

VLS – Forensic Services Division

Working together to build a culture of integrity and productivity within your workplace

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT BOND PROGRAM

PHASE II REPORT OF FORENSIC ACCOUNTING INVESTIGATION

September 16, 2016

FINAL REPORT

Prepared by:
Vicenti, Lloyd & Stutzman, LLP
CPAs and Business Advisors



VICENTI • LLOYD • STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAs

Introduction

- The Preliminary Draft report was delivered to the District and Subcommittee for the Clay Investigation on September 9, 2016. The report was also published on the District's website on the same date.
- A meeting of the Subcommittee for the Clay Investigation was held on September 15, 2016, at which the Preliminary Draft was presented.
- The Final Report was delivered to the District and published on the District's website on September 16, 2016.
- The allegations brought to light High-risk areas and internal control weaknesses at or near the time these allegations were raised by complainant(s).
- In the final report we have made a total 112 recommendations for the District to consider implementing for the purpose of lowering the New Risk Scores and increasing overall efficiencies and effectiveness in the management and operation of the District's Bond Program.



Background

- **Phase I:** On January 7, 2016, VLS delivered to the Subcommittee a two-part deliverable.
 - Bond Program Fraud Risk Assessment Matrix: Identified risk scores of High, Medium, or Low to the identified risk areas.
 - Proposed Scope of Work for Phase II Forensic Accounting Services: Identified 16 areas for “Test of Controls” (TC) and 11 areas for Forensic Accounting Investigation (FI).
- **Phase II:** On January 20, 2016, the Board approved the proposal for the Phase II forensic accounting services.
 - Perform “Test of Controls” and assign a New Risk Score.
 - Conduct appropriate forensic accounting investigation for the 11 specific FIs.
 - Report any recommendations for the District to consider implementing in order to lower the New Risk Score or as a result of the FI testing.



Summary of Work Performed

- Performed Phase II work from February 2016 through September 2016 under the direction of special outside legal counsel to the subcommittee.
- In addition to the extensive review and analysis performed, our work included the following:
 - Interviews of 23 individuals, including a combination of District employees, CBOC members, District vendors and contractors, and Board members.
 - Numerous documents were obtained directly from the District and third-party sources.
 - Computer forensic procedures allowed VLS to obtain electronic information.
 - A fraud hotline phone number and website link were established.
 - Monthly status reports for the Subcommittee were provided to legal counsel throughout Phase II.
 - Attended meetings with the Subcommittee on 5/23/16 and 9/15/16.



Summary of Results & Recommendations

| Risk Area | Score Level | Phase I Original Risk Score | Phase II New Risk Score | Number of Recommendations to Lower Risk Score |
|---|-------------|--------------------------------|----------------------------|---|
| Conflict of Interest | High | 8 | 0 | 6 |
| | Medium | 0 | 7 | |
| | Low | 0 | 1 | |
| Compliance with Legal Requirements and Board Policies | High | 3 | 1 | 9 |
| | Medium | 2 | 4 | |
| | Low | 1 | 1 | |
| Budgeting Practices | High | 6 | 5 | 15 |
| | Medium | 1 | 2 | |
| | Low | 1 | 1 | |
| Vendor Contract Administration | High | 7 | 2 | 13 |
| | Medium | 6 | 10 | |
| | Low | 3 | 4 | |
| Billings and Performance of Outside Construction Manager | High | 2 | 0 | 5 |
| | Medium | 5 | 7 | |
| | Low | 0 | 0 | |
| Change Order Approval and Accounting Practices | High | 4 | 0 | 10 |
| | Medium | 3 | 7 | |
| | Low | 0 | 0 | |
| Project Accounting Systems - Munis | High | 3 | 2 | 6 |
| | Medium | 3 | 4 | |
| | Low | 0 | 0 | |
| Project Accounting Systems - Primavera | High | 0 | 0 | 4 |
| | Medium | 3 | 3 | |
| | Low | 0 | 0 | |
| Financial Reporting | High | 3 | 0 | 10 |
| | Medium | 1 | 4 | |
| | Low | 0 | 0 | |
| TOTAL | High | 36 | 10 | 78 |
| | Medium | 24 | 48 | |
| | Low | 5 | 7 | |



