

Date: September 14, 2020
To: Teresa Highsmith - Colantuano, Highsmith, & Whatley, PC on behalf of the City of South Pasadena
From: The Claro Group
RE: Accounts Payable and Vendor Analysis – Summary Report

Purpose

The City of South Pasadena (“CoSP”) retained The Claro Group (“Claro”) in August 2018 to review and identify accounting records related to a potential misappropriation of monies or fraudulent activity. Claro identified transactions and/or vendors for further investigation from data provided by CoSP. Claro then informed CoSP of the transactions and vendors identified through the processes described below. CoSP provided final review of the transactions and vendors described herein.

Data & Method

I. Source Data

Claro received a SQL database from CoSP’s Springbrook software system (“Springbrook Database”) containing 743 separate data tables totaling over 22 million individual lines of data. Based on discussions with CoSP, Claro analyzed the following three tables:

- ap_check – list of all outgoing checks from CoSP from July 2003 to August 2018
- ap_vendor – details for all CoSP vendors
- cr_receipt – list of all cash receipts from July 2003 to August 2018.

The three tables contained records as far back as 2003; however, CoSP instructed Claro to focus on the 2012-2018 period.

II. Data Analysis and Results

a. Phase I Analyses Identifying Vendors and Transactions for Additional Review

Based on discussions with CoSP, the first phase of Claro’s investigation consisted of nine separate analyses on CoSP’s Accounts Payable. The nine analyses were as follows:

1. *Questionable Vendors*

This review developed a list of vendors (with total amount paid lifetime) that have PO boxes as their stated address. Fictitious vendors are more likely to use PO boxes as an address.

Claro identified 112 vendors with total payments exceeding \$10,000 that also had a PO Box as their stated address in the Springbrook Database. See Exhibit B for a list of these vendors. CoSP reviewed these vendors and did not identify any fictitious vendors.

2. [REDACTED] Law

Claro performed an analysis of Accounts Payable Checks from 2012-2018 by performing [REDACTED] Law. [REDACTED] Law gives a prediction on the frequency of the leading digit in a data set [REDACTED]

The distribution and frequency of CoSP's outgoing check amounts were in line with the expected distribution per [REDACTED] Law. See Table 1 for the results of [REDACTED] Law on CoSP's outgoing payments. The full results of Claro's [REDACTED] Law analysis is attached hereto as Exhibit C.

TABLE 1
[Redacted]

3. *Round Dollar Amounts*

This test identifies vendors with significant round dollar payments and their frequency. Claro identified all vendors receiving round dollar amounts and their frequency and provided the list to CoSP. Claro highlighted the top 20 vendors as well as certain other vendors based on a subjective review for suggested CoSP review. CoSP reviewed the list and deemed each vendor to be properly recorded. See Table 2A and Table 2B for the top 20 vendors receiving round dollar amounts and their frequency from 2012 – 2018 as well as the additional vendors highlighted on the list to CoSP, respectively.

¹ Journal of Accountancy. [REDACTED]

TABLE 2A

Top 20 Vendors	Frequency
CA Franchise Tax Board	83
Mike Roos & Company	69
CA Maintenance & Environmental	57
Karbelnig - Dr. Alan	46
CoreLogic Information Solutions, Inc.	35
Prothero - Dr. Donald R.	33
L.A.C. Sheriff's Dept.	31
S.P.Chamber of Commerce	31
Petty Cash	21
Sams - David A.	18
Tumpak - John	18
Donovan Brothers Golf LLC	17
McIntosh - Deborah	17
Pierce - Danielle	17
Pitney Bowes Reserve Account	17
Studio Spectrum	16
AKD Consulting	15
High Point Strategies LLC	15
Lem - Nancy	15
MedCycle Systems	14

