



**Office of the Inspector General
Los Angeles Unified School District**

**Audit of Digital Scepter Corporation
Contract No. 4400007799**

CA 22-1335

May 2, 2022



Los Angeles Unified School District Office of the Inspector General

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Interim Inspector General

May 2, 2022

Ms. Judith Reece, Chief Procurement Officer
Procurement Services Division
Los Angeles Unified School District
333 S. Beaudry Avenue, 28th Floor
Los Angeles, CA 90017

RE: Digital Scepter Corporation - Contract No. 4400007799

Dear Ms. Reece,

This is the final report on our audit of Digital Scepter Corporation - Contract No. 4400007799. Please contact our office if you have any questions.

Sincerely,

Austin E. Onwualu

Austin Onwualu, CPA, CIG
Deputy Inspector General, Audits

Salvatore Randazzo
Interim Inspector General

c: Richard Lui
Cheri Thomas

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Audit of Digital Scepter Corporation Contract No. 4400007799

Introduction

The Office of the Inspector General (OIG) audited Contract No 4400007799 (Contract) awarded by the Los Angeles Unified School District (District) to Digital Scepter Corporation (Digital Scepter) for the District's data center equipment and related services. The scope of the contract includes providing the data center hardware, software and related services. The contract term was from October 1, 2019, through September 30, 2024 and included two (2) one-year renewal options. The contract total amount was not to exceed \$30,000,000. As of June 22, 2021, total cost incurred amounted to \$7,685,655.

Objectives and Scope

The objectives of the examination were to determine whether (i) the billed amounts were adequately supported, allowable and in accordance with contract terms and conditions, (ii) the billed pricing structure were in accordance with the contract and purchase order requirements, (iii) the purchased network equipment and hardware were delivered in accordance with the contract, and (iv) subscription services and other related support services were performed satisfactorily.

Methodology

For objective (i), we performed the following procedures:

- Reviewed the contractor billings to ensure they were properly approved by different levels of District personnel.
- Reviewed subcontractor billing to ensure pricing and mark up were in accordance with the contract.

For objective (ii), we performed the following procedures:

- Reviewed pricing structure to ensure prices were billed in accordance with the contract agreement.
- Reviewed purchase orders to ensure amount billed were supportive.

For objective (iii), we performed the following procedures:

- Conducted site visit to ensure network equipment and hardware met the deliverable requirement.

For objective (iv), we performed the following procedures:

- Interviewed ITD management to ensure all subscription and filtering system installed met LAUSD's compliance, administrative and technical requirements.



Audit of Digital Scepter Corporation Contract No. 4400007799

Results of Audit

I. Determination of whether the billed amounts were adequately supported, allowable and in accordance with contract terms and conditions

The total billed amount under the contract as of June 22, 2021, was \$7,685,655. We reviewed the details of the billings prepared by Digital Scepter and reviewed the contractor's billings to ensure that they were properly approved by different levels of District personnel. We also reviewed shipment reports from the manufacturer Palo Alto Networks to ensure products purchased agreed with the invoices. Based on the procedures performed, we noted no exceptions.

II. Determination of whether the billed pricing structure were in accordance with the contract and purchase order requirements

The District purchased various Palo Alto Networks equipment including network processing cards, log forwarding cards, Internet security filtering subscription and devices, and training from Digital Scepter. According to the contract, Digital Scepter offered discounted rates on all network equipment and software, and provided discounted hourly rates on training. We verified all prices and rates on the invoices and traced them to the contract rate schedule with no exception. We also verified the items billed on the invoices to the purchase orders with no exception.

The contract also stipulated the District's Volume Rebate Program, which stated that the Contractor shall pay a one percent (1%) volume rebate on the total sales price for all purchases received. We reviewed the rebate amount and copy of the rebate check noting no exception.

III. Determination of whether the purchased network equipment and hardware were delivered in accordance with the contract

We inquired with Contract Administration and ITD personnel and they confirmed that the network equipment was delivered and functioned well. We conducted site visit to the Data Center at the District Beaudry Building. We noted that the equipment was delivered in compliance with the contract terms and conditions (see the site visit picture attached to the report).



Audit of Digital Scepter Corporation Contract No. 4400007799

IV. Determination of whether the Subscription services and other related support services were performed satisfactorily

Subscription -Filtering System

The contract filtering system requirements included installing a system compatible with various current District architectures and filtering for various devices such as smart phones, tablets, laptops, desktops, etc. in order to comply with the Children’s Internet Protection Act (CIPA) requirements. This categorization was based on the District’s determination. However, certain new web sites can sometimes be categorized incorrectly. Therefore, the goal is to keep the errors under an acceptable rate. Based on inquiries with the ITD personnel, we obtained an understanding of how the web filtering system was monitored daily, and how complaint reports were generated and addressed. The District IT management personnel expressed satisfaction with the filtering services Digital Scepter provided.

