a change request from Rozzi versus other Neff change order requests is the email from Rozzi to Mierau dated January 13, 2016 10:09 a.m. in Image 12 corresponding to the change authorization #00026 for the Corona High School Gymnasium Addition demolition of the portables in Image 13.

In the email, Rozzi requests a Neff directed check to Bank of America for \$24,788. The check is to be charged to the Corona High School Gymnasium portables allowance. The check was paid the same day as the request, January 13, 2016, but the architect did not approve the change until February 29, 2016 or 47 days later.

Image 12

Ed Mierau

From: Ted Rozzi <trozzi@cnsd.k12.ca.us>
 Sent: Wednesday, January 13, 2016 10:09 AM
 To: Ed Mierau
 Subject: Misc.

How was last night? Selection for next time?

Need a check : Bank of America \$24,788.00

Charge to Corona High Gym – charge to portables allowance (Nick provided an update of current contract – we may burn some of that money for other items)

Ted E. Rozzi
 Assistant Superintendent, Facilities
 Corona-Norco Unified School District
 951-736-5045 Office
 951-285-8299 Mobile
 trozzi@cnsd.k12.ca.us



Charge to Corona High School Gym - Portables Allowance

Ven #	544	Inv Date		By	MA
Amt.	24,788.00	Job-Phs	506167000	Acct. #	50001
Date Paid	1/13/16	Ck #	42346	Fl	V-B
				Amt Paid	24,788.00

NEFF
1-15-16

(Highlights and typed notes are added by FCMAT. Handwritten entries within box are Neff's.)

Image 13 is Neff's change authorization form authorizing the check to Rozzi; however, no information is presented to identify any specifics of the transaction other than as shown in the subject category as an "Owner Expenditure".

Image 13

DocuSign Envelope ID: AB166675-E676-402A-ADEE-09BDBEAA3BF2

CHANGE AUTHORIZATION

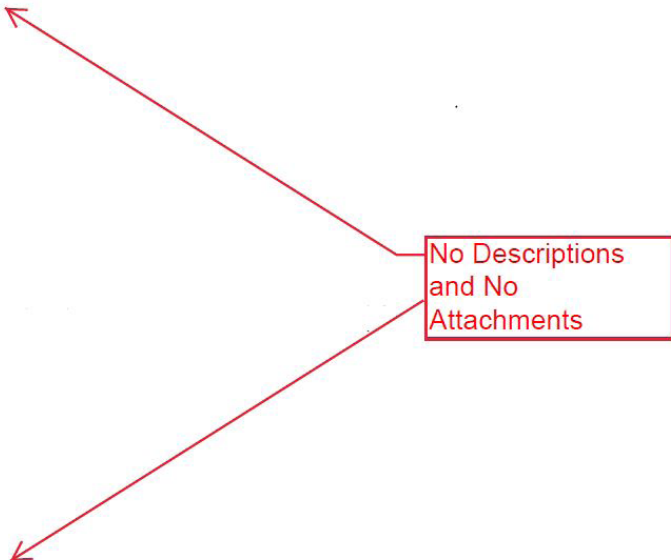
DATE: 02/03/16

TO: Sam Morrison
 Corona-Norco Unified School District
 300 Buena Vista Avenue
 Corona, CA 92882

PROJECT: Corona HS Gymnasium Addition
 CHANGE TITLE: Owner Expenditure

CA #	AMOUNT	QUOTE DATE	ACTIVITY TIME EXT.	CONTRACT TIME EXT.	SUBJECT
00026	0.00	02/03/16	0	0	Owner Expenditure

DESCRIPTION OF CHANGE:



Attachments

Your approval signatures below will provide Neff Construction, Inc. with an approved authorization to proceed with this change with the knowledge of a formal Change Order (CO) to follow. *This document is effective only when signed by the District, and the Architect*

Approved by: Greg Champen Date: 2/29/2016
 Approved by: Samuel Morrison Date: 2/29/2016
 Corona-Norco Unified School District

c: Neff Supt: Mike Riker - Neff Inspector: Wade Clark - Inland Insp. Accounting: Shelley Porter - Neff
 Owner: Corona-Norco Unified School District Architect: PCH Architects Contractor:

Filed: Job # 506 Change Management # 00056

(Highlights and typed notes are added by FCMAT.)

For comparison purposes, FCMAT reviewed another portables allowance change authorization that was not a request by Rozzi. Image 14 is a change authorization for the Corona High school gymnasium addition charged to the portables allowance. When it is not a check for Rozzi, as shown in Image 14, the Neff change authorization form is complete with detailed descriptions, amounts, and attachments.

Image 14

DocuSign Envelope ID: 97314AC1-F7A4-4AD6-8C26-3E38165F55F7

CHANGE AUTHORIZATION

DATE: 09/11/15

TO: Andrew Sterner
Corona-Norco Unified School District
2820 Clark Avenue
Norco, CA 92860-1903

PROJECT: Corona HS Gymnasium Addition
CHANGE TITLE: Demo Portables

CA #	AMOUNT	QUOTE DATE	ACTIVITY TIME EXT.	CONTRACT TIME EXT.	SUBJECT
00002	0.00	09/11/15	0	0	Demo Portables

DESCRIPTION OF CHANGE:

Please review this Change Authorization (CA) proposal No. 002 dated 9/11/15 for demolishing (2) portables. The cost of the work is an ADD of \$11,713.68 and has a schedule impact of (0) working days. We suggest applying this cost to the Allowance for (2) Portables making this a \$0 add to the GMP.

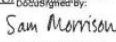
Const. Contingency Allow. for (2) Portables Allow. for Unforeseens Allow. for R&R Gym Floor
 Add cost to GMP

If you should have any questions, please feel free to contact Nick Mierau at Neff Construction 909-947-3768.

*Please have all items that are to be salvaged removed from the portables prior to demo.

