



CSIS California School Information Services

Los Angeles County Office of Education

Extraordinary Audit of Montebello Unified School District

July 16, 2018

Michael H. Fine
Chief Executive Officer







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

Dear Superintendent Duardo:

On September 15, 2017 the Los Angeles County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to conduct an AB 139 Extraordinary Audit to determine whether fraud, misappropriation of funds or other illegal fiscal activities may have occurred at the Montebello Unified School District. An amended version of the agreement was subsequently signed on November 1, 2017. Specifically, the agreement states in pertinent part that FCMAT will perform the following:

Specific audit objectives will include evaluating the establishment, implementation and effectiveness of policies, procedures and internal control activities through the review of payroll transactions recorded by the district for the Adult Education program employee compensation, including overtime and employees with multiple assignments. . . .

The team will review and test recorded transactions for fiscal years 2012-14 through 2017-18 to date, to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on a sample of transactions and records for this period.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the Los Angeles County Office of Education, and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

Michael H. Fine
Chief Executive Officer

FCMAT

Michael H. Fine, Chief Executive Officer

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About FCMAT

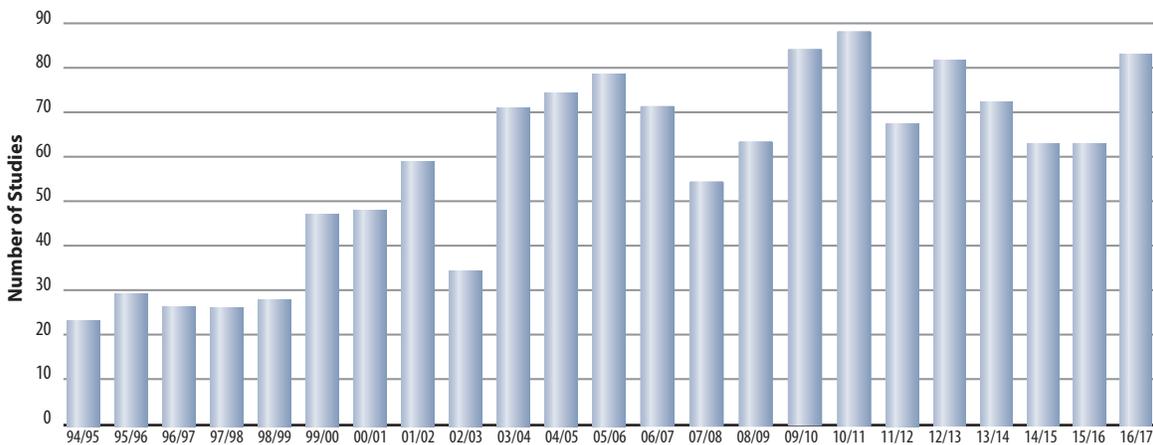
FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related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

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

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

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

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.

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 Montebello Unified School District is located east of downtown Los Angeles and had approximately 27,398 students in the 2016-17 school year. The district serves students in the cities of Montebello as well as portions of the cities of Bell Gardens, Commerce, Downey, Monterey Park, Pico Rivera and Rosemead, and a portion of the unincorporated community of East Los Angeles. The district's population as a whole is approximately 80% Hispanic or Latino and is rich in Mexican-American culture. The district covers 8.33 square miles and, according to the City of Montebello, had approximately 64,000 residents as of July 2015.

Approximately two years ago, the district's administrators were approached by a classified employee and prior classified union president, who wanted an adult education contract. The employee was told that contracts are issued to adult education instructors who worked exclusively for adult education, and that hourly agreements are offered for supplemental instructors in this program.

Prior to the teacher's request, there were many rumors alleging that some K-12 teachers and classified employees were given the opportunity to earn large amounts of extra money for little or no work, paid from adult education funds. Coworkers accessed the Transparent California website (www.transparentcalifornia.com), which revealed that some of the district's instructors earned exceptionally high salaries. This led to questions about how these instructors were earning such high compensation. District administrators were told that instructors, including classified employees, had adult education class rosters with few or no students in attendance, and this raised serious questions that prompted an internal investigation and led to discussions with the county office of education.

The district had recently experienced many changes in top administrators, including the retirement of a longtime administrator who had previously been the adult education director since 1992 and who eventually became the district superintendent and co-superintendent from August 2011 through February 2014. While superintendent, he continued to oversee the adult education program. The district provided the following dates of employment for this former superintendent/adult education director:

Position	Start Date	End Date
Director of Adult Education	8-21-92	4-1-10
Director of Adult Education and Liaison to Board	4-2-10	6-21-10
Interim Superintendent	6-22-10	8-4-11
Superintendent	8-5-11	6-30-15
Co-Superintendent (first time)	6-22-10	12-31-12
Co-Superintendent (second time)	1-17-13	2-5-14

This former superintendent/adult education director successfully decentralized the approval process for adult education assignments from the Human Resources Department and gained access to the personnel portion of the financial system to create contracts for teachers as well as hourly pay extra agreements for classified staff, without board approval. The former superintendent employed certificated employees as adult education instructors without formal contracts, but treated them as if they were contracted teachers, using the same terms and conditions as

those contained in the district's bargaining agreement with certificated employees. Classified employees who worked hourly assignments in the adult education program also received these same terms.

The district's new superintendent and cabinet members discovered that hourly agreements had high not-to-exceed limits, with little or no oversight from human resources. Time cards and other payroll-related reports were sent directly to the Payroll Department with instructions to pay. When the new administrators questioned employees about this, employees stated they were doing what they were told out of fear of retaliation.

Administrators were alarmed to learn that the adult education department had access to the personnel portion of the financial system. In response, they centralized operations, implemented critical internal controls, and eliminated the adult education department's access to the district's personnel information systems. Their efforts continue to strengthen the internal control systems, as does a new board policy for minimum enrollment standards and defined procedures for authorization and processing of time cards and other payroll-related reports to the Payroll Department. While these efforts show progress, it will be critical for senior administrators to periodically monitor and review internal controls to ensure they are operating as intended.

