

IV. Forensic Accounting Investigation (FI) Results of Investigation and Recommendations

(A) Methodology for Completing the Forensic Accounting Investigation (FIs 1 - 11)

As a result of the work performed in Phase I, the District approved for VLS to conduct forensic accounting investigations (FIs) in eleven specific areas in Phase II. These eleven areas were specifically related to the risk of fraud areas identified in the Phase I Risk Assessment Matrix and the allegations that initiated this engagement. These eleven FIs involve primarily historical transactions.

In Phase I, eleven FIs were recommended by VLS and approved by the Board for forensic accounting investigation (FI) for Phase II. As articulated in Phase I, the following criteria was used by VLS to determine which of the various historical transactions, allegations, and complaints were selected as FIs and were tested in Phase II:

- Allegations that called for a criminal, civil, or other potential legal opinion by VLS were not selected for testing, as VLS, by professional standards of the AICPA and the ACFE, is prohibited from rendering such opinions. For example, the allegation that a Board member received a kickback would require a criminal investigation and a legal proceeding. The allegation that a District employee was negligent in fulfilling his/her duties would also require a legal proceeding.
- Allegations were not chosen for Phase II FIs if, in VLS's professional judgment, the benefit to the District would be better served by testing the internal control processes associated with the risk of fraud. For example, an FI work step was not designed to investigate the allegation that the Board is not told if a project has sufficient budget for a contract; however, there was a TC work step designed to test the internal controls in this area.
- Allegations were taken into consideration when designing FI work steps when the allegation, if investigated, could result in the recovery of monies for expenditures paid by the District that it may not have been obligated to pay.
- Allegations deemed to be related to significant management functions of the District Bond Program were taken into consideration for designing FI work steps.
- Consideration was given to the overall potential cost of investigating any allegations where the allegation would be better served by addressing it through a test of the related internal controls.

As defined in the scope of work for these eleven FIs, VLS was to perform appropriate investigative steps as specified for each of the individual FIs. The work performed by VLS for each of these FIs generally involved:

- Interviews: Interviews were conducted of select current and former District staff, third party vendors, and other individuals who had information that assisted VLS in the testing of the FIs.
- Document examination: VLS requested, obtained, organized, reviewed, and analyzed appropriate records, ledgers, and detailed accounting information. In some cases, vendors and/or individuals did not respond to VLS's requests, and these limitations are noted in Section VI of the report.
- Data analytics: Where appropriate, VLS used certain data analytics to assist in identifying sample sizes, to test for unusual transactions or data patterns, and assist in identifying transactions that should be reviewed or further examined.
- Computer forensics and email review: VLS performed a computer forensic review of certain appropriate email information.
- Public source database checks: VLS performed certain public database background checks on organizations and entities, as appropriate, to assist in testing of the FIs.

The Eleven FIs Identified for Testing in Phase II are as Follows:

Conflict of Interest	
FI (1)	Conduct appropriate investigative steps to identify contributions, gifts, or other payments made by District vendors to specific outside organizations, District Board members or District employees, which may have been given as a result of undue influence by District Board members or District employees
Budgeting Practices	
FI (2)	Conduct appropriate investigative steps to: <ul style="list-style-type: none"> - Determine which projects had budgets approved by the Board or by an individual or committee authorized by the Board - On a sample basis, review past project expenditures and compare to identified budgets - Determine whether budgets submitted to the Board historically have been sufficient and free of errors
Vendor Contract Administration - SGI	
FI (3)	Conduct appropriate investigative steps to determine: <ul style="list-style-type: none"> - If Facilities Subcommittee recommended to the Board that SGI be selected contrary to staff recommendation - If SGI withheld or failed to make payments to subcontractors working on District projects through SGI - If SGI was paid inappropriately for sick and vacation time and if SGI billed the District for hours not worked by SGI employees - If District paid SGI for computers that were never received at the District office - If SGI employees possess the appropriate qualifications as stated in the terms specified in the SGI contract with the District - If sufficient supporting documentation was provided with invoices submitted by SGI to the District - If SGI communicated an incorrect and lower cost for change orders
FI (4)	Construction expert to: <ul style="list-style-type: none"> - Conduct industry benchmarking - Assess if the SGI contract is reasonable and within industry standards - Review staffing levels of SGI compared to services delivered and volume of projects
Vendor Contract Administration - Vendor Contracts and Payments	
FI (5)	Conduct appropriate investigative steps to test a sample of vendor invoice payments to verify the following: <ul style="list-style-type: none"> - Contracts were appropriately approved by the Board - Appropriate contracts were executed - Payment was made timely - Invoice contains the appropriate District approval for payment - Payment agrees with contract terms - No duplicate payments (or overpayments) were made to a vendor due to two purchase orders being created for one contract
FI (6)	Assess the responsibilities of the CBOC based on California Education Code and the California State Constitution and determine what actions taken by the CBOC may overstep their responsibility
Vendor Contract Administration - Architect Firms	
FI (7)	Conduct appropriate investigative steps to: <ul style="list-style-type: none"> - Evaluate if contracts with and payments to architect firms were appropriate - Evaluate the timing elapsed between commencement of design work and commencement of construction - Determine whether architects were approved for "add services" due to the need for updated designs - Determine whether "add service" of \$7 million approved for WLC was appropriate - Determine whether "add service" of \$800,000 approved for other architectural firm was appropriate - Benchmark against industry standards - Assess the claim that Lovonya DeJean MS design was inappropriately billed as a new design and assess if this payment meets industry standards for this type of design
Vendor Contract Administration - Bidding	
FI (8)	Conduct appropriate investigative steps to test a sample of contracts and trace these contracts to bidding documentation to verify that appropriate bidding processes took place, if appropriate

Vendor Contract Administration - Retention Release Payments	
FI (9)	<p>Conduct appropriate investigative steps to:</p> <ul style="list-style-type: none"> - On a sample basis, test retention release payments to assess whether payment was made in accordance with the District's retention payment policy - Assess the claim that retention was released to a particular contractor prior to standard District policy/practice
Change Order Approval and Accounting Practices	
FI (10)	Conduct appropriate instigative steps to test a sample of change orders to assess for appropriate Board approval
Financial Reporting	
FI (11)	<p>Conduct appropriate investigative steps to:</p> <ul style="list-style-type: none"> - Determine whether Primavera has been fully adopted and is being updated as required - Review recent projects to determine whether PCOs have been entered into Primavera - Determine whether any change orders from the period when Primavera went down are currently not recorded in Primavera - Determine if multiple purchase orders were created for a single contract and determine the control deficiencies that allowed this to occur - Determine if the KPI and CAMP reports historically provided to the Board were inaccurate