Attachments L&S Quote 15172-A3

Your approval signatures below will provide Neff Construction, Inc. with an approved authorization to proceed with this change with the knowledge of a formal Change Order (CO) to follow. This document is effective only when signed by the District, and the Architect

 Date: 9/11/2015
 Date: 9/11/2015
 Corona-Norco Unified School District

c: **Neff Supt:** Mike Riker **Inspector:** Wade Clark - Inland Insp. **Accounting:** Shelley Porter - Neff
Owner: Corona-Norco Unified School District **Architect:** PCH Architects **Contractor:** Lee & Stires
Filed: Job # 506 **Change Management #** 00005

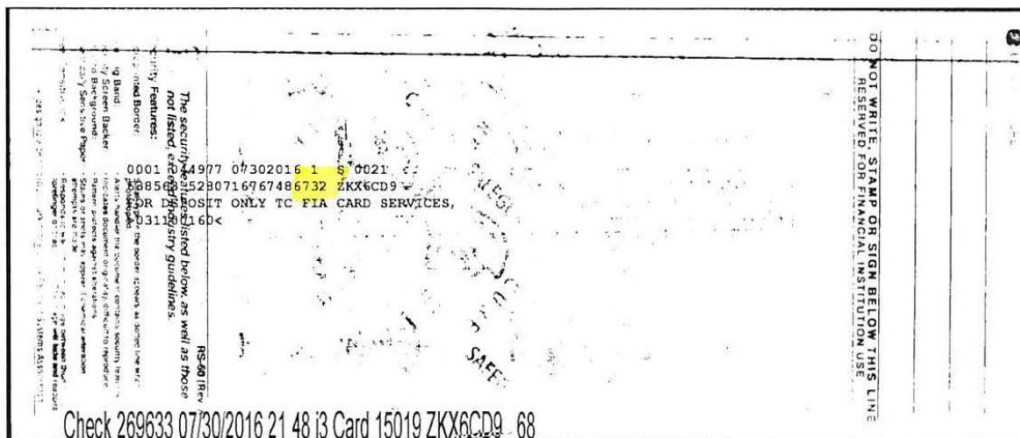
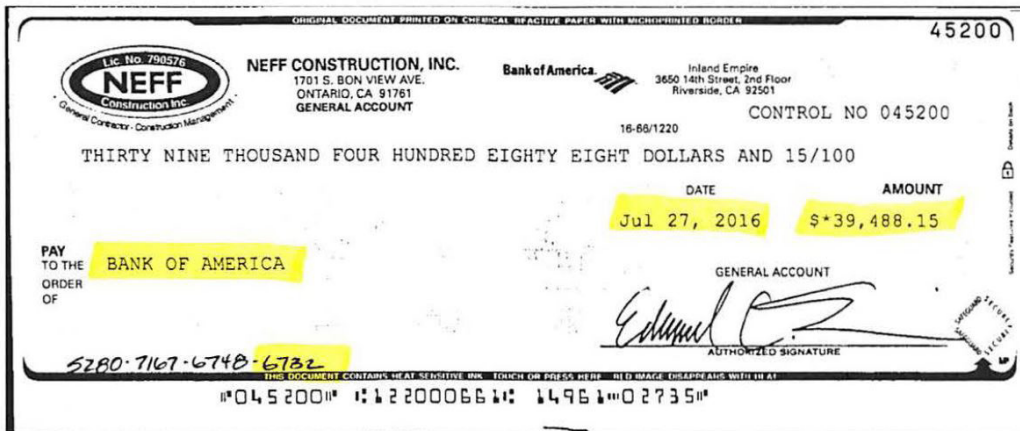
(Highlights and circled items are added by FCMAT.)

Both Neff senior executives, Mierau and Kuehl are experienced construction company operators. Kuehl was an architect, and Mierau was Neff's former controller and the companies' current chief executive and chief financial officer. As previously stated, Mierau has 30-plus years of experience in school facility construction management and even teaches school facilities professionals across California. He is intimately familiar with school district processes and procedures. Neff should have questioned and documented in greater detail how it could require detailed change order documentation and communications with subcontractors and architects, but for Rozzi, produced a check based on an email.

Additional Example of Checks to Rozzi Directed Accounts Facilitated by Neff

Concurrently with FCMAT’s audit, the Riverside Sheriff’s Office (RSO) was conducting its own investigation. RSO was able to obtain documents directly from banking institutions. Using these documents and those provided by the district, sheriff’s investigators were able to determine details on payments directed by Rozzi to Bank of America and Citi Bank/AT&T as shown in Tables 1 and 2. Image 15 represents a Neff prepared check to Bank of America for \$39,488.15.

Image 15



Item Date	Sequence Number	State Code	Account Number	Routing Number	Amount
8/1/2016	4092511323	CA	1496102735	12200066	\$39,488.15
Serial Number	Image Indicator	Sorry Indicator	Customer Data	Payee Name	User Field 1
45200	1	0			
User Field 2	ImgVolNo				
	1				

(Highlights are added by FCMAT.)

This check amount and number is referenced in Image 9 and the amount shown in Images 10 and 11. The memo section of check number 45200 in Image 15 includes a handwritten account number 5280-7167-6748-6732. The Riverside sheriff's investigators connected this check and many like it to alleged Rozzi credit card accounts.

Similar to the \$39,488.15 transaction traced through and described above, Table 1 and Table 3 contains at reference line A1, check number 35924, for \$43,788.15. Check 35924 (Image 16) is part of the district's Yorba Elementary School Ronald Reagan construction project, purchase order number 148394.

- The Yorba Elementary School Ronald Reagan construction project was also paid in full to Neff. The payments to Neff reconcile to the district's general ledger and vendor history report. The check from Neff is issued based on a Thursday, July 10, 2014 10:28 a.m. email from Rozzi to Mierau with subject of "Check Needed" and email stating the following
 - Need a check for Bank of America
 - \$43,788.15
 - Charge to Yorba-District change allowance
- The email image has a Neff accounting information stamp containing handwritten check, job, amount, etc., information.
- Neff's Change Authorization form, dated November 12, 2014, fails to provide an amount or subject, does not reference an email from Rozzi, and the Description of Change is limited to stating the following: "Please review this Change Authorization (CA) proposal No. 032 dated 11/12/14 for misc. district directed payment."
- The Rozzi email date requesting the \$43,788.15 is July 10, 2014; and the Neff check is dated July 10, 2014 (Image 16). However, Neff's change authorization number 00032 is dated November 13, 2014, over four months, or 126 days after the check date, (Table 3), and is not signed by the architect. Neff's change order number and change cost distribution number is identified as 00003, is signed by PJHM Architects, Inc., corresponds to the amount of \$43,788.15, is a line item within a total change amount of \$233,475.19 and is dated January 12, 2015, more than six months later.
- Table 3 compares the Neff prepared check date to the date the change authorization is signed by the architect.

