

**OFFICE OF THE  
INSPECTOR GENERAL  
LOS ANGELES COMMUNITY COLLEGE DISTRICT**



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**BOND PROGRAM  
FRAUD RISK ASSESSMENT  
OIG-007**

**NOVEMBER 7, 2011**



LACCD OFFICE OF THE  
**INSPECTOR GENERAL**

INTEGRITY \* TRUST \* COMMUNICATION

November 7, 2011

Chancellor Dr. Daniel J. LaVista  
Los Angeles Community College District  
770 Wilshire Blvd.  
Los Angeles, CA 90017

Chancellor LaVista:

This is the Office of Inspector General's Bond Program Fraud Risk Assessment findings and recommendations. This report addresses how the Fraud Risk Assessment was conducted and includes findings and recommendations for the Bond Program's next steps.

The OIG shall utilize the risks identified in this Fraud Risk Assessment for planning and prioritizing its Annual Work Plan for 2011-2012.

I appreciate the courtesies and cooperation extended to us during this Fraud Risk Assessment and we look forward to implementing our recommended next steps to further evaluate the control environment of the Bond Program.

Sincerely,

Christine E. Marez  
Inspector General  
Los Angeles Community College District

cc:

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## EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) has performed a Fraud Risk Assessment of the Bond Program as included in its 2010-2011 Annual Work Plan. The Fraud Risk Assessment is based upon the guidance in the book *Managing the Business Risk of Fraud: A Practical Guide* issued by three sponsoring organizations—the Institute of Internal Auditors, the American Institute of Certified Public Accountants and the Association of Certified Fraud Examiners.

The Fraud Risk Assessment conducted for contained three major steps as follows:

- Evaluate and select key members of the Bond Program leveraging various personnel charts and invite selected members to a series of Brainstorming Sessions.
- Conduct the brainstorming sessions and discuss fraud-related matters within the context of the core responsibilities within the Bond Program.
- Prepare, submit, evaluate, and summarize survey results from the participants with recommendations for key audit areas for further evaluation.

The Office of Inspector General invited 48 members from various departments of the Bond Program to participate in Fraud Risk Brainstorming Sessions, of which a total of 33 people participated. The brainstorming session results were utilized to conduct an objective Fraud Risk Assessment Survey.

The Fraud Risk Assessment Survey was then sent out to the 48 original invitees to the Brainstorming Sessions, 38 responses were received, or approximately 79.1%.

The survey contained 44 risk areas for which each survey participant was asked to rank the likelihood and significance of each risk area. Only two (2) specific risk areas ranked as High Risks and the remainder ranked as Moderate Risks. There were no Low Risk areas noted in this analysis. Details of the survey results and recommendations are discussed in more detail in this report.

The survey results were analyzed and mapped according to a High, Moderate, and Low Risk Grid. The results included 2 High Fraud Risks (below) and 42 Moderate Fraud Risks. 13 Moderate Risks have the *highest probability* of becoming High Risks if no actions are taken.

Category	High Risks	Risk Reference (Annex A)
Construction Contracting	Contractor intentionally submits low bids to gain contracts with intent to issue change orders to complete the awarded contract	Risk #7
Construction Execution	Change orders are issued for work not in original scope or scope not contract relevant	Risk #14

The Office of Inspector General shall review the risks identified in the Fraud Risk Assessment to prioritize audits, reviews, or evaluations for inclusion in the OIG Annual Work Plan 2011-2012.

## BACKGROUND

In its Annual Work Plan of 2010-2011 the Office of Inspector General (OIG) stated it would conduct a Fraud Risk Assessment of the Bond Program to identify, measure, and reduce fraud risks to acceptable levels and to ensure that there is a sufficient level of Bond Program controls in place to mitigate such risks.

The OIG prepared a Fraud Risk Assessment to evaluate the overall risk score of each potential fraud area of the Bond Program leveraging proven guidance from the book titled *Managing the Business Risk of Fraud: A Practical Guide* issued by three sponsoring organizations—the Institute of Internal Auditors, (IIA), the American Institute of Certified Public Accountants, (AICPA) and the Association of Certified Fraud Examiners (ACFE).

The Fraud Risk Assessment Survey allows the Office of Inspector General to understand the core objectives of the Bond Program and what fraud risks may inhibit the Bond Program from meeting its objectives. Risks identified in the Brainstorming Sessions were ranked (i.e., High Risk, Moderate Risk, etc.) and by leveraging an anonymous survey the participants were allowed to provide objective feedback.