Audit Fieldwork

Investigating allegations of fraud requires a number of steps such as conducting interviews with potential witnesses and gathering evidence from internal and external sources. FCMAT reviewed, analyzed and tested payroll warrant data including time cards and logs, employee work calendars, student class schedules, other payroll records, board policies and administrative regulations, board meeting minutes, email correspondence, and other internal documents secured from the district and from the Los Angeles County Office of Education.

FCMAT also conducted interviews with current management personnel, business office and district staff members to obtain information related to general business practices and the events that transpired during the current and five preceding fiscal years, including any alleged mismanagement, fraud or abuse.

Although there are many different types of fraud, occupational fraud is common 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:

- Misrepresentation
Intentional false and willful representation(s) of a material fact.
- Reliance
An individual relied on the fraudulent information.
- Concealment
Deliberate concealment of facts.
- Damage
Damage, loss or injury by the deceived party.

Scope and Procedures

Fraud investigations consist of gathering adequate information about specific allegations and establishing an audit plan; performing audit procedures to determine whether fraud has occurred; evaluating the associated loss; and determining who was involved and how it may have occurred.

The primary focus of this audit is to determine and report to the county office whether there are reasonable assurances, based on testing performed, that the district has adequate management controls for paying wages, recording employee leave time, and advancing payrolls, and whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

Based on the specific allegations of excessive wages paid to adult education employees, FCMAT reviewed payroll records from multiple sources and interviewed county- and district-level managers and other staff members. Interviews included open-ended questions designed to elicit information about possible irregularities related to the scope of this audit. FCMAT was granted full access to the district's payroll records from the financial system, employee leave records, and class brochures, and was provided with payroll records from the county office.

FCMAT's findings are the result of interviews, audit test procedures and an in-depth analysis of payroll transactions.

Study Team

The study team was composed of the following members:

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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.” (*Corporate Fraud Handbook, Prevention and Detection*, 2nd Ed., 2007, by Joseph T. Wells).

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

Occupational Fraud

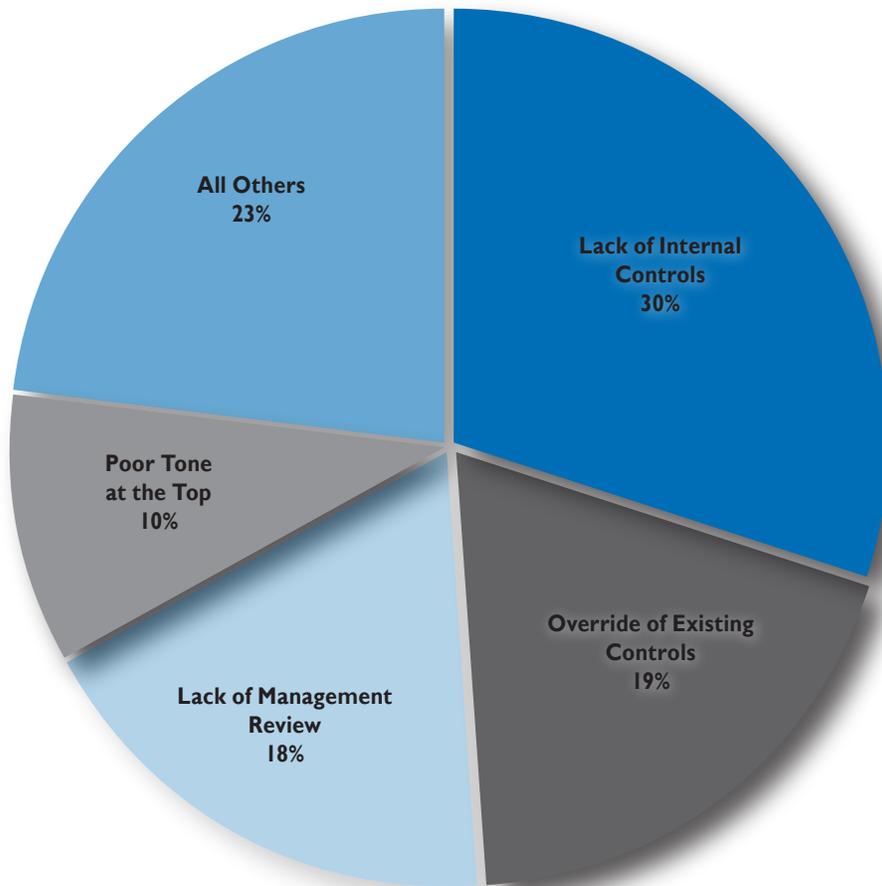
Occupational fraud includes asset misappropriation, corruption, and fraudulent financial statements. Asset misappropriation includes more occupational schemes than any other type of fraud; it comprises 21 separate fraudulent disbursements schemes.

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 includes cash skimming; falsifying expense reports, payroll, accounts payable, or inventory documents, and/or forging company checks. Corruption schemes involve an employee or employees using their influence in business transactions to obtain a personal benefit that violates the employee’s or employees’ 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 financial reports.