Table 3

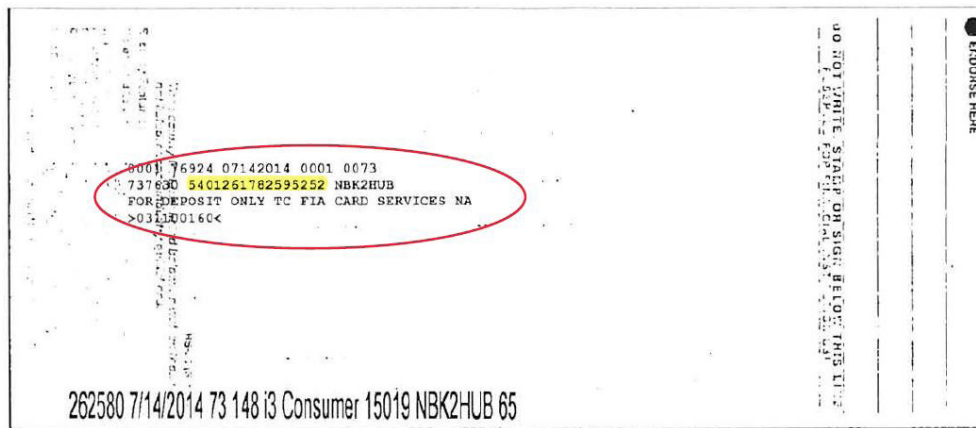
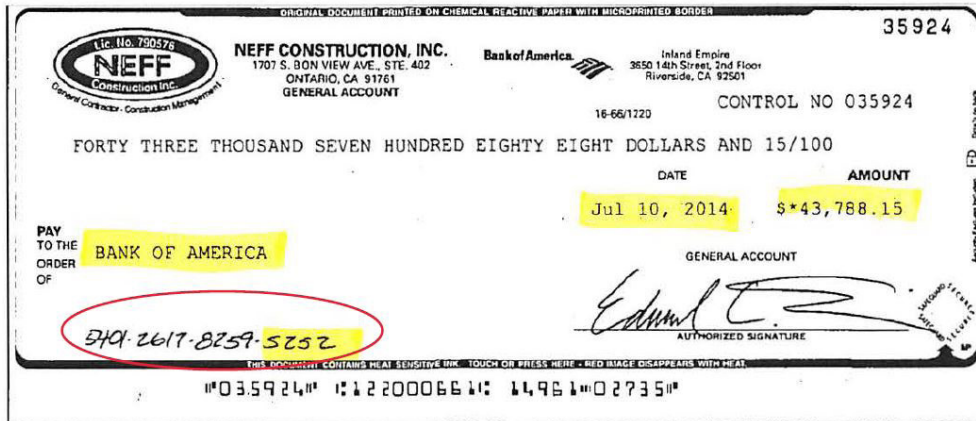
Ref	Check No.	Check Date	Amount	Date of Neff Change Authorization Signed by District	Number of Days Difference between Check Date and Architect Signed Change Authorization
A1	35924	07/10/14	\$ 43,788.15	11/13/14	126
A2	36819	10/06/14	37,891.45	11/20/14	45
A3	37575	12/19/14	36,871.44	02/17/15	60
A4	38636	03/24/15	38,751.12	05/20/15	57
A5	39535	06/09/15	39,701.12	06/16/15	7
A6	40564	09/02/15	35,455.38	09/08/15	6
A7	41371	10/27/15	24,721.80	10/28/15	1
A8	41370	10/27/15	19,110.15	10/28/15	1
A9	42346	01/13/16	24,788.00	02/29/16	47
A10	43944	05/02/16	19,100.50	05/09/16	7
A11	45200	07/27/16	39,488.15	08/04/16	8
A12	45917	09/21/16	29,772.48	Not Available	N/A
A13	47023	12/13/16	29,455.72	12/15/16	2
A14	47896	03/01/17	39,756.17	03/20/17	19
A15	48852	05/12/17	35,744.15	05/22/17	10
	15		\$ 494,395.78		

- The available documents indicate the architect did not approve any change order authorizations before the check was issued by Neff. In other words, Neff prepares, and issues checks to Rozzi-directed vendors before the approval of the architect and district.
- The Neff-prepared change order documents fail to identify or describe why or how Neff has the authority or ability to issue a check based on an email request solely from Rozzi before it is fully approved and processed.
- When Neff's controller, CEO/CFO, or Accounting Department reviewed the canceled checks to reconcile their bank account and construction project reports, they must have or should have noticed handwritten account numbers on their own printed checks. FCMAT cannot find any email communications between Neff and district staff questioning why their checks are altered.

Diverted District Money

Image 16 identifies check number 35924 which also has a hand-written number in the memo section.

Image 16



<u>Item Date</u>	<u>Sequence Number</u>	<u>State Code</u>	<u>Account Number</u>	<u>Routing Number</u>	<u>Amount</u>
7/14/2014	2892784647	CA	1496102735	12200066	\$43,788.15
<u>Serial Number</u>	<u>Image Indicator</u>	<u>Sorry Indicator</u>	<u>Customer Data</u>	<u>Payee Name</u>	<u>User Field 1</u>
35924	1	0			
<u>User Field 2</u>	<u>ImgVolNo</u>				
	1				

(Highlights and circled items are added by FCMAT.)

According to analysis by the Riverside sheriff's investigator and based on the available evidence, the handwritten check memo number 5401-2617-8259-5252 corresponds to Rozzi's Bank of America UCLA Alumni Association credit card account as shown in Image 17.

Image 17



UCLA Alumni Association

TED E ROZZI
 Account Number: 5401 2617 8259 5252
 June 13 - July 14, 2014

Check No. 35681 & 35924
 memo account numbers

Account Information:
 www.bankofamerica.com

Mail billing inquiries to:
 Bank of America
 P.O. Box 982235
 El Paso, TX 79998-2235

Mail payments to:
 Bank of America
 P.O. Box 15019
 Wilmington, DE 19886-5019

Customer Service:
 1.800.421.2110

(1.800.346.3178 TTY)

Payment Information	
New Balance Total	-\$1,530.04
Current Payment Due	\$0.00
Total Minimum Payment Due	
Payment Due Date	
Late Payment Warning: If we do not receive your Total Minimum Payment by the date listed above, you may have to pay a late fee of up to \$35.00 and your APRs may be increased up to the Penalty APR of 29.99%.	