## SCOPE, OBJECTIVE, AND METHODOLOGY

As directed in *Managing the Business Risk of Fraud: A Practical Guide*, the core fraud risk assessment objective should include “a structured fraud risk assessment, tailored to the organization’s size, complexity, industry, and goals, [and] should be performed and updated periodically. The assessment may be integrated with an overall organizational risk assessment or performed as a stand-alone exercise, but should, at a minimum, include risk identification, risk likelihood and significance assessment, and risk response.”

The scope of the engagement was to conduct a Fraud Risk Assessment based upon three key elements:

- **Identify inherent fraud risk:** Gather information to obtain the population of fraud risks that could apply to the Bond Program. Included in this process was the explicit consideration of all types of fraud schemes and scenarios; incentives, pressures, and opportunities to commit fraud; and IT fraud risks specific to the Bond Program.
- **Assess likelihood and significance of inherent fraud risk:** Assess the relative likelihood and potential significance of identified fraud risks based on historical information, known fraud schemes, and interviews with staff, including business process owners.
- **Respond to reasonably likely and significant inherent and residual fraud risks:** Determine what the response should be to address the identified risks and recommend to the District necessary audits, reviews, evaluation, or assessments of the key risk areas. Future audits, reviews, evaluations, or assessments should include the performance of a cost-benefit analysis of high to moderate fraud risks over which the Bond Program wants to implement controls or specific fraud detection procedures.

## FRAUD RISK ASSESSMENT STEPS

*Managing the Business Risk of Fraud: A Practical Guide* states in its second principle of its five principle criteria that the initial steps of conducting a Fraud Risk Assessment should include the following:

**Identification of key personnel:** this was our evaluation of key personnel within the operational structure of the Bond Program. The selection of who participated in the Brainstorming Sessions included some input from the Chancellor and Facilities Executive; however, the final decision of who participated in the Brainstorming Sessions was determined by the OIG as was the decision to which of the four (4) sessions the participant would be invited. The OIG did take into account participants' schedules when creating the dates of each session.

**Discussion Topics in the Brainstorming Sessions:** during the Brainstorming Sessions the OIG provided an overview of *Managing the Business Risk of Fraud: A Practical Guide*, how it related to the Bond Program as well as to the participants; the definition of fraud per the book; and how to analyze and discuss fraud in a group setting (i.e., setting of ground rules). Time allocated to the overview and ground rules etc. was kept to minimum to ensure that the actual brainstorming of ideas was the largest portion of time allocation. In addition, closing remarks of next steps, which included timing of the survey and how the survey impacts the organization was also kept to a minimum. Toward the end of the Brainstorming Session, each participant was allocated five (5) votes to determine where they felt the highest priority should be in a particular risk area.

The OIG summarized the votes of each Brainstorming Session and then summarized the aggregate results of the four (4) Brainstorming Sessions to determine which risk areas would be included in the survey. The OIG used its professional judgment to determine the appropriate wording in the survey and leveraged key terminology used in the Brainstorming Sessions to ensure that the participants received a survey that had consistent and similar terminology used in these sessions. The objective was to create a uniform set of risk statements, very similar to, or identical to, those discussed in the Brainstorming Sessions. Later the participants were sent a survey to assign the likelihood and significance of such risks.

**Survey:** the OIG leveraged Survey Monkey as a tool to electronically submit the survey to the participants, which guided each participant to assign the level of risk based upon its likelihood (i.e., qualitative) of occurrence given what they currently know of the Bond Program as well as the significance (i.e., quantitative) of the risks. A few email reminders were provided for non-responsive participants, however, only 38 of 48 or approximately 79.1% responded to the survey, with one of the 38 participants having only partially completed the survey. This partially completed survey has been included in the aggregate analysis conducted by the OIG since the responses received were treated anonymously.

The OIG believes that the survey responses received represent a reasonable starting point to address and evaluate the risk responses to the associated risk areas provided in the survey. Therefore, the OIG believes there is no significant benefit achieved in soliciting more survey results from the non-participants. During the Brainstorming Session, the OIG, in its closing remarks, set the expectation to the participants that the survey would take approximately sixty minutes or less. The OIG conducted a few trials of completing the survey before the actual

participants received it and noted its completion time from start to finish was approximately thirty minutes. The OIG summarized the results of the survey in Annex A.

## RISK ASSESSMENT RESULTS

The risk scores were rounded based upon the survey responses and the rounding of scores was done to the nearest digit. For example, if the average score by participants to an item such as likelihood was 2.4, then the score was rounded down to 2.00, and if the score was 2.5, then the score was rounded up to 3.00. The OIG has summarized below its Fraud Risk Assessment Survey findings by level of risk (i.e., High & Moderate), which have also been detailed in Annex A. It should be noted that the survey participants did not identify any low fraud risk areas.