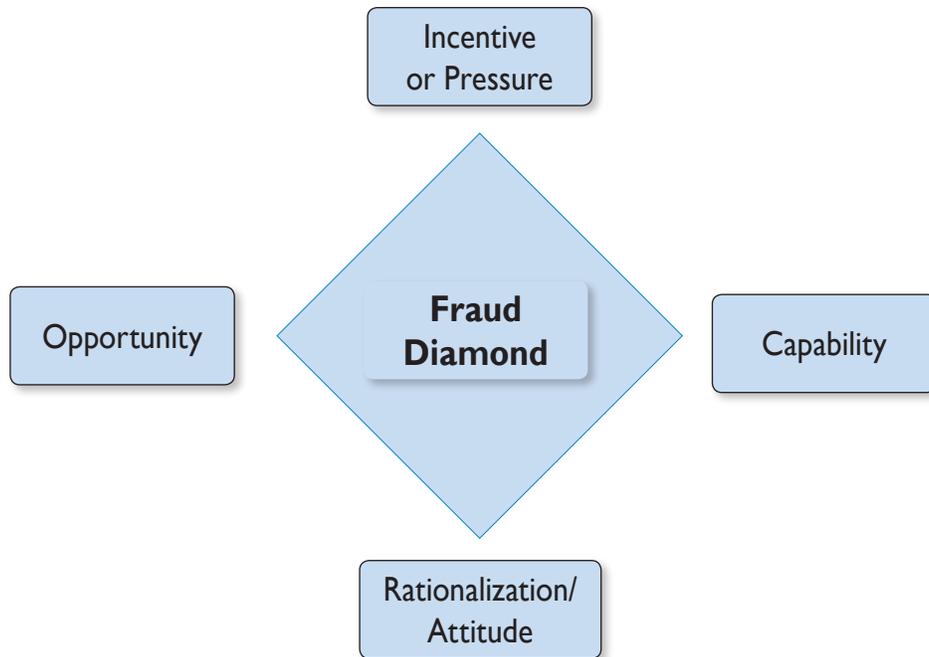
Occupational fraud is one of the most difficult types of fraud and abuse to detect. However, the most common method of detection is receiving tips from employees, customers, and anonymous sources; this accounts for 40% of all fraud detection. According to the 2018 *Report to the Nations on Occupational Fraud and Abuse* prepared by the Association of Certified Fraud Examiners, Inc. (ACFE), corruption schemes for governmental entities accounted for 38% of occupational fraud cases reported, with a median loss of \$250,000.

Survey responses in the above-mentioned ACFE report indicate that in 30% of all cases, “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 following shows the main internal control weaknesses that contribute to occupational fraud, according to the ACFE report:



The ACFE report data indicates a direct correlation between a fraud perpetrator's position and authority in an organization and the losses incurred. The ACFE reports that 44% of fraudsters were employees, 34% were managers, 19% were owner or executives, and 3% were in other categories. Although the second-lowest percentage is for fraud cases that involve owners or executives, this group generated the largest median loss: \$850,000 in the 2,690 cases reported worldwide between January 2016 and October 2017.

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 or motivation; opportunity; and rationalization or attitude. An extension of the fraud triangle is the fraud diamond, which adds a fourth factor: capability (Wolfe and Hermanson, 2004).



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

Incentive, Pressure and/or Motivation

Needs to get something accomplished, is self-promoting, has financial pressures or personal reputation to protect.

Opportunity

Is in a position of authority or provides an essential function in the organization.

Rationalization or Attitude

Is confident that fraudulent behavior will go undetected.

Capability

Is able to understand the systems (financial and/or accounting) and can override internal controls.

This report will focus on allegations of payroll fraud and misappropriation of district funds.

Internal Controls

Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts, and they protect a 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 controls provides a foundation for sound financial management and provides reasonable assurance that a district's operations are effective and efficient, that the financial information produced is reliable, and that the district is operating in compliance with all applicable laws and regulations. Board policies, operating procedures, and checks and balances are specific internal control elements intended to ensure that any financial information provided to senior management and the governing board for decision-making is reliable and complies with laws and regulations.

Managers and employees who have administrative responsibility have a fiduciary duty to the district and a higher expected standard of conduct in the course of their employment and are entrusted to safeguard assets and ensure that internal controls function as intended. This report will discuss how the former superintendent/director of adult education was able to circumvent internal controls to gain access to personnel-related data in the financial system and effectively bypass critical procedural steps, which allowed him to initiate contracts, record extra time, and pay stipends and overtime to a select group of employees over multiple years.

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.

Elements of Effective Internal Control

Internal Control Element	Definition
Control Environment	Commonly referred to as the moral tone of the organization, the control environment includes a code of ethical conduct; policies and guidelines for ethics, hiring and promotion; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations.
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 list of significant deficiencies and omissions that caused internal control failures in the Montebello Unified School District's adult education program:

- Failure to adequately enforce and/or segregate duties and responsibilities related to authorization.
- Failure to limit access to assets or sensitive data (e.g., personnel records).
- Lack of monitoring or implementation of internal controls by the governing board.
- Collusion among employees, including the administrator.

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that an 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 district's control environment and control activities relate directly to the breakdown of internal controls that occurred and include the significant deficiencies and omissions listed above and detailed later in this report.

Control Environment

The internal control environment establishes a district's moral tone. Although intangible, it begins with a district's leaders and includes employees' perception of the ethical conduct displayed by the governing board and executive management.

The control environment is a prerequisite that enables other components of internal control to be effective in preventing and/or deterring fraud or illegal acts. It sets the tone for a district, provides discipline and control, and includes factors such as integrity, ethical values and the competence of employees.

The control environment is weakened significantly when there is fear of retaliation and when an effective internal control structure is absent.

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 needed 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 to ensure no employee or group is placed in a position that allows them 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 because it provides for separate processing by different individuals at various stages of a transaction, and for independent review of the work.

Payroll Fraud

Payroll fraud is a form of asset misappropriation that involves false payments to employees. Payroll schemes that involve time sheets for extra time, overtime pay, or stipends typically are a result of weak internal controls for authorization and/or verification of hours or days worked.

Common payroll fraud schemes under which employee earn extra compensation include:

1. Time sheet fraud
 - a. Falsification of hours worked, recorded on manual timecards.
 - b. Altered time sheets.
 - c. Forging a supervisor's or administrator's signature.
2. Falsifying wages
 - a. Collusion with a supervisor, administrator or payroll employee.
 - b. Deliberate misclassification of a position, causing a higher rate of compensation.
3. Attendance fraud
 - a. Unreported leave.
 - b. Altering attendance records, or prior attendance records.

Most payroll frauds schemes can be avoided when industry-standard best practices are in place. Best practices, such as proper segregation of duties, periodic review of payroll records, and routine analysis, can detect and deter payroll irregularities. However, collusion with a supervisor or administrator who is authorized to sign payroll time records is extremely difficult to detect or prevent.