Account Summary	
Previous Balance	\$23,484.12
Payments and Other Credits	-\$8,788.69
Purchases and Adjustments	15,198.51
Direct Deposit and Check Cash Advances	16,500.00
Bank Cash Advances	1,000.00
Fees Charged	876.84
Interest Charged	199.18
New Balance Total	
Credit balance, please do not pay.	
Total Credit Line	\$47,000.00
Total Credit Available	\$47,000.00
Cash Credit Line	\$32,900.00
Portion of Credit Available for Cash	\$32,900.00
Statement Closing Date	7/14/14
Days in Billing Cycle	32

Check No. 35681 amount

Transactions						
Transaction Date	Posting Date	Description	Reference Number	Account Number	Amount	Total
		Payments and Other Credits				
06/13		PAYMENT - THANK YOU	8221		-13,000.54	
06/13		PAYMENT - THANK YOU	2553		-1,000.00	
07/01		PAYMENT - THANK YOU	2612		-1,000.00	
07/14		PAYMENT - THANK YOU	7363		-43,788.15	
						-\$58,788.69
		Purchases and Adjustments				
06/12	06/14	J D MYERS REDLANDS CA	6563	5252	594.00	
06/12	06/14	CASS ST. BAR AND GR SAN DIEGO CA	3994	5252	25.60	
06/13	06/14	DR HARVEY LEDESMA OPT REDLANDS CA	1206	5252	237.75	
06/13	06/14	COALITION FOR ADEQUATE SAN RAFAEL CA	0037	5252	500.00	

Check No. 35924 amount

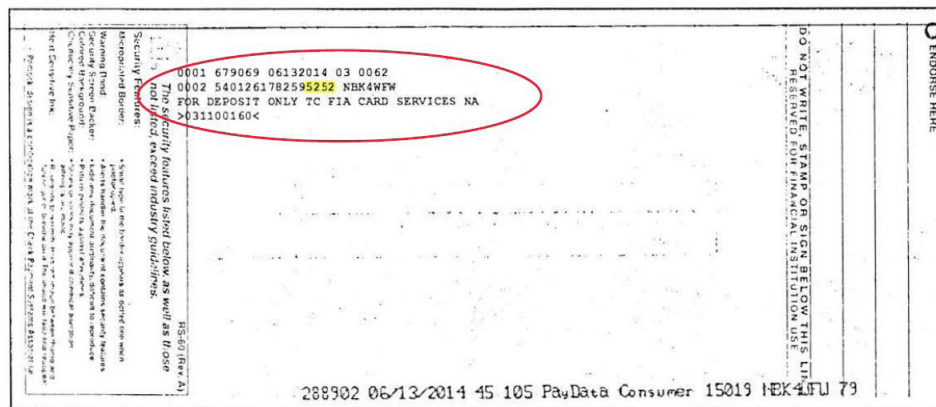
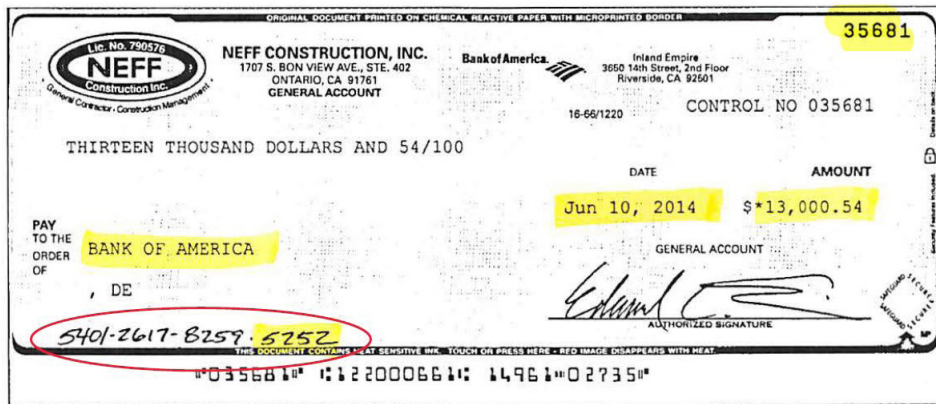
11 0015300400000000043788150005401261782595252

(Highlights, circled items, and typed notes are added by FCMAT.)

The check date of July 10, 2014 is four days before the \$43,788.15 is posted on July 14, 2014 as a payment in Rozzi's Bank of America UCLA Alumni Association credit card statement. Neff issued checks to Rozzi directed vendors/payees and Rozzi was able to use the district's construction funds through Neff as alleged payments to his personal Bank of America credit card.

The June 13, 2014 Bank of America UCLA Alumni Association payment of \$13,000.54 shown in Image 17 corresponds to another Rozzi-requested check from Neff dated June 10, 2014, check number 35681 shown in Image 18, for \$13,000.54. Check number 35681 is also identified in Table 4.

Image 18



<u>n Date</u>	<u>Sequence Number</u>	<u>State Code</u>	<u>Account Number</u>	<u>Routing Number</u>	<u>Amount</u>
3/2014	2292141745	CA	1496102735	12200066	\$13,000.54

(Highlights and circled items are added by FCMAT.)

As shown in Images 16-18, the checks from Neff are written to Bank of America and Rozzi allegedly processes the checks as his Bank of America credit card statement payments. The payments reduce Rozzi's UCLA Alumni Association credit card account balance. Rozzi is allegedly able to convert the check from Neff to Bank of America into his own personal use of funds by writing his credit card account number in the Neff check memo and complete the diversion by paying his credit card with the Neff check. This enables Rozzi to make purchases through the credit card.

Another method to divert funds and access cash is to obtain advance of cash from the credit card account. Image 19 is the deposit and other additions section of Rozzi's June 26, 2014 – July 28, 2014 Bank of America bank statement account ending in 2508. The bank statement shows that on July 11, 2014, Rozzi deposited \$1,000 into his bank account through an online banking advance transfer from an account number ending in 5252, corresponding to the same UCLA Alumni Association credit card account number also ending in 5252.

*Image 19***Deposits and other additions**

Date	Description	Amount
06/30/14	Corona-Norco Usd Des:Payroll Id:Su24xxx-Xx-2816	10,788.54
07/03/14	Bkofamerica Atm 07/03 #000001960 Deposit Redlands Main Redlands Ca	1,000.00
07/07/14	Bkofamerica Atm 07/05 #000002682 Deposit Redlands Main Redlands Ca	160.00
07/08/14	Bkofamerica Atm 07/08 #000003510 Deposit Redlands Main Redlands Ca	1,000.00
07/11/14	Online Banking Advance From Crd 5252 Confirmation# 1809410845	1,000.00
07/16/14	Corona-Norco Usd Des:Payroll Id:Su24xxx-Xx-2816	2,562.27
07/16/14	Bkofamerica Atm 07/16 #000003215 Deposit Redlands Main Redlands Ca	2,100.00
07/28/14	Interest Earned	0.03
Total deposits and other additions		\$18,610.84

(Highlights are added by FCMAT.)

