



Board of Trustees

Los Angeles Community College District

ACTION

Com. No. **BF4**

Division: **BUSINESS AND FINANCE**

Date: December 7, 2016

Subject: **ACCEPT RECEIPT OF PROGRAM PERFORMANCE AUDIT FOR FISCAL YEAR ENDED JUNE 30, 2016**

Action

Accept the following:

Performance Audit of Los Angeles Community College District Proposition A, Proposition AA, and Measure J Programs.

Fiscal Year ended June 30, 2016

By KPMG LLP.

Background

An annual Performance Audit of the District's Proposition A, Proposition AA, and Measure J Bond Programs is conducted every fiscal year by independent contract auditors as required by the California Constitutional Article 13A and Education Code 15278 and reported to the Board of Trustees.

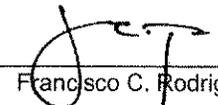
The Performance Audit was conducted in accordance with General Accepted Government Auditing Standards (GAGAS) as a requirement for construction bond programs under California Proposition 39. Information collected for the report is for the fiscal year that ended on June 30, 2016.

The Performance Audit was presented to the Facilities Master Planning and Oversight Committee on October 19, 2016.

Recommended by:


Adriana D. Barrera, Deputy Chancellor

Approved by:


Francisco C. Rodriguez, Chancellor

Chancellor and
Secretary of the Board of Trustees

By _____ Date _____

Eng _____	Moreno _____
Fong _____	Pearlman _____
Hoffman _____	Svonkin _____
Kamlager _____	Victoriano _____
	Student Trustee Advisory Vote

*Performance Audit of
Los Angeles Community College District
Proposition A, Proposition AA, and
Measure J Bond Programs*

Fiscal Year ended June 30, 2016

October 10, 2016

KPMG LLP
550 South Hope Street
Suite 1500
Los Angeles, CA 90071
(213) 972 4000

October 10, 2016

Mr. James O'Reilly
Chief Facilities Executive
Los Angeles Community College District
770 Wilshire Boulevard, 6th Floor
Los Angeles, CA 90017

Dear Mr. O'Reilly:

This DRAFT report presents the results of our Performance Audit of the Los Angeles Community College District's (LACCD) Proposition A, Proposition AA and Measure J bond programs for the fiscal year ended June 30, 2016, based on our agreed upon work plan with LACCD. Our work was performed during the period of July 1, 2016 through the date of this report.

We conducted this Performance Audit in accordance with *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations based on the established audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations based on our audit objectives.

This Performance Audit did not constitute an audit of financial statements in accordance with *Government Auditing Standards* or *U.S. Generally Accepted Auditing Standards*. KPMG was not engaged to, and did not render an opinion on LACCD's internal controls over financial reporting or over financial management systems.

The report includes an executive summary, background, audit scope and methodology, audit results and recommendations, and list of acronyms, as well as appendices.

Based upon the audit procedures performed and the results obtained, we have met our audit objectives. This report provided to LACCD is for the sole use of LACCD, and is not intended to be, and may not be, relied upon by any third party.

We thank you and the members of your staff who have worked diligently with our team in providing information throughout this Performance Audit. We look forward to serving LACCD in the coming years.

Sincerely,

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EXECUTIVE SUMMARY

This Performance Audit was conducted in accordance with *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States and as a requirement for construction bond programs under California Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act* (Proposition 39). Our work for the year ended June 30, 2016, was performed during the period of May 20, 2016 through the date of this report.

Objective

A Performance Audit is an objective analysis for management and those charged with governance and oversight to use to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and to contribute to public accountability. Further, Performance Audits seek to assess the effectiveness, economy and efficiency of the bond program.

The objective of this Performance Audit was to understand certain aspects of the Los Angeles Community College District's (LACCD or District) management of the bond program and bond program expenditures in accordance with the requirements of Proposition 39. Total approximate aggregate bond expenditures were \$154 million during the fiscal year ended June 30, 2016.

As of June 30, 2016 the District reported in their Dashboard Report current program funding of approximately \$6.3 billion, costs incurred of approximately \$4.8 billion, and estimated additional costs (i.e. costs to be incurred) of \$1.3 billion.

