



January 13, 2016

Lisa LeBlanc  
Associate Superintendent Operations and Bond Program  
West Contra Costa Unified School District  
1400 Marina Way South  
Richmond, CA 94804

Re: West Contra Costa Unified School District (WCCUSD) Board of Education Forensic Accounting Investigation – RFP, dated August 12, 2015

Dear Ms. LeBlanc:

Vicenti, Lloyd & Stutzman, LLP (“VLS”) has been advised that the WCCUSD (District) subcommittee (Subcommittee for the Clay Investigation – “Subcommittee”) is recommending our firm to conduct a Phase II for the District’s school construction bond program forensic accounting investigation. As such, we have been requested to provide you with the scope, deliverables, milestones and timeline that align with the RFP and the Subcommittee’s request, along with our projected cost for this project.

This letter, when signed by all parties, will constitute our engagement letter for the services to be performed by VLS as articulated in this agreement. The information provided below is for Phase II of this project. We are pleased to provide you this information and look forward to working with you on this matter.

### **SCOPE OF SERVICES**

Reference is to be made to the WCCUSD “Request for Proposals” Board of Education Forensic Accounting Investigation (RFP), dated August 12, 2015. This RFP specifically articulates the scope of the services that VLS will follow. This scope is as follows:

1. Conduct a forensic accounting investigation of items in an approved scope of work and provide progress reports to the Subcommittee;
2. Deliver a preliminary report of findings and recommendations directly to the Subcommittee; and;
3. Make a final report of findings and recommendations to the Board of Education at a regularly scheduled meeting.

## **APPROVED SCOPE OF WORK FOR PHASE II**

On January 7, 2016, VLS submitted a Proposed Scope of Work for Phase II (Test of Controls and Forensic Investigation) on the District's school construction bond program, which was prepared for the internal use of the District pursuant to our engagement letter dated September 30, 2015 between VLS and the WCCUSD. On January 11, 2016, VLS was advised that the Subcommittee is recommending for Board approval all the proposed scope of work steps articulated by VLS.

The Proposed Scope of Work for Phase II is divided into two sections: Proposed Scope of Work for Phase II – Test of Controls (TC) and Proposed Scope of Work for Phase II – Forensic Accounting Investigation (FI) section. Attached to this engagement letter as Exhibit A is the specific detail for Scope of Work for Phase II as articulated by VLS and recommended by the Subcommittee for Board approval.

Phase II of this project will be completed utilizing standards in accordance with the American Institute of Certified Public Accountants (“AICPA”) Statements on Standards for Consulting Services contained in Rule 201 of the AICPA Code of Professional Conduct. In consulting engagements, the nature and scope of work is determined solely by the agreement between the practitioner (VLS) and the client (West Contra Costa Unified School District). The project does not constitute an audit, compilation, or review, in accordance with Standards of the AICPA, the objective of which would be the expression of an opinion on any specified elements, accounts, or items.

Because of the unique nature of fraud and because our engagement is limited to the matters described in this engagement, fraud and/or financial irregularities may exist within the organization that we will not identify during the performance of our procedures. Consequently, neither the District nor any other party acting on its behalf shall hold VLS or any of its affiliates or representatives legally responsible for any loss or liability that may result from the non-discovery of facts or information that could otherwise influence the outcome or interpretation of our findings and/or testimony.

However, if during the performance of our services other matters come to our attention suggesting possible financial improprieties and/or irregularities, we will communicate such matters to legal counsel and not perform any work concerning these new matters. If we are directed by legal counsel or the District to perform any services in these new areas, VLS will not perform any services in these new matters until a new or amended engagement letter has been executed between the District and VLS.

This engagement does not include providing an opinion on the financial statements of the District nor is it a Performance Audit as defined in the Government Auditing Standards.

In accordance with these standards, no opinion is expressed by VLS regarding the legal culpability of any person, party or organization.

## **SUMMARY OF METHODOLOGY AND APPROACH**

**Test of Controls (TC) Section:** For each area identified where VLS will test internal controls (TC), the work will generally be performed in two parts. The first part will include meeting with the District staff and/or SGI and other appropriate individuals to understand and document the detailed processes and procedures being followed, including what internal controls are in place within those processes and procedures. VLS will identify the significant internal controls that have been implemented and are being relied upon by the District to reduce the risk of fraud, waste or abuse. Once the significant internal controls are fully identified, the population of transactions related to those controls will be identified, and a sample will be selected for testing.