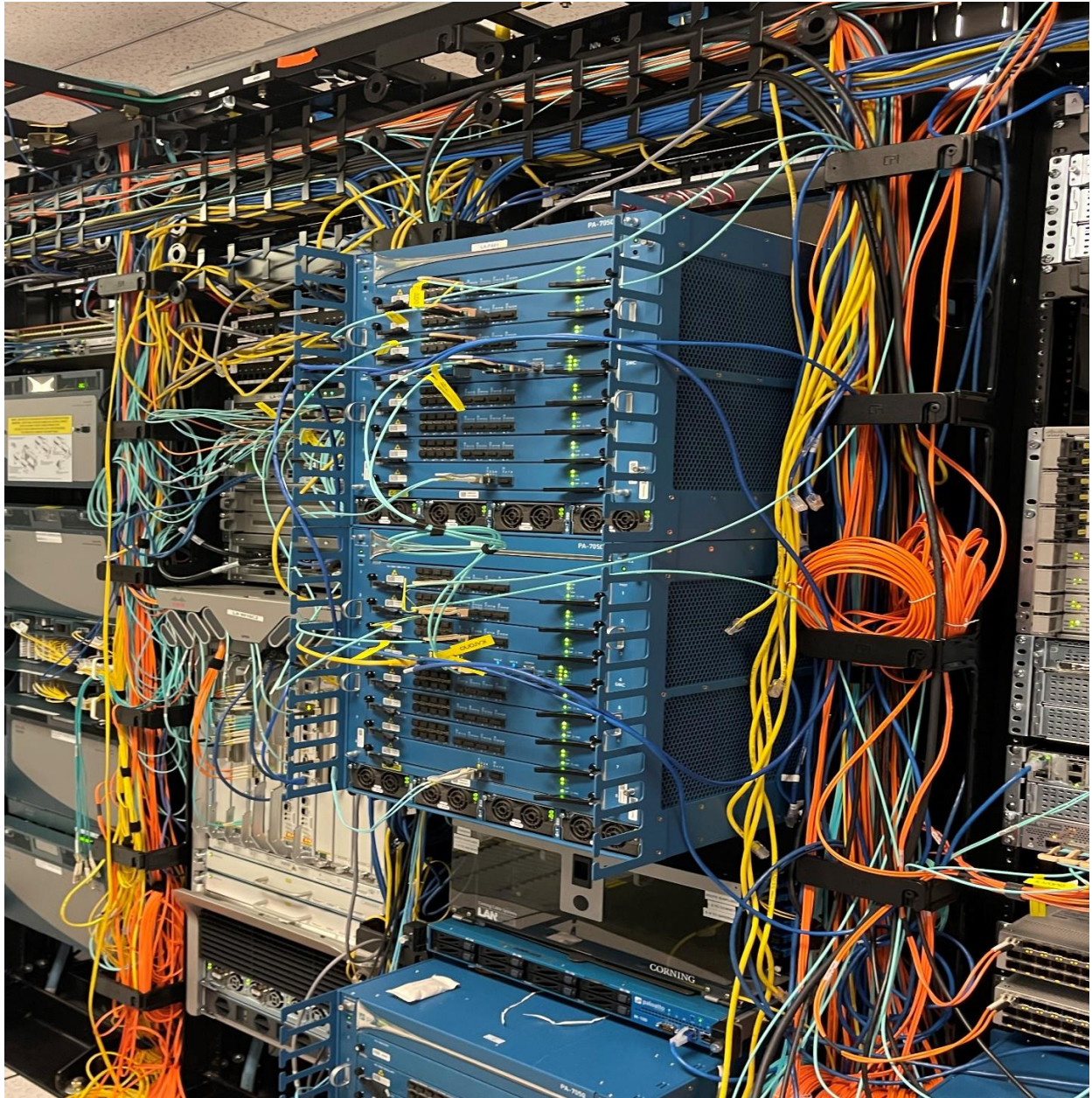
Training

The trainings were provided through Palo Alto Authorized Education Partner Cloud Harmonics. Digital Scepter offered discounted rates for those trainings. We verified the rates billed to the discounted rates on the rate schedule in accordance with the contract noting no exception.



Audit of Digital Scepter Corporation Contract No. 4400007799

The picture taken during our site visit at the Beaudry Data Center:





Audit of Digital Scepter Corporation Contract No. 4400007799

Audit Team

This audit was performed by the following auditors:

Rey Bejerano, Audit Manager
Mindy Qu, Principal Auditor



Audit of Digital Scepter Corporation Contract No. 4400007799

Independent Auditor's Report

We have examined the amounts billed by Digital Scepter Corporation (Digital Scepter) under contract number 4400007799 for the period from October 1, 2019 through June 22, 2021. Digital Scepter's management was responsible for the amounts billed and for complying with the terms and conditions of the Contract. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting Digital Scepter's compliance with the contract requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Digital Scepter's compliance with the specified requirements.

In our opinion, the amounts billed by Digital Scepter under the contract were adequately supported, allowable and in accordance with contract terms and conditions; the billed pricing structure were in accordance with the contract and purchase order requirements; network equipment and hardware were delivered in accordance with the contract; and the subscription services and other related support services were performed satisfactorily.

Austin E. Onwualu

Austin Onwualu, CPA, CIG,
Deputy Inspector General, Audits

April 15, 2022

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Whistleblower Protection

The Board approved the Whistleblower Protection Policy on February 12, 2002. This policy protects LAUSD employees who make allegations of improper governmental activity from retaliation or reprisal. To assure the reporting of any activity that threatens the efficient administration of the LAUSD, reports that disclose improper governmental activities shall be kept confidential.

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