Scope

The scope for this year's Performance Audit included three areas of focus:

- **Program Processes:** The scope of our audit included conducting an independent audit of the Bond Program's Program select controls in 39 key process areas by comparing the Program's *Standard Operating Procedures* to leading industry practices, as well as performing a walk-through of select controls. The objective of this audit was to provide an independent assessment of the Bond Program's processes and controls and establish a baseline for identifying both areas of strengths as well as process weaknesses and areas for improvement.
- **Procurement:** The scope of our audit work included evaluating key steps of the procurement process including, but not limited to, forming the solicitation; advertising and outreach; vendor evaluation, selection and notification; vendor negotiation; and contracting. The objective of our procurement audit work was to evaluate adherence to the District's *Standard Operating Procedures* and recognized industry practices.
- **Bond Expenditures:** The scope of our audit included testing bond expenditures incurred in the current fiscal year and comparing those for compliance with criteria such as the District's *Cost Principles*, contract requirements and requirements of Proposition 39. The objective of testing bond expenditures was to evaluate whether the costs incurred for which bond funds were used have been spent on projects and costs approved by the voters, for allowable purposes and are accounted for properly.

Our performance audit does not opine on the internal controls structure of BuildLACCD or LACCD. In addition, our performance audit did not include testing of internal controls to determine if the internal controls are operating as designed. Our approach to evaluating the District's *Standard Operating Procedures (SOPs)* is limited to the processes included with KPMG's methodology and approach as described herein.

Summary of Observations

During this year's audit, we noted that management implemented changes to some of the bond program's key capital project delivery processes. In particular, changes were noted in the bond program process areas of procurement, change order, forecasting and cost reporting, pay applications, schedule reporting and project closeout. Although changes were noted, we did identify areas where additional improvements can be made.

The order of priority is a subjective ranking of importance among the observations as follows:

High - The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

Medium - The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. Recommendation should be implemented no later than six months.

Low - The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

Process Related Observations (Low)

1. Overall, LACCD's *Standard Operating Procedures (SOPs)* are comprised of many leading industry practices as promulgated by leading construction industry organizations. However, four processes areas were identified as having room for improvement. They include: (a) Project Management Reporting, (b) Value Engineering, (c) Procurement Planning, and (d) Site Security.

Procurement Observations (Low/Medium)

In general, the procurement process has improved over the past years. Further improvements that could enhance the process include the following:

- 2a. The LACCD bond program *Standard Operating Procedures (SOPs)* for Contracts and Procurement Management currently do not reference two procurement/contracting methods used by the Program: (a) Construction Orders and (b) pre-qualified Multiple Award Task Order Contracts (MATOC).
- 2b. Supporting documentation for procurement is at times incomplete.
- 2c. Procurement documents do not incorporate a consistent naming convention and at times are not readily available electronically.

Project Expenditure Observation (Low)

3. Certain invoiced amounts do not comply with the contractual terms and conditions and certain supporting documentation is incomplete by immaterial amounts

Summary

Based on our audit, we did not identify any significant internal control deficiencies. We did not identify any significant¹ charges to the Program that did not conform to the requirements of Proposition A, Proposition AA, and Measure J. We conclude that the District's *Standard Operating Procedures (SOPs)* comprise many leading practices utilized in the industry. However, based on our audit scope this year, we made five observations where we identified opportunities for improvements.

¹GAS 7.04: "Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors." In the Performance Audit standards, the term "significant" is comparable to the term "material" as used in the context of financial statement audits.

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BACKGROUND

In November 2000, the California legislature passed Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act* of the State of California, which amended provisions to the *California Constitution (Article XIII)* and the *California Education Code (Section 15272)* to include accountability measures for bond programs. Specifically, the District must conduct an annual, independent Performance Audit of its construction bond program to ensure that funds have been expended only on the specific projects listed.