The second part of this process involves VLS obtaining and reviewing the supporting documentation for the samples selected to verify that the significant controls identified are in place and are being followed. VLS will also request and review other relevant documents, including process and procedure manuals, Board policies, bond related documents, and construction related records. Particular attention will be given to understanding those aspects of the District's processes which relate specifically to the internal control to be assessed and tested.

Both parts will require heavy involvement from the District staff and possibly SGI and other staff who are involved in the areas identified for testing.

As articulated in our Phase I Bond Program Fraud Risk Assessment delivered to the Subcommittee on January 7, 2016, the items selected for Phase II scope of work for TCs are directly related to the Risk of Fraud Areas identified in the Fraud Risk Assessment. Attached to this engagement letter as Exhibit B is the Phase I Bond Program Fraud Risk Assessment delivered to the Subcommittee on January 7, 2016.

**Forensic Accounting Investigation (FI) Section:** The steps proposed to be performed for the FI section, involve primarily historical transactions. For each area identified where VLS will perform a forensic accounting investigation, the work will consist of two parts as well. Both of these parts will require heavy involvement from the District staff and possibly SGI and other staff who are involved in the areas identified for testing.

The first part will include interviewing select District staff as well as select SGI staff and other relevant parties to gather information specific to the areas requiring a forensic accounting investigation. Interviews may be conducted to gather additional information related to specific transactions. These interviews could involve neutral third-party witnesses, corroborative witnesses, co-conspirators, and possibly the subject of any investigative areas. The second part of this process can involve the following areas of work:

**Document examination** – Obtaining, organizing, reviewing and analyzing appropriate records, ledgers and overall detailed accounting information

**Data analytics** – Advanced software tools will be used to review financial relationships, to identify unusual transactions or data patterns, and assist in identifying transactions that should be reviewed or further examined.

**Computer forensics and email review** – Certain schemes of fraud and corruption happen off the books of the victim organization. Additional evidence can be gathered by reviewing documents and emails of those who may be involved in a particular scheme.

**Background checks and investigations** – To determine whether conflicts of interest exist, background checks may be conducted on certain individuals to assist in identifying company affiliations or personal relationships.

**Observations** – On-site observations of construction sites may be necessary to provide further evidence of the type and level of activity related to certain construction projects.

Both of these two parts may be performed simultaneously during Phase II.

### **DELIVERABLES, PROTOCOLS AND TIMELINE**

**Deliverable for TC's Scope of Work:** Reference is made to the Phase I Bond Program Fraud Risk Assessment delivered to the Subcommittee on January 7, 2016. Based on the results of the work to be performed by VLS during Phase II, for the seventeen (17) TC steps identified in the Scope of Work, VLS will assign a new "Risk Score" to the Risk Assessment - Either a High, Medium or a low Risk of fraud, waste or abuse. Currently, this column (the last column to the right of the Risk Assessment) was intentionally left blank and will be completed with the new Risk Score. This new Risk Score will be based on the current controls that will be tested in Phase II.

In addition, if a new Risk Score is identified as a Medium or High risk, VLS will also report any recommendations for the District to consider implementing in order to lower the Risk Score to a Low risk.

Succinctly, the deliverable for this TC section will be the same Phase I – Bond Program Fraud Risk Assessment delivered to the Subcommittee on January 7, 2016, however, it will have the last column filled-in with a new Risk Score. In addition, any recommendations for the District to lower the Risk Score to a Low risk will be provided in written form to the Subcommittee. VLS will maintain in our work papers the specific investigation performed during the testing of TCs; such as names of individuals interviewed and documents examined. This information will be available to legal counsel and will only be disseminated according to his direction and instructions.

**Deliverables for FI's Scope of Work:** VLS will prepare a written report which will generally address the following for each FI step:

- The work performed such as: number of individuals interviewed (names of interviewees will only be disclosed based upon direction from legal counsel); identification of records, documents, and accounting records reviewed; methodology for data analytics and sample size(s) selection for transactions selected for testing; methodology and scope of computer forensics and email review; background checks; and any other work investigative steps performed.