Based on FCMAT's analysis of the Neff checks to Rozzi-directed vendors, no checks were deposited directly into Rozzi's personal bank account. Instead, the evidence indicates that Rozzi used the Neff checks to make payments on his many credit cards. Once the Neff checks were used to pay Rozzi's credit card accounts, Rozzi could transfer funds from the credit card into his personal bank account or make purchases using his credit card.

Available Neff Checks Directed by Rozzi Total \$1,176,956.50

The sheriff's investigators discovered additional checks written by Neff. Investigators uncovered \$682,560.72 in additional checks from Neff that were located in Rozzi-owned accounts. The two amounts of \$494,395.78 (Table 1) and \$682,560.72 (Table 4) total \$1,176,956.50 in Neff checks to Rozzi.

Table 4

Ref	Check No.	Check Date	Amount	Check Memo Acct No.'s	New Acct # or Same as in Table I	Vendor/Payee
	28079	01/10/11	\$ 44,978.40	5401-2617-8241-9826	New	Bank of America
	28339	03/01/11	49,511.00	180989246	New	Wells Fargo Bank
	28615	04/07/11	39,001.55	5401-1303-1211-4473	Same	Citi Bank/AT&T
	29230	07/07/11	44,715.38	5401-2617-8269-3271	New	Bank of America
	29872	10/17/11	46,722.11	5401-2617-8269-3271	New	Bank of America
	30336	01/17/12	15,137.00	5401-2617-8234-7258	New	Bank of America
	30662	03/20/12	38,879.00	5401-1303-1211-4473	Same	Citi Bank/AT&T
	30855	04/23/12	38,001.15	5401-2617-8234-7258	New	Bank of America
	30986	05/21/12	11,300.00	5401-1303-1211-4473	Same	Citi Bank/AT&T
	31486	09/12/12	45,789.10	5401-2617-8234-7258	New	Bank of America
	31912	12/13/12	39,955.40	5401-2617-8234-7258	New	Bank of America
	32232	03/18/13	29,486.55	5401-2617-8234-7258	New	Bank of America
	32513	06/04/13	19,833.14	5401-2617-8289-8995	New	Bank of America
	32799	07/30/13	42,769.54	5401-2617-8289-8995	New	Bank of America
	32583	08/09/13	13,656.99	0001375978620767	New	Union Bank
	33242	09/13/13	10,485.50	EDI 0001-3793-5707-9219	New	Union Bank
	33754	11/13/13	39,866.11	5401-2617-8289-8995	New	Bank of America
	34495	02/11/14	21,866.43	5401-1303-1211-4473	Same	Citi Bank/AT&T
	35226	04/30/14	38,550.73	5401-1303-1211-4473	Same	Citi Bank/AT&T
	35681	06/10/14	13,000.54	5401-2617-8259-5252	Same	Bank of America
	36240	08/15/14	24,661.91	EDI 0001-4104-5795-5913	New	Union Bank
	36511	09/10/14	14,393.19	EDI 0001-4104-5795-5913	New	Union Bank
	22		\$ 682,560.72			

Table 5 summarizes the Table 4 Rozzi-directed checks issued by Neff categorized by vendor/payee.

Table 5

Summary	Vendor/Payee
\$ 420,254.42	Bank of America
149,597.71	Citi Bank/AT&T
63,197.59	Union Bank
49,511.00	Wells Fargo Bank
\$ 682,560.72	

The checks listed in Table 4 are between January 10, 2011 and September 10, 2014 while the checks listed in Table 1 are between July 10, 2014 and May 12, 2017. In total, 17 different Rozzi bank credit card accounts are used to allegedly divert district construction funds by Neff for Rozzi's personal use. Of these accounts, only two ending in 4473 and 5252 span calendar years 2011 through 2017.

FCMAT discussed contacting Rozzi with the sheriff's investigators and district attorney. Because they had an active investigation in progress, they requested that FCMAT not make any contact with Rozzi.

Neff and Rozzi's Close Relationship

FCMAT interviewees said that Mierau and Rozzi were good friends and traveled together on trips and were very comfortable in communicating using their wives' names rather than refer to them as "wife." Evidence corroborating Mierau's and Rozzi's close relationship and travel was found in an email dated July 7, 2016 9:38 a.m. to six recipients including Mierau and Rozzi with subject header "Ireland." The email states,

All of you have expressed interest in a trip to Ireland next year. Tentatively, we are planning on going around 7 or 8 Sep for about a week. Some may stay longer, which can be arranged. For our most recent trips, we usually try to get a package deal thru Great Value Vacations. The package includes air fare, a car for four people, and a condo at Adare Manor Villas for 4 or 6 people. The Villas are very nice: 3 bedroom with your own bathroom, a common living room, dining room and sun room as well as a fully equipped kitchen... stainless steel appliances, granite countertops, etc.

A follow-up email dated November 17, 2016 2:23 p.m. from the same person who sent the July 7, 2016 email attached a portable document file (PDF) from Great Value Vacations which contained a detailed travel itinerary for Ireland. The reservation summary of the Ireland itinerary shown in Image 20 has 11 individuals named, four of whom are Mierau and his wife, Jody, and Rozzi and his wife, Sonya.

Image 20

Reservation Summary

Reservation #	20160020352693
Departure Date:	Wednesday, September 06, 2017
Return Date:	Saturday, September 16, 2017
Duration:	10 nights
Passengers:	MR. Name Removed
	MRS. Name Removed
	MR. Name Removed
	MS. Name Removed
	MS. Name Removed
	MR. Name Removed
	MRS. Name Removed
	MR. Edward Curtis Mierau
	MRS. Jody Lynn Mierau
	MR. Ted Eugene Rozzi
	MRS. Sonya Neomi Rozzi

(Name removed notations are added by FCMAT.)

Earlier in this report, the email presented in Image 9, Line Item #3, has a sentence where Mierau references his wife's name as Sonya rather than refer to her as his wife and they are meeting for dinner. The email in Image 9 to Rozzi states, "Are you guys around in August, Sonya would like to schedule a Friday night at Mario's for dinner we won at fundraiser."