The following examples of control features for payroll are best practices and should be implemented to prevent misappropriation of assets:

- Proper Authorization and Approval
 - Ensure that all contracts, extra time, overtime, stipends, and other payroll-related payments have been processed and authorized through the Human Resources Department and adhere to the terms of the collective bargaining agreements.
 - Ensure that the Human Resources Department places on the board agenda for approval all contracts, extra time and stipend amounts, before any work is performed.
 - Ensure that any changes in pay rates have been verified by the Human Resources Department and subsequently processed by the Payroll Department.
 - Ensure that all requests for vacation payouts adhere to the terms of the collective bargaining agreements and do not exceed employee leave balances.
 - Ensure that supervisors and administrators have signed payroll time records to certify their accuracy and that preapproval has been verified by administrators in the Business Services and Human Resources departments.
 - Ensure that contracts, stipends, overtime and other payroll-related payments have sufficient budget appropriation.

- Segregation of Duties
 - Ensure that the Payroll Department processes time cards and other requested payments for compensation only if they have proper authorization, including board approval, and have been routed through the Human Resources Department to ensure employees are approved for particular assignments and are paid at the correct hourly rate.
 - Ensure that the Business Services Department analyzes data to detect anomalies.
- Confidential Hotline
 - Establish a hotline that allows employees to report dishonest or unethical conduct.

Gift of Public Funds

Gifts of public funds are prohibited by Article 16, Section 6 of the California Constitution, which specifies that the state Legislature cannot authorize any county, city, or other political subdivision to make any gift of public funds to an individual or corporation. This constitutional provision prohibits making any gift of public money, including items of value, to any individual including public employees, a corporation, or other government agency. The constitutional prohibition of gifts of public funds is designed to obstruct the misuse of public money.

If an expenditure of public funds has a direct and substantial public purpose and provides only incidental benefit to an individual, it is likely allowable. The existence of a direct and substantial public purpose is the primary factor in determining the legitimacy of an expenditure of public funds. To justify an expenditure of public funds, a school district's governing board must determine that the expenditure will benefit the education of the district's students, including those in any auxiliary district programs such as adult education.

Although managing the district's finances is the job of senior management, the governing board has ultimate responsibility for overseeing a school district's financial affairs. This important board duty includes an array of responsibilities. In performing its oversight role, the board exercises a check and balance on senior management's activities. Active, independent oversight is essential to ensuring a district's current and future financial stability, as well as proper stewardship of a district's assets.

Payroll, including benefits, is the single largest expenditure of the district's budget; therefore, transparency and full disclosure of employment contracts, terms of employment, employee compensation, changes to collective bargaining agreements, hours worked for extra assignments, and stipends should be publicly available and should be placed on the board agenda and approved before employees perform the work.

Paying instructional and classified staff for work performed on dates other than those on the academic calendar and allowing excessive overtime may be considered gifts of public funds unless the governing board has determined that the work to be performed will benefit the district's students. The board should preapprove payments for all contracts (including extensions of contracts), extra pay (in excess of base pay for each position), and stipends. The district's board minutes indicate that until the 2017-18 fiscal year, approvals for extra compensation were passed by the board inconsistently, and were not passed at all for certain employees.

The findings in this report describe questionable employee compensation that may be considered a gift of public funds.

Findings

Payroll Transactions

This study focuses on allegations that adult education instructors and some classified employees with their primary position in the general fund were paid disproportionately high salaries when performing hourly work in the adult education program. FCMAT found that some classified employees earned significantly more than their normal hourly pay when they were given supplemental assignments in adult education and paid from adult education funds.

FCMAT examined and analyzed documents relating to certificated and classified personnel who received unusually high compensation, and narrowed the selection to 24 employees who earned extra pay and overtime from either adult education, or a combination of adult education and general fund, monies from July 1, 2013 through December 1, 2017.

The table below shows that some of the 24 employees selected for further review had unusually high earnings for their classification and in some cases had assignments that consistently exceeded six hours per day. Fiscal year 2017-18 data is not represented in the table below because the sample included approximately five months.

Number of Employees in Sample with High Earning Fiscal Years 2012-13 through 2016-17

Fiscal Year	2013-14	2014-15	2015-16	2016-17
Earnings				
Over \$140,000	5	7	9	9
Over \$160,000	2	2	5	4
Over \$180,000	1	1	2	2

FCMAT analyzed selected payroll transactions for these 24 employees to determine compliance with board policy and past practice, collective bargaining agreements, internal operational procedures, and best practices, based on the FCMAT study team's judgment and technical expertise. Testing procedures and notable exceptions are detailed in the Substantive Testing section of this report.

The majority of the exceptions noted did not have proper supporting documents. In some cases work time was recorded for times when classes were not in session or was for work unrelated to adult education services to students. The district's payroll records did not have sufficient supporting documents to conclude that compensation paid from adult education funds was for legitimate payroll expenditures and for the benefit of the adult education program or its students even though the employee's signature certifies adult education work was done.

FCMAT reviewed employee time cards for hourly pay and/or time records for employees identified as having contracts, although most of the employees did not have actual board-approved contracts, within the sample. In several instances hourly pay occurred during times when classes were not in session, according to class calendars and brochures provided by the district. Some employees were paid as if they had formal contracts, but submitted time records were signed by administrators other than the adult education director that did not correlate with class schedules provided by the district.

FCMAT found instances in which a few classified and confidential employees earned extra pay or overtime that spanned multiple fiscal years and that was unrelated to student class schedules. Because they lack a connection to or correlation with services to students, these payments may not be legitimate adult education expenditures.

The district provided payroll records for any employees who had any portion of their compensation paid from the adult education fund from July 1, 2013 to December 1, 2017. From these records, FCMAT sampled employees whose compensation was paid wholly or in part from adult education funds. The sample records included 4,048 payroll transactions related to 24 individuals, for a total cost of \$11,416,218.