- Identification of any obstacles encountered by VLS in performing our services in Phase II.
- Results of our work performed.
- Recommendations to the District for possible next steps and any other considerations that may arise as a result of work performed. In accordance with our professional standards, no opinion(s) will be expressed by VLS regarding the legal culpability of any person, party or organization.

**Protocols:** VLS will generally utilize the same protocols as established during Phase I as follows (with any modifications noted):

- The same “**secure portal**” **protocol** will be utilized to ensure all documents, records, information received during the course of this project; and all work papers, schedules, memorandums and other information generated and/or prepared by VLS are appropriately maintained in accordance with any legal, investigative and/or consulting standards for this project.
- VLS has been advised by legal counsel that **Status Reports** will be provided by VLS to legal counsel every thirty (30) days. The first Status Report will be prepared by VLS 30 days from the date of the signed engagement letter. The date of the next Status Report will be identified in each Status Report.
- VLS and the District will utilize the same protocol established for Phase I for **VLS to request and obtain necessary documents, records, and information from the District.**
- Once the engagement letter has been signed, VLS will meet with legal counsel to discuss our **specific plan** to perform the steps and work as articulated in our scope of work. This will include, at a minimum: persons to be interviewed, dates of interviews, dates of travel to the District by VLS staff, written list of documents to be requested by VLS of the District, and other relevant steps and timeline of work to be performed by VLS in Phase II. Subsequent to our meeting with legal counsel, it is anticipated that legal counsel will arrange discussions with the Subcommittee to provide a briefing on our work plan.

**Timeline:** Reference is to be made to the WCCUSD “Request for Proposals” Board of Education Forensic Accounting Investigation (RFP), dated August 12, 2015 which states that a preliminary report of findings and recommendations will be delivered directly to the Subcommittee; and; a final report of findings and recommendations will be delivered to the Board of Education at a regularly scheduled meeting.

VLS’s goal is to deliver the preliminary report of findings and recommendations to the Subcommittee approximately seven months from the date of the signed engagement letter. A final report of findings and recommendations will be delivered to the Board of Education at a regularly scheduled meeting to be determined by the Subcommittee.

**ENGAGEMENT STAFFING**

VLS will staff Phase II with the same team that was engaged in Phase I. Leaders of this team include Ernest C. Cooper, Partner, CPA/CFF, JD, CFE and retired Special Agent of the Federal Bureau of Investigation who will participate, oversee and be responsible for this engagement; and Jenny Dominguez, Senior Manager, CPA/CFF, CFE who will be working directly with Mr. Cooper and also participate, oversee and manage this project. VLS does not anticipate any change of personnel from what was identified in the original “Request for Proposal.”

**ESTIMATED COST OF SERVICES**

As was the case in Phase I, VLS will charge an hourly rate for productive hours worked by staff. The first column below (labeled Phase I Hourly Rates) represents the hourly rate for the work performed by VLS in Phase I. However, for Phase II, VLS has agreed to lower our hourly rate by approximately 10 % (ten percent) for each of our staff levels. Therefore, our hourly rates for Phase II are reflected in the second column (labeled Phase II Hourly Rates). We are pleased to offer this discounted rate to the District.

<b><u>Staff</u></b>	<b><u>Phase I Hourly Rates</u></b>	<b><u>Phase II Hourly Rates</u></b>
Partner/Director	\$ 350	\$ 315
Senior Manager	\$ 270	\$ 243
Consultant	\$ 270	\$ 243
Manager	\$ 195	\$ 176
Senior Associate	\$ 160	\$ 144
Associate	\$ 140	\$ 126
Clerical	\$ 90	\$ 81

In addition to our discounted hourly rates for Phase II, VLS has also lowered the anticipated travel cost as a result of operational efficiencies in performing all the TCs and FIs. These lower travel costs are reflected in our proposed cost. Therefore, the total not-to-exceed cost for VLS to perform all the TCs and FIs as recommended by the Clay Investigation Subcommittee is now \$680,944. This does not include approximately \$44,280 for anticipated out of pocket travel related cost, which VLS will bill without any mark-up.<sup>1</sup> Following is a summary of the expected hours and costs based on the reduced Phase II hourly rates and summarized by work to be performed.