Of the documentation available, the Riverside sheriff's investigator and FCMAT have identified several of the checks shown in Table 4 are tied to email requests from Rozzi to Mierau. Image 21 contains a June 10, 2014 12:34 p.m. email from Rozzi requesting a check and asking if he will see Mierau, "tonight." Mierau replies less than an hour later at 1:09 p.m., "See you tonight, and I'll bring the ck. with me." They are meeting together in the evening where Mierau brings the check with him rather than mail it to the district.

Image 21

From: Ted Rozzi [mailto:trozzi@cnsud.k12.ca.us]
Sent: Tuesday, June 10, 2014 1:09 PM
To: Ed Mierau
Subject: Re: check

Thanks

Sent from my iPhone

On Jun 10, 2014, at 1:05 PM, "Ed Mierau" <Ed@neffcon.com> wrote:

See you tonight, and I'll bring the ck. with me.

Ed Mierau
CEO
NEFF CONSTRUCTION, INC.
1701 S. Bon View Ave., Ste. 104 - Ontario, CA 91761
PH 909.947.3768 FAX 909.947.3823
ed@neffcon.com

From: Ted Rozzi [mailto:trozzi@cnsud.k12.ca.us]
Sent: Tuesday, June 10, 2014 12:34 PM
To: Ed Mierau
Subject: check

I need a check to Bank of America for \$13,000.54

Charge to PO 146614
Norco HS Extra Work

See you tonight?

Ted E. Rozzi
Assistant Superintendent, Facilities
Corona-Norco Unified School District
951-736-5045 Office
951-285-8299 Mobile
trozzi@cnsud.k12.ca.us

(Highlights and circled items are added by FCMAT.)

The email request on June 10, 2014 for a \$13,000.54 check to Bank of America corresponds exactly to Neff check number 35681 highlighted in Table 4. The Neff check is dated the same day of the request, June 10, 2014, the payee is Bank of America, and the amount is \$13,000.54. According to the email, Mierau hand-delivers the check to Rozzi.

A search of district Outlook email files resulted in the discovery of two additional Rozzi emails. The emails shown in Images 22, 22.1, and 23 are from Rozzi to Mierau specific to check numbers 34495 and 35226 which are listed in Table 4. Check number 34495 in Table 4 is for \$21,866.43 and check number 35226 is for \$38,550.73. Image 22 presents an email dated Tuesday, February 11, 2014 12:28 p.m., from Rozzi to Mierau indicating that Rozzi needs a check for \$21,866.43, payable to AT&T and to charge it to purchase order 137177 Yorba.

Image 22

Check

Ted Rozzi

Tue 2/11/2014 12:28 PM

To:'ed@neffcon.com' <ed@neffcon.com>;

Need check: \$21,866.43

Payable to: AT&T

Charge to PO: 137177 Yorba

Ted E. Rozzi
Assistant Superintendent, Facilities
Corona-Norco Unified School District
951-736-5045 Office
951-285-8299 Mobile
trozzi@cnusd.k12.ca.us

Image 22.1 presents Mierau's response regarding the check, stating that he will bring it to the wine dinner.

Image 22.1

Check



Ted Rozzi

Tue 2/11/2014, 1:50 PM

Thanks

...

From: Ed Mierau [mailto:Ed@neffcon.com]**Sent:** Tuesday, February 11, 2014 1:32 PM**To:** Ted Rozzi**Subject:** RE: Check

Will bring to wine dinner.

Ed

From: Ted Rozzi [mailto:trozzi@cnsud.k12.ca.us]**Sent:** Tuesday, February 11, 2014 12:29 PM**To:** Ed Mierau**Subject:** Check

Need check: \$21,866.43

Payable to: AT&T

Charge to PO: 137177 Yorba

Ted E. Rozzi

Assistant Superintendent, Facilities
Corona-Norco Unified School District

951-736-5045 Office

951-285-8299 Mobile

trozzi@cnsud.k12.ca.us

Image 23 presents an email dated Monday, April 28, 2014 8:45 AM, from Rozzi to Mierau, indicating that Rozzi needs a check for \$38,550.73, payable to ATT Universal and to charge it to the Centennial general conditions of the contract. Rozzi explains that he will increase the purchase order to accommodate the increase. This reference implies that the purchase order is already at or near its limit; therefore, he will increase the amount of the purchase order in the district's system so that the requested check can be paid against it.

Image 23

Misc.

Ted Rozzi

Mon 4/28/2014 8:45 AM

To:'ed@neffcon.com' <ed@neffcon.com>;

Need a check

ATT Universal
\$38,550.73

Charge to Centennial GCs, I will increase PO as needed before we close it out

Ted E. Rozzi
Assistant Superintendent, Facilities
Corona-Norco Unified School District
951-736-5045 Office
951-285-8299 Mobile
trozzi@cnusd.k12.ca.us

(Highlights are added by FCMAT.)

No email from Mierau or Rozzi could be found where either Mierau or Rozzi explained the services or purpose for the checks written from Neff's account to AT&T or ATT Universal.

Rozzi's written disclosure in the email that he can increase as needed the purchase order is evidence that he has the ability to manipulate purchase orders, which he allegedly may use for personal purposes. Because Neff is a willing participant in helping Rozzi divert funds to Rozzi-directed vendors, more school district facilities funds than those shown in Tables 1 and 4 (totaling \$1,176,956.50) are likely to have been diverted through Neff.

Likely Total Amount of Irregular Diverted Neff Checks Directed by Rozzi is \$2,638,636.82

Table 1 and Table 4 show a total of 37 checks (15 in Table 1 and 22 in Table 4) written to vendors directed by Rozzi through Neff's facilitation. The 37 checks include check memo entries identifying 17 different account numbers that are alleged to be associated with Rozzi personal credit-card-type accounts. With 17 different account numbers identified in the check memos of Neff's checks, all most likely associated with five bank or bank card accounts; Bank of America, Citi Bank/AT&T, Union Bank, Wells Fargo Bank, and Chase Bank; more unrecovered Neff facilitated irregular checks are likely to exist. As previously stated by Neff's own accountant, Shelley Porter, the amount of checks directed by Rozzi through Neff was exactly \$2,638,636.82. If Neff's own accountant informed the district staff of that amount, an additional \$1,461,680.32 (\$2,638,636.82 – (\$494,395.78 Table 1 + \$682,560.72 Table 4) or \$1,176,956.50 = \$1,461,680.32) in unidentified Rozzi-directed Neff checks likely remain unaccounted for in this audit.