TABLE 2B

Vendor Name	Year	Amount	Frequency
City of Pasadena	2013	\$ 100	1
City of Pasadena	2014	\$ 5,000	1
City of Pasadena	2014	\$ 3,000	1
City of Pasadena	2015	\$ 3,000	1
City of Pasadena	2016	\$ 15,000	1
City of Pasadena	2017	\$ 26,900	1
City of Pasadena	2017	\$ 9,000	1
City of South Pasadena	2012	\$ 2,500	2
City of South Pasadena	2014	\$ 600	1
City of South Pasadena	2018	\$ 25,000	1
HDL Software, LLC	2018	\$ 10,000	1
HDL Software, LLC	2018	\$ 7,000	1
Margrave - Diane	2014	\$ 36,000	1
So. CA Edison	2015	\$ 10,000	1
Valley Construction Mgmt	2015	\$ 1,800	1
Valley Construction Mgmt	2016	\$ 4,200	1
Valley Construction Mgmt	2017	\$ 28,200	1

4. *Payments to PERS*

Claro summarized all historical payments made to the California Pension Fund (PERS). Per discussions with CoSP, payments to PERS on behalf of certain individuals may have been an area susceptible to misuse.

Claro reviewed all payments made to PERS from 2003 to 2017 to identify any questionable payments. Claro identified two questionable payments to PERS in April 2016 and July 2016 totaling \$94,848 and \$1,378,201, respectively. CoSP reviewed these two transactions and deemed them appropriate.

5. *Payments by Year*

Claro summarized all payments (by amount and # checks) by year to each vendor from 2012-2018. This analysis was used for comparison purposes to identify anomalies from year to year. After reviewing with CoSP, no vendor warranted further investigation based on this analysis.

6. *Trend Analysis*

Claro summarized the year over year increases in amount/frequency of checks from 2012-2018 by vendor. This analysis is used for comparison purposes to identify anomalies from year to year. After reviewing with CoSP, no vendor warranted further investigation based on this analysis.

7. *Variance From Average*

Claro summarized variances by year for amounts paid to vendors from their historical annual average (2012-2017). This analysis is used for comparison purposes to identify anomalies from year to year. After reviewing with CoSP, no vendor warranted further investigation based on this analysis.

8. *New Vendors*

Claro identified vendors that first received payments in 2018; these vendors were not previously paid from 2012-2017. Per discussions with CoSP, CoSP consistently utilized the same vendors for tasks therefore any new vendors should be reviewed.

Claro identified 22 new vendors in 2018 that CoSP paid over \$10,000. Table 3 presents a list of these vendors. CoSP reviewed this list and did not identify any fictitious vendors.

TABLE 3

VENDOR	TOTAL AMOUNT 2018	# PAYMENTS
American Asphalt South Inc.	\$ 267,250	2
RKA Consulting Group	\$ 165,936	6
RC Foster Corp.	\$ 145,778	1
Intercare Holdings Insurance Svcs	\$ 63,620	7
Citygate Associates LLC	\$ 61,921	4
FFBH Motors	\$ 39,319	1
Accountemps	\$ 32,423	7
Long Beach BMW Motorcycles	\$ 30,892	4
TNVC Inc.	\$ 24,750	3
Katz & Associates Inc.	\$ 22,887	2
Degenkolb Engineers	\$ 21,500	1
Matrix Consulting Group	\$ 21,367	2
Dave Volz Design	\$ 19,200	2
True North Research Inc.	\$ 18,000	1
Conceptual Site Furnishings Inc.	\$ 16,816	1
Sunbelt Inflatable Tents	\$ 16,263	2
Keyser Marston Associates Inc	\$ 14,560	1
Pacific Parking Systems Inc.	\$ 12,997	1
Water Quality & Treatment Solutions	\$ 12,755	1
Athens Services	\$ 12,250	4
Minagar & Associates Inc.	\$ 11,364	1
Emerson & Associates	\$ 10,000	2

9. *Vendors with Significant Increase in Payments*

Claro identified vendors with a significant increase in payments/amount from their historical averages from 2012-2017 to identify potential abnormal invoice activity. [REDACTED]

Claro identified 31 vendors where total payments in a single year were significantly higher than their average annual amount paid to the same vendor from 2012 through 2017.² CoSP reviewed these vendors and ultimately deemed each vendor's respective activity to be appropriate and reasonable. See Table 4 for a breakdown of the 31 vendors.