Summary of Results & Recommendations

- Key Observations of the New Risk Scores:
 - Significant decrease in the number of High-risk areas from Phase I (from 36 to 10).
 - The majority of the High-risk areas that decreased were assigned a New Risk Score of Medium.
 - One risk area category that remains High is “Budgeting Practices.” The other top two areas are “Conflict of Interest” and “Compliance with Legal Requirements and Board Polices.”

| Risk Area | Score Level | Phase I Original Risk Score | Phase II New Risk Score | Number of Recommendations to Lower Risk Score |
|--|-------------|--------------------------------|----------------------------|---|
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| | Medium | 0 | 7 | |
| | Low | 0 | 1 | |
| Compliance with Legal Requirements and Board Policies | High | 3 | 1 | 9 |
| | Medium | 2 | 4 | |
| | Low | 1 | 1 | |
| Budgeting Practices | High | 6 | 5 | 15 |
| | Medium | 1 | 2 | |
| | Low | 1 | 1 | |



Summary of Results & Recommendations

- VLS has made 78 specific recommendations for the District to consider implementing to lower the New Risk Scores to a Low risk (located on pages 19-29 of the Report).
- VLS made 33 recommendations for the District based on the conclusions and results of work performed for the 11 FIs (located in page 365 to 370 of the Report).
- Purpose of these recommendations:
 - Address concerns noted in the conclusions from the work performed in the FIs.
 - Where applicable, lower the New Risk Scores.
 - Improve the overall efficiencies and effectiveness in the management and operation of the District Bond Program.
 - Further guidance by legal counsel.



Summary of Results & Recommendations

| Risk Area | Number of Recommendations Identified in the Forensic Investigation Testing |
|--|--|
| Conflict of Interest | 5 |
| Compliance with Legal Requirements and Board Policies | 11 |
| Budgeting Practices | 4 |
| Vendor Contract Administration | 11 |
| Billings and Performance of Outside Construction Manager | 0 |
| Change Order Approval and Accounting Practices | 2 |
| Project Accounting Systems - Munis | 0 |
| Project Accounting Systems - Primavera | 0 |
| Financial Reporting | 0 |
| TOTAL | 33 |



Summary Statement

- In Phase II, VLS has:
 - Completed testing of the 16 TCs
 - Completed testing and investigation of the 11 FIs
 - Assigned New Risk Scores to the Final Risk Assessment Matrix Phase II
 - Made 78 specific recommendations to lower the New Risk Scores
 - Made 33 recommendations resulting from the work of the FIs



Summary Statement

- VLS makes the following four recommendations for the overall operational and administrative efficiencies of the Bond Program:
 - The District should ensure that an effective FRAUD REPORTING MECHANISM is in place for reporting known or potential wrongdoing impacting the District Bond Program.
 - The District should ensure ongoing FRAUD and ETHICS TRAINING is provided to all employees of the District, especially those associated with the Bond Program.
 - The District should evaluate the adequacy of resources assigned to the INTERNAL AUDIT DEPARTMENT for review of the Bond Program.
 - We strongly encourage the establishment of the “**Recommendations Implementation Task Force**” so accountability and implementation time table measures are put in place by the District to ensure all recommendations for work completed in Phase II are adequately assessed and implemented. In our professional opinion, this is a must!



Final Remarks

- VLS thanks the District staff for their assistance, patience, and cooperation during this process.
- VLS thanks the Board, CBOC, and community members who agreed to be interviewed by VLS as well as the District vendors who provided VLS with requested documentation and agreed to be interviewed.
- VLS sincerely appreciates the opportunity to be of service to assist the Subcommittee for the Clay Investigation during both Phase I and Phase II of this engagement.
- **The District is Moving in the Right Direction**