Neff failed to cooperate with the FCMAT audit and provide the specific documentation requested to support the \$2,638,636.82 in Neff checks established by Neff's accountant, Porter. FCMAT could not directly confirm the additional \$1,461,680.32 in reported Neff checks written to Rozzi-directed vendors/payees or other potential methods of diverting funds. Furthermore, FCMAT did not have access to Rozzi and therefore was not able to confirm this information through him either.

Analytical Analysis of Purchase Orders and Purchase Order Increases

Image 23 shows that Rozzi has the capacity and capability to increase purchase orders at will. Increasing purchase orders makes available more funds that can possibly create an opportunity for further diversion of funds.

With the assistance of the district Facilities Department staff, FCMAT and the district staff reviewed numerous purchase order transactions specific to Neff jobs. From these transactions, a sample of 639 purchase order transactions between July 1, 2003 and June 30, 2017 were identified for further review. The review was restricted to using the district computer system's purchase order detail and purchase order requisition quick view screen prints, vendor history reports, and other available documents describing the transaction. The purchase order detail screen prints present a great amount of detail transaction information including but not limited to, payment type, date, invoice description, and amount. The vendor history reports present general ledger account codes, purchase order numbers, transaction descriptions, encumbered and payment amounts, and warrant/check numbers. An encumbered amount is an amount set aside or earmarked within the accounting and purchasing system as a liability or owed for specific purposes.

Based on the information examined in the purchase order screen prints and vendor history reports, of the sample of 639 purchase order transactions, 34 transactions between May 23, 2007 and March 7, 2017 totaling \$1,458,263.77 were identified as potentially irregular. An irregular purchase order transaction meets the following criteria:

- The amount of the change is similar to other identified Neff-directed checks to Bank of America, Chase Bank, etc.
- The purchase order description of services is vague or refers to other services rather than a detailed description of the work to be performed.

- The account code charged to the purchase order is charged to “Other” account 6274, rather than the General Contractor account code 6272.
- The purchase order is coded for an increase, final payment, partial payment, reopened, or identified as a liability.
- The purchase order is greater than \$9,000 and less than \$200,000.
- The purchase order is considered suspicious based on the judgment of the district Facilities Department staff or FCMAT.

Table 6 presents the potentially irregular purchase order transactions.

Table 6

Date: Vendor History/Screen Print	Purchase Order #	Amount	Type/Memo/Description
5/23/2007 PO-606425		\$ 84,090.00	Reopened Change Order
7/30/2007 CL-701374		149,332.00	Close
10/17/2007 PO-609652		49,012.17	Increase
11/7/2008 PO-810109		19,083.00	Increase
2/11/2009 PO-901052		46,133.86	See Change
3/3/2009 PO-904240		20,054.60	Increase
3/31/2009 PO-810109		19,083.00	Increase
3/31/2009 PO-810109		34,271.00	Increase, Reopen
3/31/2009 PO-904240		63,025.60	Increase
4/6/2009 PO-904240		46,806.80	Increase
5/13/2009 PO-803069		64,313.63	Close Increase
6/4/2009 PO-810039		16,916.00	Increase
6/30/2009 EP-900842/PO-906251		88,865.39	Liability Created
4/7/2010 PO-904913		60,923.00	Increase
4/7/2010 PO-904913		76,911.79	Increase
4/7/2010 PO-803069		13,477.94	Increase
6/25/2010 PO-902709		61,334.32	Final
8/31/2010 PO-904865		54,647.30	Increase
9/1/2010 PO-904240		77,035.00	Final Payment, Account 6274
9/1/2010 PO-907960		10,820.00	Increase
10/18/2010 PO-904865		33,251.49	Increase
11/30/2011 PO-121013		15,312.78	Partial Payment
4/4/2012 PO-123056		9,252.80	Partial Payment
5/2/2012 PO-126254		38,879.00	Partial Payment, Account 6274
6/11/2012 PO-127054		38,001.15	Increase, Account 6274
6/11/2012 PO-127054		32,397.94	Increase, Account 6274
2/7/2013 PO-126254		11,300.00	Partial Payment, Account 6274
2/12/2013 PO-111108		25,455.00	Final
2/27/2013 PO-126254		31,440.00	Increase Per Nancy, Reopen
3/18/2013 PO-117976		11,981.00	Partial Payment
9/13/2013 PO-136653		14,977.00	Close Per Nancy
6/8/2014 PO-148506		13,000.54	Account 6274
12/31/2015 PO-161577		83,008.82	Partial Payment
3/7/2017 CL-160710		43,869.85	Create Liability
		\$ 1,458,263.77	

Because Neff has refused to assist FCMAT and the district, FCMAT cannot confirm the analysis of irregular purchase order transactions. The additional \$1,461,680.32 (\$2,638,636.82 - \$1,176,956.50 = \$1,461,680.32) or difference between the Neff accountant, Porter reported amount of \$2,638,636.82 and \$1,176,956.50 (Table 1 + Table 4) in Rozzi directed Neff checks is comparable to the potentially irregular purchase order transactions identified in Table 6 totaling \$1,458,263.77. There is only a \$3,416.55 difference between FCMAT’s Table 6 analysis of \$1,458,263.77 and the unaccounted for amount of \$1,461,680.32.

Based on FCMAT analysis of Neff purchase order transactions and Rozzi's ability to increase purchase order amounts enabling him to direct Neff to issue checks to vendors other than the district (see Image 23), there is a reasonable correlation that the Table 6 purchase order transactions totaling \$1,458,263.77 represent additional Neff and Rozzi potential irregularities.

Other Information

District is Fiscally Independent

Education Code (E.C.) Section 42647 makes a provision and establishes a process for a district of 10,000 average daily attendance to be fiscally independent of its county office of education for virtually all daily transactions such as issuance of payroll and commercial warrants and other treasury functions. The county superintendent maintains their full oversight authority of the district's financial reporting, budget, interim reports, audit reports, etc. The county treasurer continues to function as the district's treasurer.

Corona-Norco Unified is one of only 11 districts in the state that are fiscally independent. The district petitioned for this status in the 1980s and adopted board policies and operational procedures as required through that petition process. However, at some time between being granted fiscally independent status and 2018, the district allegedly stopped following its own related board policies and procedures. And, as described in the Background and Internal Controls sections of this report, the facilities departments independence from the business office's oversight was a weakness that was never corrected until this audit was commenced. Exploiting the control environment weakness provided the access and opportunity for Rozzi to be able to orchestrate transactions outside of the business office monitoring and purchasing system.