TABLE 4

Vendor	Year	Total Amount Paid (In Year)	Yearly Average ('12-'17)	Amount of Increase From Avg ('12-'17)	% Inc
Amtech Elevator Services	2013	\$ 45,900	\$ 11,889	\$ 34,011	286.06%
AT&T	2017	\$ 44,149	\$ 13,154	\$ 30,995	235.63%
Aztlan Athletics	2016	\$ 92,532	\$ 22,866	\$ 69,666	304.67%
CalPERS	2016	\$ 1,479,369	\$ 494,840	\$ 984,529	198.96%
City of South Pasadena	2018	\$ 54,652	\$ 1,932	\$ 52,720	2728.90%
Control Automation Design Inc	2016	\$ 74,258	\$ 24,773	\$ 49,485	199.75%
Core & Main LP	2018	\$ 51,329	\$ 413	\$ 50,916	12336.98%
County of Los Angeles	2013	\$ 955,272	\$ 178,604	\$ 776,668	434.86%
D & R Office Works, Inc.	2018	\$ 38,421	\$ 2,157	\$ 36,264	1681.10%
Dept. of General Services	2018	\$ 25,805	\$ 3,587	\$ 22,218	619.45%
Emergency Vehicle Group Inc.	2016	\$ 250,465	\$ 50,624	\$ 199,841	394.76%
Envicom Corp.	2018	\$ 31,339	\$ 10,965	\$ 20,374	185.80%
Flex Advantage	2013	\$ 40,492	\$ 15,805	\$ 24,687	156.20%
Forrey - Sandra	2018	\$ 21,250	\$ 254	\$ 20,996	8268.12%
Game Time	2015	\$ 145,510	\$ 55,023	\$ 90,487	164.45%
General Pump Company	2016	\$ 248,785	\$ 85,084	\$ 163,701	192.40%
InfoSend, Inc.	2012	\$ 37,629	\$ 14,586	\$ 23,043	157.98%
Judge Netting	2018	\$ 115,840	\$ 46,080	\$ 69,760	151.39%
L.A.C. Registrar-Recorder	2012	\$ 75,060	\$ 13,735	\$ 61,325	446.51%
L.N. Curtis & Sons	2017	\$ 37,108	\$ 10,164	\$ 26,944	265.08%
Main San Gabriel Basin Waterma	2017	\$ 921,324	\$ 309,550	\$ 611,774	197.63%
Motorola	2012	\$ 332,452	\$ 121,311	\$ 211,141	174.05%
Nelson Nygaard Consult. Assoc.	2015	\$ 95,815	\$ 24,295	\$ 71,520	294.38%
Performance Pipeline Technologies	2013	\$ 88,597	\$ 22,754	\$ 65,842	289.36%
Quinn Company	2018	\$ 146,871	\$ 7,910	\$ 138,960	1756.68%
RHA Landscape Architects-Planners	2013	\$ 117,248	\$ 34,215	\$ 83,032	242.68%
Sully-Miller Contracting Co.	2018	\$ 1,665,316	\$ 584,997	\$ 1,080,319	184.67%
Union Bank	2012	\$ 630,221	\$ 136,798	\$ 493,422	360.69%
Upper S.G.Mun. Water Dist.	2014	\$ 246,469	\$ 96,412	\$ 150,057	155.64%
Upper S.G.Mun. Water Dist.	2018	\$ 1,237,279	\$ 96,412	\$ 1,140,867	1183.32%
Zoll Medical Copr. GPO	2015	\$ 73,590	\$ 19,270	\$ 54,321	281.89%

² A significant increase is deemed to be over 150% increase from their 2012-2017 annual average.