The following Fraud Risk Assessment Categories (Table 1) were defined to identify main Bond Program areas and provide consistency in categorizing risks identified in the Brainstorming Sessions and in the Fraud Risk Assessment Survey.

Category	Category Description
Project Initiation	Represents the stage when a project is initiated by the campus and submitted to the Program Manager to start the procurement process
Construction Contracting	Bid/Contract Scope of Work: Represents the phase immediately following Project Initiation in which a project is prepared for bid (i.e., determine contract delivery method, contract phasing, review estimates and funding, prepare bid documents.
Construction Execution	Change Orders: Represents changes to the original contract; and the change order process
Furniture, Fixture, Equipment & Moveable	FFE & Moveable: Represents those items that are Furniture, Fixtures & Equipment purchased under the bond program
Professional Service Contracting	Professional Master Agreements/Task Orders: Represents master agreements and Task Orders issued to vendors for goods and services
Finance, Accounting, IT & Other	Internal Reporting: Represents financial information provided to decision makers for them to monitor, review and make informed decisions. Misappropriation of Assets: represent misappropriation of assets of the bond fund program

**Table 1 – Fraud Risk Assessment Categories**

**High Risk Areas: Represents those risks where the average likelihood and significance risk score was 15 or higher.**

There were only two (2) risks related to High Risks (Table 2) which both were rated “Significance” and “Likelihood” factors of “4” for a multiplied factor score of 16, and are noted below. The OIG noticed interdependency with these two High Risks. The first High Risk related to the premeditated efforts to commit fraud during the construction contracting phase and the latter fraud risk relates to the actual change order itself once the contract is awarded.

Category	High Risks	Risk Reference (Annex A)
Construction Contracting	Contractor intentionally submits a low bid to gain a contract with intent to subsequently issue change orders to complete the awarded contract	Risk #7
Construction Execution	Change orders are issued for work not in the original scope or scope not relevant to contract	Risk #14

**Table 2 – High Fraud Risks**

**Moderate Risk Areas: Represents those risks where the average likelihood and significance risk score was less than 15 and greater than 4.**

There were a total of 44 fraud risk items the participants scored of which 42 were deemed Moderate Risk. Of those 42 Moderate Risks (Table 3) we noted that 13 risks which were rated a “Significance” of “4” and a “Likelihood” factor of “3” for a multiplied factor of 12, have the highest probability of becoming a High Risk if no actions are taken. This conclusion is based upon the average score of each of these being 12 and therefore only a small increase in risk is needed before each of these becomes a High Risk (see details of scoring in Annex A).

Category	Moderate Risks	Risk Reference (Annex A)
Project Initiation	Budget contains projects that are not included (ineligible) on the bond project list	Risk #2
Construction Contracting	Insider information is provided to the bidding contractors	Risk #5
	Construction work is authorized without proper issuance of a contract	Risk #11
	The schedule of values is "Front-loaded" or billed percent complete is more than the actual percentage of work completed	Risk #12

Category	Moderate Risks	Risk Reference (Annex A)
Construction Execution	Change Orders include inflated or misrepresented work, costs or quantity; or not negotiated in good faith	Risk #13
	Credit and Debit change orders are delayed or improperly processed to evade change order limits	Risk #15
Construction Execution	Invoices are processed for work not performed or completed	Risk #17
	Poor quality work or work by un-qualified sub-contractor is invoiced and processed for payment	Risk #20
	Contractor provides sub-standard goods or services	Risk #23
	Contractor does not perform the contract to the specifications	Risk #24
	There is theft of construction site equipment or material	Risk #25
	Inspectors do not disclose conflict of interest or have been coerced to improperly reject or accept contractor work	Risk #26
	CPM decisions on project management are influenced by coercions or undisclosed conflict of interest.	Risk #28

**Table 3 – Moderate Fraud Risks**

## CONCLUSION & RECOMMENDATIONS

The survey results provided the OIG with evidence to suggest that there are only a few areas of High Risk and several of Moderate Risk. However, the entire control environment does not have any low risk areas and therefore the OIG can conclude that the participants either believe the control framework is ineffective or lacks controls in various areas.

Our recommendation based upon these results, is to conduct an audit, review or evaluation of the design effectiveness of the existing controls over the High and Moderate Risk Areas identified in the Fraud Risk Assessment and provide feedback of any control deficiencies; and the extent of such deficiencies, if any are identified. The OIG shall additionally conduct a control analysis as part of an audit, review or evaluation to identify any existing design gaps within the internal control framework of the Bond Program.