FCMAT does not see a value in a district being fiscally independent. A fiscally independent district should continually monitor its accounting controls to ensure ongoing compliance with the requirements, as prescribed in E.C. 42647 and 42650. Weaknesses or lack of adequate controls may indicate the need for possible revocation of the district's fiscally independent status.

At least annually, both the district and the county superintendent should consider using FCMAT's recently developed Account Controls Risk Analysis assessment tool to evaluate the district's conformity with the fiscally independent standards.

While there is no direct evidence in this audit that the district's lack of compliance with the standards associated with fiscal independence contributed to the diversion of funds described herein, the district's internal control environment and control activities (described earlier in this report) were insufficient and contributed to an environment that allowed the diversion of funds by a member of the district's senior executive management.

The county superintendent should carefully evaluate the district's current internal controls and determine the district's conformity with the standards associated to fiscally independent status. The county should then recommend corrective action by the district, or recommend that the state superintendent of public instruction consider revocation of the district's fiscally independent status.

IRS Form 1099

Based on the information obtained from the district and sheriff's investigators, and because Neff failed to cooperate in providing requested documentation, there is no evidence that Neff issued or was required to issue any of the vendors an Internal Revenue Service Form 1099 for any of the Rozzi directed checks. Form 1099 is the federal form used to report to the IRS income other than wages, salaries and tips. If Neff was required to issue 1099's to Rozzi directed vendors/ payees, or to Rozzi himself, but failed to do so, there can be serious IRS consequences. The IRS could take the position that Rozzi directed checks benefited Rozzi personally and therefore is income to Rozzi.

All income is required to be reported to the IRS on an annual tax return. If Rozzi failed to report any of the alleged diverted funds directed through Neff on his joint annual tax return, he and/or his spouse may be subject to a number of severe federal and state income tax penalties, both civil and criminal, including those applicable to individuals who evade reporting income taxes. Penalties for IRS fraud can be as high as 75% of the amount of taxes due and can lead to incarceration.

Summary

Based on the evidence, interviews, forensic and analytical analysis, and available documentation examined; combined with Neff's lack of cooperation in assisting its client, the Corona-Norco Unified School District, and FCMAT, and Neff's own accountant's assertions to district staff that the amount of Rozzi-directed funds is \$2,638,636.82, FCMAT finds that the alleged diverted district facilities construction funds may be at least the \$2,638,636.82 as described in this report. FCMAT's analysis also concluded that the alleged diverted district facilities funds are isolated to Neff and no other evidence is available to implicate any other contractor in similar activities as described in this report.

Conclusion

Potential for Fraud

Based on the findings in this report, there is sufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal 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 Corona-Norco Unified School District and require immediate intervention to limit the risk of fraud, mismanagement and/or misappropriation of assets, or other illegal fiscal activities in the future. As stated earlier, the county superintendent should carefully evaluate the district's current internal controls and determine the district's conformity with the standards associated to fiscally independent status. The county should then recommend corrective action by the district, or recommend that the state superintendent of public instruction consider revocation of the district's fiscally independent status.

Judgments Regarding Guilt or Innocence

The existence of fraud is solely the purview of the courts and juries, and FCMAT will not make statements that could 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.

In accordance with Education Code Section 1241.5(b), the county superintendent is required to report the findings and recommendations to the district governing board at a regularly scheduled board meeting within 45 days of completing the audit. The governing board is required to 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 Corona-Norco Unified School District, the state controller, the superintendent of public instruction and the local district attorney that sufficient evidence exists to indicate that fraud or misappropriation of district funds and/or assets or other illegal fiscal activities may have occurred.

Appendix

Appendix A-Study Agreement



CSIS California School Information Services

**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 STUDY AGREEMENT
September 21, 2017
AMENDED AB139 STUDY AGREEMENT
February 15, 2019**

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Riverside 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. The COE 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 allegations of possible fraud, misappropriation of funds or other illegal fiscal practices at the Corona-Norco Unified School District and is requesting that FCMAT review transactions and the internal controls specifically related to procurement activities and contractual commitments for facilities modernization and/or new construction projects.

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 procurement activities and contractual commitments relative to facilities maintenance and/or construction projects of the district, 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. Specific audit objectives will include

evaluating the establishment, implementation and effectiveness of policies, procedures and internal control activities relative to procurement activities and contractual commitments for facilities maintenance and/or construction projects. FCMAT's review will be focused on the following:

- Project scope, authorization, project delivery method and procurement practices
- Bid processes including contractor and subcontractor selection and subsequent school board approval
- Method and application of contractor payments including internal auditing and school board approval

The team will review project documentation and review recorded transactions for projects initiated and/or overlapping into fiscal years 2012-13 through 2017-18 to date to determine if fraud, misappropriation of funds or other illegal fiscal 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 activities.

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

1. Evaluation of the adequacy of the district's internal control structure related to the specific engagement objectives noted above including the development, implementation and monitoring of policies and procedures and other control activities.
2. Evaluate whether proper segregation of duties exists.
3. Evaluate controls to determine whether 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 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. | <i>To Be Determined</i> | <i>FCMAT Staff</i> |
| B. | <i>To Be Determined</i> | <i>FCMAT Consultant</i> |
| C. | <i>To Be Determined</i> | <i>FCMAT Consultant</i> |

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 \$100,000.

- 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 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'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:

<i>Orientation:</i>	<i>To be determined</i>
<i>Staff Interviews:</i>	<i>To be determined</i>
<i>Exit Meeting:</i>	<i>To be determined</i>
<i>Preliminary Report Submitted</i>	<i>To be determined</i>
<i>Final Report Submitted</i>	<i>To be determined</i>

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. Upon request, FCMAT shall provide certificates of insurance prior to the commencement of on-site work, with Riverside County Office of Education named as additional insured, indicating applicable insurance coverages.


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: Paul Jessup, Deputy Superintendent
 Telephone: (951) 826-6194
 E-mail: pjessup@rcoe.us

SIGNED BY JUDY D. WHITE OCTOBER 9, 2017
 Judy D. White, Ed.D., County Superintendent Date
 Riverside County Office of Education

 September 26, 2017
 Michael H. Fine Date
 Chief Executive Officer
 Fiscal Crisis & Management Assistance Team

AMENDED STUDY AGREEMENT

Judy D. White on behalf of

Judy D. White, Ed.D., County Superintendent
Riverside County Office of Education

19 February 2019

Date

Michael H. Fine

Michael H. Fine
Chief Executive Officer
Fiscal Crisis and Management Assistance Team

February 15, 2019

Date