Hourly payroll for instructors and site support staff was compared to the class calendars, and trend data that represented normal monthly payroll cycles. Consistency of payments for extra assignments year-over-year was reviewed for payments for time worked on dates other than those on the class calendar. Additional supporting documentation was requested for approximately 202 of the payroll transactions.

FCMAT concluded that the control environment was undermined by a number of factors including the former adult education administrator and later superintendent's control over the adult education financial system and over approval of overtime and extra assignments. Employees were fearful of retaliation and possible termination of employment; therefore, no one challenged his authority or questioned payroll time records submitted.

Sample Criteria and Date Range

The district and county office provided FCMAT with separate files of payroll transactions, limited to those that included payments from the adult education fund. Many of these employees, both part-time and full-time, were also funded from the general fund; therefore, payrolls included payments from both funds.

Payroll transactions were compiled for each of the 24 employees sampled from payroll data supplied by the county office. This data was compared with district documents including monthly payroll warrants, employee work calendars, student class schedules, collective bargaining agreements, monthly time reports, hourly time cards, employee contracts, and absence records. Certain payroll records from these transactions were reviewed further.

Authorization

Authorization is a key internal control element to prevent payroll fraud. Proper authorization and subsequent review are essential to ensure that employee compensation complies with the law and board policy. The district's board policy 4000(a) states that the board will adopt the terms and conditions of employment that have been negotiated and stated in the collective bargaining agreements.

FCMAT reviewed the following documents related to the governing board's authorization of payroll:

- Adult school contract teachers lists for fiscal years 2016-17 and 2017-18.
- Board minutes from July 1, 2013 through December 1, 2017.
- Board-approved employee *work* calendars for certificated and classified employees from 2013-14 through 2017-18.
- Collective bargaining agreements with certificated and classified employee groups from 2012-13 through 2016-17.

Board Authorization

FCMAT found that the district placed on the board agenda class instructor names for approval to teach hourly classes; these items included the rate and maximum number of hours. The subjects listed in the board agenda did not always match the student class schedule or actual duties performed by the employee. In addition, the payroll records reviewed by FCMAT for the 24 employees show that 90% of all regular adult education instructors referred to as “Adult Ed Contract Teacher” in the board packet were approved to earn pay for additional hours beyond the base pay. Starting with the 2016-17 school year, additional assignments and overtime for classified employees were submitted for formal board approval.

Supervisor Authorization

FCMAT reviewed payroll documents provided by the district for supervisor authorization of hours worked, dollar amounts paid, and signature authority. Individual payroll records for a sample group of employees were reviewed to ensure that the work performed was consistent with the approval for payment. Because of the large sample size, FCMAT did not request supporting documents for all transactions. FCMAT reviewed the following district forms for payroll payment and absence reporting and compared them with the test group:

- Individual Time cards: Time cards for hourly personnel denote hours worked each day, the total number of hours worked, and the pay rate for each pay period. Sick leave is also recorded on the district time card. Employees sign certifying that they have performed work as an adult education instructor, and the administrator or supervisor signs indicating approval for payment.
- Certificated Calendar Month Time Reports: This report is used to record absences of permanent certificated instructors. It lists the instructors at each school site, number of hours absent, and type of absence. The district uses negative attendance reporting; only absences are recorded. FCMAT found several instances in which the adult education administrator certified the report without employee signatures.
- Classified Calendar Month Time Reports: This report is used to record absences of classified staff at a school site or in a department, the number of hours absent, and the reason for the absence. Like the certificated time reports, classified personnel sign this report only if they are absent. FCMAT found several instances in which the adult education administrator certified a report without employee signatures.
- Classified Additional Assignments/Overtime Hourly Time Report: This report is used to record the hours of additional assignments and overtime worked by classified employees. The report lists the classified personnel at the school site or in the department, the number of regular work hours assigned, and number of additional hours worked each day. These reports indicated that overtime was approved by adult education supervisors or administrators for a sample group of classified employees over multiple fiscal years.

Documentation of Receipt of Service

Supporting documents provide evidence that services were rendered and are another important component of internal controls. Although payroll records confirmed that payment was made, and time cards list hours worked, these confirmations alone do not validate that work was actually performed.

To test whether work was performed, FCMAT compared the schedules of adult education classes from fall 2014 through fall 2017 with payroll records. Hours worked should closely reflect the student class schedule FCMAT tested a number of time cards to evaluate this condition and found multiple time cards for work on dates other than those on the academic calendar.

Notes and Other Documentation

Additional supporting documents to verify work performed can include notes, emails, memoranda, and other written items on employee payroll records and absence records. These can further clarify the nature of the wages.

District staff provided payroll data for all adult education employees in Microsoft Excel format, downloaded directly from the payroll system. The Los Angeles County Office of Education provided payroll transactions for all employees who were paid from the adult education fund, including multifunded employees (i.e., those funded partly from adult education and partly from other funds). The district provided backup documents such as board-approved employee work calendars, student class schedules, salary schedules, and collective bargaining agreements.

Substantive Testing

FCMAT reviewed payroll transactions and analyzed supporting documents. Because of the large number of payroll transactions, FCMAT selected for review specific transactions showing high dollar amounts. The review and analyses focused on board policies, administrative regulations, internal guidelines, collective bargaining agreements, the Education Code and allowable expenditures from adult education funds, to determine whether internal controls operated effectively and whether proper procedures were followed, including the following:

- Extra assignments for classified service were processed through the Human Resources Department and budget appropriation was verified prior to board approval.
- Extra assignments for classified services were in compliance with the collective bargaining agreement.
- Adult education instructor contracts and hourly assignments were board-approved in advance of the work to be done.
- The board of education's approval of salary increases or contract extensions were conducted in open session at a regularly scheduled board meeting in accordance with the Brown Act.
- Time cards submitted to the payroll department for payment had appropriate signature approvals and were processed through the Human Resources Department to ensure employees are approved for particular assignments and are paid at the correct hourly rate.
- Payments for classified workers' extra hours, additional assignments, overtime and out-of-class pay were preapproved.
- Attendance and absences were properly noted on monthly attendance reports.
- Evidence that a legitimate service was performed was substantiated.