Claro provided CoSP with an excel file outlining any transactions or vendors identified during these nine analyses. CoSP independently reviewed all transactions and vendors identified by Claro and cleared all transactions and vendors as appropriate.

b. Phase II Analyses Identifying Vendors and Transactions for Additional Review

After completing the Phase I tasks, Claro proposed six additional analyses on Accounts Payable/Vendors to CoSP. CoSP agreed that these additional analyses would be beneficial and requested Claro perform the following six analyses:

10. AP - Invoices Just Below Approval Amounts

Claro summarized all payments between [REDACTED] by vendor and identified those that may require additional review. CoSP's approval threshold [REDACTED] therefore significant activity just below the required approval threshold might signify a problem transaction.

A summary of all vendors and transactions within various dollar ranges of the [REDACTED] approval list is attached hereto as Exhibit D. Refer to Table 5 below for a brief summary of specifically identified vendors that appear questionable in nature because either over 50% of total payments were within [REDACTED] of the threshold or Claro could not locate a reputable website for the vendor. CoSP reviewed these vendors and ultimately deemed them reasonable and appropriate.

TABLE 5
[Redacted]

11. AP - Invoices Just Below Approval Amounts All Transactions

Claro listed all transactions between [REDACTED]. A full list of these transactions is attached hereto as Exhibit E. A summary of select vendors with transactions [REDACTED] is presented below in Table 6. CoSP reviewed these vendors and ultimately deemed them reasonable and appropriate.

TABLE 6
[Redacted]

12. AP - Duplicate Payments

Claro identified duplicate payments made from 2012-2017 based on payments with the same vendor, same invoice number, same invoice date, and same invoice amount. [REDACTED]

Claro identified 32 instances of potential duplicate payments over \$1,000. These payments are attached hereto as Exhibit F. CoSP reviewed these payments and ultimately deemed them reasonable and appropriate. A brief summary of the potential duplicate payments over \$10,000 is presented below in Table 7.

TABLE 7

Vendor ID	Vendor Name	Check Date	Check Amount	Check #
0027557246	Wells Fargo Bank	9/11/2014	\$ 2,192,114.72	100
0027557246	Wells Fargo Bank	9/11/2014	2,192,114.72	185120
0027550339	E.C.Construction	11/14/2008	308,884.66	115130
0027550339	E.C.Construction	11/14/2008	308,884.66	155130
0027554521	Pers Retirement	8/16/2012	98,144.81	174497
0027554521	Pers Retirement	8/16/2012	98,144.81	174510
0027550164	DMR Team	11/14/2008	36,550.00	115129
0027550164	DMR Team	11/14/2008	36,550.00	155129
0027552706	L.A. Superior Court	3/25/2010	20,000.00	162211
0027552706	L.A. Superior Court	3/25/2010	20,000.00	162212
0027556894	U.S. Bank	9/16/2009	15,647.20	159592
0027556894	U.S. Bank	9/16/2009	15,647.20	159563
0027548976	E. D. D.	7/31/2003	13,983.68	129141
0027548976	E. D. D.	7/31/2003	13,983.68	129123
0027555922	So. CA Edison Co.	8/16/2012	13,510.47	174502
0027555922	So. CA Edison Co.	8/16/2012	13,510.47	174515

13. AP - Multiple Payments to Same Vendor on Same Day

Claro summarized all instances where CoSP made multiple payments on the same day to the same vendor but for different amounts. [REDACTED]

Claro identified one instance of two payments each separately under the [REDACTED] approval threshold that were paid on the same day, but when aggregated total above the [REDACTED] approval threshold. CoSP reviewed these payments and ultimately deemed them reasonable and appropriate. Table 8 presents these two payments.