The OIG may recommend, based upon our control evaluation process, other areas that the Bond Program may consider implementing per *Managing the Business Risk of Fraud: A Practical*

*Guide* such as including control/monitoring processes, annual updates to the Fraud Risk Assessment and further control implementations.

The OIG shall identify the audits, reviews or evaluations based upon the High and Moderate Risks identified in this Fraud Risk Assessment report in the OIG Annual Work Plan for 2011-2012 and shall present the proposed OIG Annual Work Plan to the Chancellor and the Board of Trustees for review and approval.

## ANNEX

Annex A – Survey Summary

Annex B – Report Distribution

Annex C – Audit Team

Annex D – Brainstorming Participants

## ANNEX A – SURVEY SUMMARY

<b>Legend:</b>		
PI	Project Initiation	Represents the stage when a project is initiated by the campus and submitted to the Program Manager to start the procurement process.
CC	Construction Contracting	Bid/Contract Scope of Work: Represents the phase immediately following Project Initiation in which a project is prepared for bid (i.e., determine contract delivery method, contract phasing, review estimates and funding, prepare bid documents).
CE	Construction Execution	Change Orders: Represents changes to the original contract; and the change order process.
FFE	Furniture, Fixture, Equipment & Moveable	FFE & Moveable: Represents those items that are Furniture, Fixtures & Equipment purchased under the bond program.
PSC	Professional Service Contracting	Master Agreements/Task Orders: Represents master agreements and Task Orders issued to vendors for goods and services.
FAI	Finance, Accounting, IT & Other	Internal Reporting: Represents financial information provided to decision makers for them to monitor, review and make informed decisions. Misappropriation of Assets: Represent misappropriation of assets of the bond fund program

<b>Exposure Calculation</b>					
<b>Significance</b>	<b>5</b>				
	<b>4</b>		43, 44	2, 5, 11, 12, 13, 15, 17, 20, 23, 24, 25, 26, 28	7, 14
	<b>3</b>		6, 10, 18, 22, 27, 30, 31, 32, 33, 34, 35, 36, 37, 38, 41, 42	1, 3, 4, 8, 9, 16, 19, 21, 29, 29, 40	
	<b>2</b>				
	<b>1</b>				
	<b>0</b>				
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
					<b>5</b>
<b>Likelihood</b>					

Area	Risk #	Question	Rounded Average Rating		Multiplied Factor
			Likelihood	Significance	
PI	1	In-accurate/inflated estimates are utilized for project budget forecasts and reporting.	3	3	9
PI	2	Budget contains projects that are not included (ineligible) on the bond project list.	3	4	12
CC	3	The contract scope of work is misclassified/categorized to limit competition with the intent to sole source or bias selection.	3	3	9
CC	4	Bids are split to evade statutory requirements and/or limit formal bidding process.	3	3	9
CC	5	Insider information is provided to the bidding contractors.	3	4	12
CC	6	Essential information is improperly withheld from prospective bidders.	2	3	6
CC	7	Contractor intentionally submits a low bid to gain a contract with intent to subsequently issue change orders to complete the awarded contract.	4	4	16
CC	8	There is a conflict of interest of the CPM awarding contracts under \$30,000.00.	3	3	9
CC	9	Improper influence on selection committee panel members by coercion or sharing of personal opinions unrelated to submitted proposals prior to or during scoring process.	3	3	9
CC	10	Selection Committee member(s) maintain a conflict of interest.	2	3	6
CC	11	Construction work is authorized without proper issuance of a contract.	3	4	12
CC	12	The schedule of values is "Front-loaded" or billed percent complete is more than the actual percentage of work completed.	3	4	12
CE	13	Change Orders include inflated or misrepresented work, costs or quantity; or not negotiated in good faith.	3	4	12
CE	14	Change orders are issued for work not in the original scope or scope not relevant to contract.	4	4	16
CE	15	Credit and Debit change orders are delayed or improperly processed to evade change order limits.	3	4	12
CE	16	Change orders are intentionally misclassified as "emergency work".	3	3	9
CE	17	Invoices are processed for work not performed or completed.	3	4	12
CE	18	Duplicate invoice payments are processed.	2	3	6
CE	19	Labor logs are falsified.	3	3	9
CE	20	Poor quality work or work by un-qualified sub-contractor is invoiced and processed for payment.	3	4	12
CE	21	Invoices are approved without contractor supporting documentation, verification of work performed, or proper approval signatures.	3	3	9