The Total Exceptions table below summarizes the number and dollar amounts of payments made to employees for positions and/or for hours worked that did not have board approval.

More than 38% of all transactions FCMAT tested had exceptions, and 56% of the total dollar value of the exceptions FCMAT tested were payments made to the following three individuals:

- The former CSEA president, who worked in multiple positions.
- An executive assistant paid from the general fund.
- One adult education instructor regularly assigned a 48- to 50-hour work week.

The adult education administrator, who later became the superintendent and continued overseeing the adult education department, approved thousands of dollars in overtime, stipends and extra assignments over multiple fiscal years, bypassing the Human Resources Department and board approval. After his departure, other administrators in adult education continued the same practice until the current fiscal year.

The majority of payments was processed by sending the request directly to the Payroll Department with instructions to pay. This omitted several important internal control checks and balances, to the extent that it created a complete breakdown in internal controls over payroll. The former superintendent was able to circumvent the district's normal operating procedures to initiate contracts and to distribute overtime and extra assignments to select employees, without review, processing or approval from the Human Resources Department or the governing board.

FCMAT tested 472 payroll transactions and found exceptions totaling \$268,816. Interviews and documents indicate that many of the hourly employees were paid for work during winter, spring and summer breaks.

The district's current adult education director stated that the instructors performed services directly related to students in the Greater Avenue For Independence ([GAIN](#)) program under CalWORKs; however, the district does not have a schedule of classes for GAIN, and no evidence of support for such students was provided.

Total Exceptions

Compensation for overtime made up the largest number of transactions (133); these included working outside of their approved classification and the second largest was auto allowances (162) and administrator pay, neither of which were board-approved. The largest dollar amounts were adult education hourly pay, classified overtime and double-time and service dates not tied to student schedules. These three categories of exceptions make up 71% of all exceptions analyzed by FCMAT.

The largest portion of exceptions, totaling 84%, were compensation paid for work that was not board-approved or that was in violation of collective bargaining agreements, and that in some cases was potentially a gift of public funds.

Total Exceptions

Position or Duties	Total Value of Transactions not Board-Approved	Number of Transactions
Adult Education Hourly	\$83,269	48
Classified Overtime and Double time	68,372	133
Service Dates Not Tied to Student Schedules	38,318	22
Former Superintendent	19,478	39
Additional Assignments	19,378	16
Vacation payouts in conflict with policy	17,601	29
Collective bargaining conflicts	13,879	12
Payroll errors	4,975	11
Auto Allowances and Administrator Pay	3,547	162
Grand Total	\$268,816*	472

**Rounding due to calculations*

The following payroll errors and exceptions are indicative of a complete disregard for internal controls, inappropriate conduct by former leaders who had a fiduciary duty to the district, and indifference to board policy and the prudent use of district funds.

- Time cards for adult education instructors do not consistently match information in class schedules.
- Seven instructors board-approved as hourly were subsequently changed without board approval to monthly base pay amounts following a series of emails between the certificated human resources, finance and payroll departments that stated, "...the following employees are currently adult ed hourly teachers, [Bd. 8-17-17] who work more than 18 hours per week. We understand that they are eligible to receive insurance benefits, due to the number of hours they will be working per week." and referenced eligibility for benefits as part of the reason. Human resources and adult education administrators were copied on these emails.
- Approximately 90% of the adult education instructors in the certificated bargaining unit (normally referred to as contract teachers) supplement their income with hourly teaching in excess of base pay hours.
- Six regular adult education instructors did not report sick leave for their primary (contract) position on days for which they reported sick leave for their hourly position. Two of the six employees had 10 or more such discrepancies.
- Until the 2017-18 fiscal year, the district did not have an enrollment policy to indicate minimum class size. During interviews, FCMAT learned that instructors were paid regardless of how many students attended. In some cases, only one student was present.
- Flexibility options enacted as part of the 2008-09 Budget Act made funding for certain categorical programs flexible from 2008-09 through 2012-13, thereby allowing the funds for these programs to be used for any educational purpose. Flexibility also relaxed program requirements, including attendance reporting as a condition of funding for all adult education programs. During interviews, district administrators stated that, even after flexibility ended, instructors did not consistently take student attendance; therefore, the district did not have consistent information for the number of students in each class and could not confirm student class sizes.

- Not all stipends are approved by the board or documented using a formal contract.
- Classified employees board approved and paid as an “adult education instructor” while performing other duties while overseeing the high school equivalency test (HiSET). Instructor rates are much higher than the actual work performed.
- One certificated employee was performing teacher on special assignment (TOSA) duties but was board approved and paid as an “adult education instructor,” at higher per diem rates than special assignment rates listed in collective bargaining agreement.
- Formal adult education contracts are not consistently given to instructors or readily available and on file in the Human Resources Department. Fewer than five formal contracts were provided for employees other than the superintendent. A list of contracts was provided for 2015-16, 2016-17 and 2017-18, but not all pages were signed by the adult education director in charge of approving teaching schedules and wages.
- Salary schedule column and step movements that increase hourly rates are not consistently board-approved. One such item included a salary increase for column movement that was not placed on the agenda with other such salary increases.
- The summer adult education program schedule for 2017 was not board-approved, yet employees were board-approved to work from July 5, 2017 through September 05, 2017 (these wages are not included in the exceptions listed above).
- One employee who exceeded their sick leave allotment was on 50% pay while also collecting pay for unused vacations days in excess of those allowed under the collective bargaining agreement. This same employee was paid the full anniversary increment instead of half that amount as described in the collective bargaining agreement language.
- While on winter break and not board-approved to work, one employee was paid for a sick leave day from their adult education hourly assignment.

