

Forensic Accounting Investigation Implementation Review

In October 2015, the Board of Education approved a contract with Vicenti, Lloyd & Stutzman, LLP (VLS) to perform a Phase I risk assessment of allegations brought forward by a District employee. On January 7, 2016, VLS presented its Phase I risk assessment matrix to the Clay Subcommittee and scope of work for a Phase II Accounting Investigation Report. On January 20, 2016, the Board approved the Phase II Accounting Investigation scope of work, which included testing the internal controls of the district, assigning a new risk score and conducting a forensic investigation. The Board accepted the full Phase II Investigation Report on September 21, 2016. The Phase II report contained 112 recommendations to reduce the District's level of risk, improve overall operational and administrative efficiencies. One of the recommendations for the overall operational efficiency of the district included the formation of the implementation task force, which has been meeting quarterly.

District staff developed a work plan identifying deliverables on each recommendation and reported that 62 recommendations had been implemented by June 30, 2017. On October 18, 2017, the Board approved an amendment to an agreement with Moss Adams auditors to review the forensic audit recommendations that been implemented. Their fee to review the 112 recommendations was \$98,000 plus an additional cost for any re-verification needed for prior recommendations. Moss Adams completed their review of the initial 62 forensic accounting recommendations that the District implemented as of June 30, 2017. The CBOC received the draft report at its February 13, 2019 meeting. Moss Adams will be presenting their report at the Board/CBOC joint meeting on March 27th.

In summary, the Moss Adams report indicates the following results for the 62 recommendations:

- 35 recommendations were confirmed by Moss Adams as being implemented
- 17 recommendations were confirmed by Moss Adams as being partially implemented
- 3 recommendations were confirmed by Moss Adams as not implemented (one of which was implemented after the June 30, 2017 review period)
- 7 recommendations were considered "undetermined" by Moss Adams due to attorney-client privilege with the Board of Education

It has been an educational process during implementation and staff is committed to continue to learn and fully implement all recommendations. The knowledge gained from the implementation and the Moss Adams review includes:

- It is critical that the District focus on the high risk areas first and foremost
- The District needs to carefully analyze those recommendations of the 62 that are identified in the Moss Adams review as partially implemented to complete their implementation by June 30, 2019
- The audit recommendations vary in scope and complexity and several require coordination across leadership, departments, program delivery and support functions within the district, particularly the Bond Program, Business Services, Superintendent, and the Board of Education

- Staffing issues and fiscal constraints have presented challenges including elimination of positions and transition of new staff that impacted implementation time frames
- The District-generated deliverables identified in the work plan need to be reviewed and updated as procedures have evolved in some cases
- The District's procurement practices for public works projects and professional services comply with the Public Contracts Code and Education Code but internal policies and procedures need to be finalized to reflect practices to protect the District in times of staff transitions
- Some recommendations from the forensic accounting report may no longer be applicable in their entirety which needs to be noted in the District's deliverables
- District staff needs to fully implement all 112 recommendations to realize the full benefit of the audit by June 30, 2020. (Note: there is one "future" recommendation that cannot be addressed unless a future bond measure moves forward)
- Assess strengths of a new Director of Internal Audit to determine what implementation review can be accomplished in house

Overall, District staff fully appreciates the significance and role of the audit function and looks forward to the successful delivery of outcomes to enhance our practices and internal controls.