Area	Risk #	Question	Rounded Average Rating		Multiplied Factor
			Likelihood	Significance	
CE	22	Invoices for unapproved change orders are processed for payment.	2	3	6
CE	23	Contractor provides sub-standard goods or services.	3	4	12
CE	24	Contractor does not perform the contract to the specifications.	3	4	12
CE	25	There is theft of construction site equipment or material.	3	4	12
CE	26	Inspectors do not disclose conflict of interest or have been coerced to improperly reject or accept contractor work.	3	4	12
CE	27	Internal reporting is falsified or improperly reflects the actual results.	2	3	6
CE	28	CPM decisions on project management are influenced by coercions or undisclosed conflict of interest.	3	4	12
CE	29	Lack of oversight of either Program Manager or CPM results in improper issuance of contracts under \$30,000.00.	3	3	9
FFE	30	Goods or Services are paid without being received/performed.	2	3	6
FFE	31	Theft of LACCD equipment.	2	3	6
PSC	32	The selection committee member(s) maintain a conflict of interest.	2	3	6
PSC	33	Unauthorized task orders are issued.	2	3	6
PSC	34	Task orders are issued improperly to facilitate sole sourcing or awarding of work to unqualified consultants.	2	3	6
PSC	35	The RFP information is falsified to limit scope/competition with intent of sole sourcing or biasing selection.	2	3	6
PSC	36	Contract amendments are issued for work not relevant to the contract or include inflated or misrepresented work, costs or quantity.	2	3	6
PSC	37	Invoices are processed for work not performed or completed.	2	3	6
PSC	38	Invoices are approved without contractor supporting documentation, verification of work performed, or proper approval signatures.	2	3	6
FAI	39	Bond financial commitments are not reported by CPM or PM.	3	3	9
FAI	40	Incorrect classification or untimely reporting of available bond fund financial information.	3	3	9
FAI	41	Improper expense reimbursements are approved i.e., not in contract scope or not eligible bond expenses.	2	3	6
FAI	42	Improper user access set up on IT systems and/or lack of user access log in security.	2	3	6
FAI	43	Bribery and kickbacks during processes for scoring & bidding.	2	4	8
FAI	44	Bribery and kickbacks during processes for subcontractor substitution, inspection etc.	2	4	8

## ANNEX B – REPORT DISTRIBUTION

Board of Trustees  
Chancellor Dr. Daniel J. LaVista  
Deputy Chancellor, Dr. Adriana Barrera  
Office of General Counsel  
Facilities Planning & Development  
Program Manager (BuildLACCD)

## ANNEX C – AUDIT TEAM

Sonia Luna, Principal, CPA, CIA  
Amit Dewan, Director, CPA, CA, CISA  
Ken Lin, Auditor, CPA (Candidate)  
Clifford Dewey, Senior Manager

## ANNEX D – BRAINSTORMING PARTICIPANTS

Brainstorming Session participants included:

David Barilotti, BuildLACCD Manager Program Audit  
Dr. Adriana Barrera, LACCD Deputy Chancellor  
Arnold Blanshard, LACCD Internal Audit  
Albert Caldera, BuildLACCD IT/IS  
Dr. Sue Carleo, College President, LAVC  
Kelly Cauvel, BuildLACCD Design-Build  
Todd Cozolino, BuildLACCD Construction Support Group Manager  
Chris Dunne, College Project Manager, LACC  
Helen Ferarro, BuildLACCD Design-Build  
Mona Garber, BuildLACCD Program Compliance  
Jeanette Gordon, LACCD Chief Financial Officer  
Camille Goulet, LACCD General Counsel  
Tom Hall, LACCD Facilities Executive Director  
Magdalen Hron, BuildLACCD DSA & Standards Compliance  
Garry Jess, BuildLACCD Contracts  
Hubert Lee, LACCD Office of the CFO  
Danielle Lyons, BuildLACCD Relocation Services Group Manager  
Tina Macica, BuildLACCD  
Veronica Martinez, BuildLACCD Labor Compliance  
Jorge Mata, LACCD IT Director  
Lissa Metoyer, BuildLACCD  
Ed Molina, LACCD IT

Alexia Nalewaik, Consultant  
Kevin Randolph, Gresham Savage Nolan (Legal)  
Dan Robb, BuildLACCD  
Alex Rosas, BuildLACCD  
Desiree Shier, BuildLACCD  
Yahya Siddiqui, BuildLACCD Controls & Finance Group Manager  
Paul Spears, BuildLACCD F&E Procurement  
David Tsao, College Project Manager, Pierce College  
Daynard Tullis, BuildLACCD Design Group Manager  
Lisalee Wells, Bond Counsel, Fulbright & Jaworski LLP  
Werner Wolf, BuildLACCD Contracts Group Manager