The table below summarizes the district’s payroll exceptions by fiscal year and shows that even after the former superintendent separated from the district, practices did not change.

Exceptions by Fiscal Year

Fiscal Year	2013-14	2014-15	2015-16	2016-17
Pay Category				
Administration	\$4,370	\$9,911	\$786	\$7,126
Hourly Outside of Calendar	22,123	27,704	25,836	6,433
Overtime	23,248	20,176	19,147	5,803
Extra assignments	2,685	1,830	13,872	991
Payment for days not in student schedule	0	160	0	37,450
Unsupported Employee Rates	0	0	0	10,829
Vacation Payoffs Not in the Collective Bargaining Agreement	5,765	8,498	1,553	1,785
Payroll Errors	235	2,905	1,098	1,786
Grand Total	\$58,426	\$71,184	\$62,292	\$72,203

High Compensation Rates

A total of 53 employees had earnings that exceeded \$500,000 over the four and one-half-year period indicated earlier. These earnings were paid from a combination of adult and general funds and are shown in the table below.

Employee Compensation Amounts

Employee Identifier	Amount 2012-2017
Superintendent	\$1,467,449
K-12 Teacher 1	1,050,592
AE Teacher 1	927,723
K-12 Teacher 2	919,337
Administrator on Special Assignment	903,038
Director of Instructional Services	871,597
AE Consortia Director	848,103
Director of AE	818,106
Principal 1	816,549
ROP Instructor 1	807,391
Chief of Police/Instructor 5	758,013
AE Instructor 2/Coach	736,901
AE Instructor 3	721,132
K-12 Instructor 3	712,347
K-12 Instructor 4	697,156
K-12 Instructor 5	690,711
K-12 Instructor 6	688,370
K-12 Instructor 7	685,551
K-12 Instructor 8	676,783
K-12 Instructor 9	670,875
K-12 Instructor 10	670,340
AE Instructor 4	664,417
K-12 Instructor 11	661,885
K-12 Instructor 12	657,332
K-12 Instructor 13	654,472
K-12 Instructor 14	636,845
K-12 Instructor 15	636,369
K-12 Instructor 16	629,137
AE Instructor 5	622,101
AE Director of Finance	613,842
K-12 Instructor 17	611,939
K-12 Instructor 18	609,871
Principal 2	587,696
K-12 Instructor 19	583,866
AE Instructor 6	578,158
K-12 Instructor 20	577,810
K-12 Instructor 21	573,856

Employee Identifier	Amount 2012-2017
K-12 Instructor 22	563,733
AE Instructor 7	561,238
Assistant Principal 1	558,957
AE Program Specialist 2	544,529
AE Instructor 8	542,634
AE Instructor 9	537,942
K-12Instructor 23	523,970
AE Program Specialist 3	514,987
AE Instructor 10	512,385
AE Instructor 11	512,277
Principal 3	511,691
AE Instructor 10	511,084
K-12 Instructor 23	506,220
Executive AssistantII/Instructor	505,015
Executive Assistant I/Instructor	504,415
Classified Supervisor/Instructor	502,772

The governing board approved approximately 98% of payments to part- or full-time adult education instructors for large blocks of hours. The board agendas did not denote that certain employees had already been approved to work full-time jobs. The largest payments went to regular high school instructors and administrators who were approved to work up to a combined total of 16 hours per day in both K-12 and adult education programs, including on weekends or during student breaks.

Many of the employees who earned the highest compensation for additional hours did so in multiple programs, such as Home Teacher and Summer School, and were paid stipends for teaching in multiple programs during overlapping periods. Because these instructors were working in multiple programs, they were entitled to additional payments for overlapping periods, multiple assignments, working through their preparation periods, and more.

Many classified and confidential employees in the test sample worked 30 to 40 hours per week in their primary classification, and were offered opportunities to teach adult education classes that qualified them for overtime pay. Some of these same employees were paid for additional assignments on a regular and ongoing basis, and occasionally had vacation payouts that were not part of the collective bargaining agreement.

Payroll Advances, Sick Leave Tracking, Payments for Unused Vacation, Overtime, and Payroll Errors

The following practices contribute to weaknesses in the district's internal control environment:

- Monthly employees were asked to sign time sheets only when absent. FCMAT found instances in which absences were signed not by the employee who was absent but by another employee assigned to forward time sheets to the payroll department. In one instance a teacher paid based on 7.5 hours a day, Monday through Thursday and five hours on Friday. This teacher was not in attendance except for two days between the period March 30, 2017 through June 15, 2017, a six-week period of time. Yet the

employee's monthly time report certified he was absent only 2.5 hours a day, Monday through Thursday (except the two days he reported to work) and one Friday when he was listed absent for six hours. He did not sign any monthly time reports.

- Sick and vacation leave used are not posted consistently in the payroll system; as a result, the employee absence card is the only complete record of absences. FCMAT found several missing items when comparing absence cards to employees' monthly and/or hourly time records. In these cases, the employee recorded absence and/or vacation, yet the absence card completed by the payroll department did not properly record these leaves. This could lead to STRS and PERS reporting discrepancies.
- Hours worked in addition to the primary assignment are listed in the classified bargaining agreement as "anticipated overtime." Seven employees reported regular, ongoing anticipated overtime even when classes were not in session, without prior board approval.
- Time cards were not used consistently to support all payments.
 - Seven employees were board-approved to work hourly assignments, yet months later the record was changed to monthly pay, as previously discussed.
 - In one instance an employee turned in two time cards for two different full-time positions with different pay rates and different attendance information, and was paid for both.
- Managers regularly granted approval for classified employees to cash in more vacation days than the limits allowed in the district's collective bargaining agreement with classified employees.
 - Two employees were paid regularly for unused vacation days, in conflict with the applicable collective bargaining agreement.
 - FCMAT found four instances in which an employee was paid in advance of vacation but the initial payment was subsequently reversed and repaid in a different earning period, sometimes in the subsequent fiscal or calendar year.
 - In one instance, the payout of vacation time was not deducted from the employee's vacation time.
- Two employees were told to certify work as adult education instructors for times when they were performing unrelated duties. These records were then certified by their supervisor.