TABLE 8

Vendor Name	Check Date	Check Amount	Check Number
Liebert Cassidy Whitmore	8/20/2015	4,755.60	189814
Liebert Cassidy Whitmore	8/20/2015	7,724.50	189786

14. AP - Multiple Payments to Same Vendor for Same Amount but on Different Date

Claro identified instances where CoSP made multiple payments to the same vendor for the same amount but on different dates. [REDACTED]

Claro identified 22 payments made to the same vendor for the same amount but on different dates. CoSP reviewed these payments and ultimately deemed them reasonable and appropriate. Table 9 below summarizes these 22 payments.

TABLE 9

Vendor Name	Check Date	Check Amount	Check Number
Judge Netting	11/15/2017	\$ 46,080.00	200670
Judge Netting	3/15/2018	46,080.00	202207
99 Pasadena Ave. LLC	11/5/2009	40,000.00	160334
99 Pasadena Ave. LLC	11/12/2009	40,000.00	160347
DMR Team	1/25/2006	30,038.50	141463
DMR Team	2/1/2006	30,038.50	141651
Raftelis Financial Consult.Svcs. Inc.	3/31/2011	29,568.84	167430
Raftelis Financial Consult.Svcs. Inc.	4/6/2011	29,568.84	167372
End2End, inc.	1/3/2007	28,785.62	146066
End2End, inc.	7/18/2007	28,785.62	148600
LandCare USA LLC	6/28/2018	25,025.63	203373
LandCare USA LLC	6/21/2018	25,025.63	203293
Intercare Holdings Insurance Svcs	5/23/2018	25,000.00	202942
Intercare Holdings Insurance Svcs	6/1/2018	25,000.00	203080
Osz Technologies	1/25/2006	19,499.93	141525
Osz Technologies	2/1/2006	19,499.93	141712
E. D. D.	4/12/2012	19,301.64	172586
E. D. D.	4/18/2012	19,301.64	172563
Dave Volz Design	4/5/2018	9,600.00	202329
Dave Volz Design	5/2/2018	9,600.00	202613
OCLC Inc.	1/21/2004	9,000.00	131229
OCLC Inc.	1/5/2005	9,000.00	136082

15. Credits in the Cash Receipts Journal

Claro reviewed all credits (negatives) in the cash receipts journal. [REDACTED]

Claro identified seven questionable entries in the cash receipts journal. These entries contained miscellaneous description fields and user identification. CoSP reviewed these payments and ultimately deemed them reasonable and appropriate. Table 10 presents these seven transactions.

TABLE 10

Receipt No.	Month	Year	Date	Description	Amount	User
398076	12	2017	12/21/2017	Miscellaneous	\$ (145,589)	mfestejo
389963	12	2016	12/21/2016	Miscellaneous	\$ (133,186)	jmendez
382468	12	2015	12/21/2015	Miscellaneous	\$ (128,064)	plieu
367329	12	2013	12/23/2013	Miscellaneous	\$ (125,260)	mfestejo
375088	12	2014	12/22/2014	SB2557 ADMIN FEE	\$ (123,771)	PLIEU
352020	12	2012	12/20/2012	Miscellaneous	\$ (123,229)	coordina
352094	12	2012	12/21/2012	Miscellaneous	\$ (123,229)	coordina

In addition to the fifteen tests outlined above, Claro also used professional skepticism and judgment on specific vendor names that appeared to be questionable in nature. [REDACTED]

[REDACTED] Claro discussed any questionable vendor names with CoSP and CoSP did not identify any fictitious vendors.

Claro provided CoSP with an excel file outlining any transactions and vendors identified during these additional six analyses. CoSP independently reviewed all transactions and vendors identified by Claro and cleared all transactions and vendors as appropriate.

Based on CoSP's further investigation of the vendors and transactions Claro identified, none of the transactions or vendors indicated the misappropriation of funds during the time-period in question.

Limitations

Claro did not review or verify any data, values, or assertions not explicitly addressed in this memo, and did not independently verify any information provided by the City of South Pasadena.

Based on instructions from CoSP, Claro's investigation focuses on Accounts Payable and Vendors.

This Memo was prepared by Claro for informational purposes only and should not be construed as accounting, legal, tax, investment, financial, or other advice.