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<sup>1</sup> The original total cost as submitted by VLS to the Clay Investigation Subcommittee on January 7, 2016 was \$798,705. This new total cost proposed by VLS for Phase II is \$725,224 [\$680,944 + \$44,280] which is \$73,481 lower than originally proposed.

Test of Controls (TC)	Estimated Hours	Cost
Initial Planning	103	\$ 19,647
Interviews	380	72,162
Document Examination	448	68,562
Data Analytics	16	2,556
Computer Forensics and Email Review	0	-
Background checks and Investigation	0	-
Observations	34	5,580
Project Oversight, Supervision and Review of Work	308	58,942
<b>Total Test of Controls (TC)</b>	<b>1,289</b>	<b>\$ 227,449</b>

Forensic Investigation (FI)	Estimated Hours	Cost
Initial Planning	207	\$ 39,173
Interviews	504	93,312
Document Examination	821	126,576
Data Analytics	50	8,676
Computer Forensics and Email Review	228	35,640
Background checks and Investigation	42	8,694
Observations	122	23,904
Project Oversight, Supervision and Review of Work	620	117,520
<b>Total Forensic Investigation (FI)</b>	<b>2,594</b>	<b>\$ 453,495</b>
<b>Total for TC and FI</b>	<b>3,883</b>	<b>\$ 680,944</b>

Travel Cost: (Flight, Hotel, Per Diem, Car Rental) \$ 44,280

VLS will bill for this project on a monthly basis as work is performed. VLS will bill time only if incurred and therefore if the project requires less time than projected, the cost will be less.

### **CONFIDENTIALITY AND WORK PRODUCT**

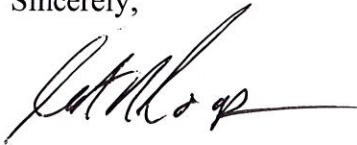
This letter confirms our understanding of your retention of VLS for this matter. VLS understands and acknowledges that Kawahara Law APC is acting as special outside legal counsel to the subcommittee, and acting as agent for the District. VLS further understands and acknowledges that the services provided are being requested by Kawahara Law APC on behalf of the District, and will be performed at the direction of Kawahara Law APC in order to assist Kawahara Law APC in providing confidential and privileged legal advice to the subcommittee, which is acting to supervise the investigation by delegation from the District. VLS understands that it is Kawahara Law APC and the District's intention that the forensic accounting work performed by VLS under this Agreement will be covered by the attorney-client privilege, the attorney work-product doctrine, and all other applicable privileges and protections and shall not be disclosed except at the direction of legal counsel or pursuant to a court order.

If any person or entity requests by subpoena or court order any information or materials relating to this engagement which is within the custody or control of VLS (or the custody or control of agents or representative of VLS), VLS will inform legal counsel of such request and cooperate with legal counsel to the extent legal counsel objects or moves to quash such request or subpoena.

Further, documents received by VLS pursuant to this engagement will be maintained by us as confidential material. In the event we receive any other information and materials or other matter protected by the attorney-client privilege, VLS agrees that such information and materials will remain privileged and that VLS will maintain the confidentiality of such information and materials (as well as any documents that incorporate such materials or information). It is the normal policy for VLS to retain such documents for five years from the date of completion.

Any reports generated by VLS are to be used only in connection with the matters discussed in this engagement and may not be published or used in any other manner without the written consent of VLS.

Sincerely,




Ernest C. Cooper, CPA, CFE  
Partner

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We agree to the terms outlined in this engagement letter, and by signing this letter authorize Vicenti, Lloyd & Stutzman, LLP to begin work on this engagement.

**West Contra Costa Unified School District:**

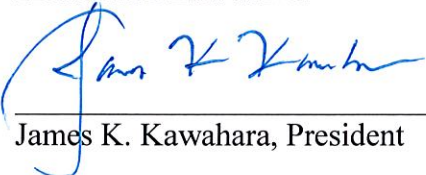
  
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Signature

Lisa LeBlanc  
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Associate Superintendent  
\_\_\_\_\_  
Title

**Kawahara Law APC:**

  
\_\_\_\_\_  
James K. Kawahara, President

1/13/2016  
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Date