Conclusion and Recommendation

Prevention and Detection

Ethical Values and Fiduciary Duty

Internal controls are among the most important aspects of any fraud prevention program. Superintendents, chief business officials and other senior administrators are in positions of authority and therefore are responsible for exercising a higher standard of care and for establishing the ethical tone and serving as examples to other employees. Employees with administrative responsibility have a fiduciary duty to the district to ensure that activities are conducted in compliance with all applicable board policies, laws, and regulations.

Management personnel are entrusted to safeguard the district's assets and ensure that internal controls function effectively. Although the governing board and all district employees have some responsibility for internal controls, the former superintendent had a fiduciary duty and responsibility to ensure that the governing board's fiscal policies and procedures were applied and conducted responsibly and ethically.

As stated earlier in this report, the control environment is essential to establishing other internal controls. It includes the ethical tone and example set by management, and it results in a workplace where employees feel safe expressing concerns. Based on interviews and documentation reviewed, this environment clearly was not present in the district; in interviews, employees expressed fear of retaliation and stated that they were told to "stay in their own lane."

The district's Board Policy 3400 states that the board recognizes its fiduciary responsibility to oversee the district's financial integrity and relies on the superintendent or superintendent's designee to ensure that internal control processes and procedures are functioning effectively and that the board has a clear picture of the district's financial condition at all times. Board authorizations for payroll expenses are an implicit part of this transparency and financial integrity. The district's former administration was negligent in its fiduciary duty to the district's governing board, staff, students and parents; it ignored established internal controls, and administrators did not hold themselves to a standard of conduct commensurate with their positions.

The district's internal control environment has significant material weaknesses that increase the probability of fraud and/or abuse. These findings should be of great concern to the Los Angeles County Office of Education and the district's governing board; they indicate the need for immediate intervention to limit the district's risk of fraud and/or misappropriation of assets in the future.

It is imperative that the county office and the district's governing board review the findings and recommendations of this report and implement effective internal controls. Based on the findings and analyses in this report, there is sufficient evidence to demonstrate that fraud, mismanagement and misappropriation of the district's funds and assets may have occurred.

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.

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 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.

In accordance with Education Code Section 1241.5(b), the county superintendent shall report the findings and recommendations to the governing board of the district at a regularly scheduled board meeting within 45 days of completing the audit.

Recommendation

The county superintendent should:

1. Notify the governing board of the Montebello Unified School District, the state controller, the superintendent of public instruction, and the local district attorney that fraud or misappropriation of district funds and/or assets may have occurred.

Appendix

A: Study Agreement

Appendix A - Study Agreement



**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 STUDY AGREEMENT
September 7, 2017
AMENDED STUDY AGREEMENT
October 20, 2017**

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

1. BASIS OF AGREEMENT

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

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

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The Los Angeles County Office of Education has requested FCMAT to assign professionals to conduct an AB 139 Extraordinary Audit. This audit will be conducted pursuant to Education Code Section 1241.5 (b). The COE has received allegations of possible fraud, misappropriation of funds or other illegal practices at the Montebello Unified School District and is requesting that FCMAT review the adult education program employee compensation, including overtime pay and relative internal controls.

The primary focus of this review is to determine, based on the testing performed, whether (1) the district's reporting and monitoring of payroll transactions have adequate management and internal controls, and (2) based on that assessment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

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

- Adult education program employee compensation, including overtime and employees with multiple assignments

The team will review and test recorded transactions for fiscal years 2013-14 through 2017-18 to date, to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on a sample of transactions and records for this period. Testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the district's financial transactions and activity to accomplish the following:

1. Provide reasonable assurance to management that the internal control system is established, implemented and monitored.
2. Prevent internal control activities from being overridden by management.
3. Help identify and correct inefficient processes.
4. Ensure that employees are aware of the proper internal control expectations.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the district to brief management and supervisory personnel on the team's procedures and the purpose and schedule of the study.
2. On-site Review - The team will conduct an on-site review at the district office and at school sites if necessary; and will continue to review pertinent documents off-site.
3. Progress Reports - The team will inform the COE of material issues as the review is performed.
4. Exit Meeting – The team will hold an exit meeting at the conclusion of the on-site review to inform the COE of any significant findings to that point.
5. Draft Report – When appropriate, electronic copies of a preliminary draft report will be delivered to the COE's administration for review and comment on a schedule determined by the team.
6. Final Report - Electronic copies of the final report will be delivered to the COE and/or district following completion of the review. Printed copies are available from the FCMAT office upon request.
7. Follow-Up Support – If requested, the team will meet with the COE and/or district to discuss the findings and recommendations of the report.

3. PROJECT PERSONNEL

The FCMAT study team may also include:

- | | | |
|-----------|-------------------------|-------------------------|
| <i>A.</i> | <i>To Be Determined</i> | <i>FCMAT Staff</i> |
| <i>B.</i> | <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 \$32,000.

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

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

6. PROJECT SCHEDULE

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

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

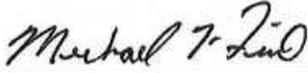
10. **HOLD HARMLESS**

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.

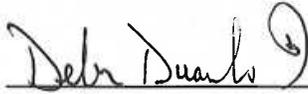
11. **CONTACT PERSON**

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

SIGNED BY DEBRA DUARDO September 15, 2017
 Debra Duardo, County Superintendent Date
 Los Angeles County Office of Education


 September 7, 2017
 Michael H. Fine Date
 Chief Executive Officer
 Fiscal Crisis & Management Assistance Team

AMENDED STUDY AGREEMENT


 11/1/17
 Debra Duardo, County Superintendent Date
 Los Angeles County Office of Education


 October 20, 2017
 Michael H. Fine Date
 Chief Executive Officer
 Fiscal Crisis & Management Assistance Team