The District bond program is funded by Proposition A, Proposition AA, and Measure J, which were approved by voters in 2001, 2003, and 2008, respectively. The total authorized bond fund dollars are \$6.2 billion and are designated for capital improvements for the renovation and replacement of aging facilities, and for the construction of new facilities.

BuildLACCD

BuildLACCD's function is to facilitate the delivery of projects under the bond program. It consists of over 200 positions in a number of functional areas and includes several consultants and members of District staff. The largest function of BuildLACCD is the program management function provided by AECOM Technical Services, Inc. (AECOM or PM) as of April 4, 2013.

The Los Angeles Community College District's (LACCD or District) bond program has operated under a decentralized model since 2007 with significant level of autonomy resting with the individual colleges, including project management decisions, documentation requirements, and methodologies. Under the AECOM program management agreement, all College Project Teams (CPTs) are contracted directly with the District but report to AECOM. This creates a centralized structure and establishes accountability by all of BuildLACCD.

College Project Teams (CPT)

The CPTs for each college reports directly to AECOM and are responsible for performing services to oversee college master planning, environmental impact studies, programming, design, construction, close-out, and occupancy. The CPTs are also responsible for overseeing design consultants, contractors, and vendors. Prior to 2015, the CPTs were known as College Project Managers (CPMs).

District Expenditures

As of June 30, 2016 the District reported in their Dashboard Report current program funding of approximately \$6.3 billion, costs incurred of approximately \$4.8 billion, and estimated additional costs (i.e. costs to be incurred) of \$1.3 billion.

AUDIT SCOPE AND METHODOLOGY

This Performance Audit encompasses the District construction bond program and does not include the District's business operations, administration, or management of any projects outside of the bond program. In addition, KPMG's work under this engagement did not include providing technical opinions related to engineering, design, and facility operations and maintenance.

This Performance Audit was conducted in accordance with *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States and as a requirement for construction bond programs under California Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act* (Proposition 39). Our work for the year ended June 30, 2016, was performed during the period of May 20, 2016 through the date of this report.

Methodology

Government Auditing Standards (GAS), as promulgated by the Government Accountability Office (GAO), require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our comments and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our comments and conclusions based on the audit objectives. As such, we followed the requirements of GAS and the District with respect to our methodology, which included the following elements:

- Conducting a **risk assessment** to identify areas of risk.
- Designing an **audit plan** based on issues and risks identified in the risk assessment phase.
- Conducting **fieldwork** with detail testing to further assess the risks and carry out our audit plan.
- Preparing an audit **report** for the District based on the results of our Performance Audit.

We reviewed the District's internal policies, procedures, and documentation of key processes. We conducted interviews with BuildLACCD personnel and other contractors and consultants involved with BuildLACCD and the District bond program. We reviewed relevant source documentation to gain an understanding of the key functions of the District as they relate to the scope of this audit and corroborated key interview statements with test work.

Scope

The scope for this year's Performance Audit included three areas of focus:

Program Processes

Our objective of evaluating the District's key program processes relative was to:

- (a) compare the District's *Standard Operating Procedures (SOPs)* to leading practices, as promulgated by leading construction industry organizations as well as leading practices identified by KPMG;
- (b) provide an independent assessment of the bond program's key processes and controls and establish a baseline for identifying both areas of process strengths and weaknesses, as well as areas for improvement;
- (c) evaluate actual process steps conducted by District and BuildLACCD employees and document instances of deviation from the *SOPs*.

Our approach to evaluate the District; key program processes, included KPMG’s proprietary construction *Controls Assessment Tool*. This tool was developed to evaluate the overall strength of a capital program’s key processes and controls included with the *SOPs* in five major process control categories and 39 process control subcategories and calculated a rating to each category and subcategory. Each process control included 3 to 8 specific assessment areas, 166 in total, that are rated based on leading practice criteria.

The five key program areas evaluated included:

- Strategy, organization, and administration;
- Cost and financial management;
- Procurement management;
- Project controls and risk management; and
- Schedule management.

The table below summarizes the ranking of the control ratings, although specific definitions for each score were utilized for each assessment area, based on leading practices:

Score	Tier	Rating	Rating Description
≥3.5	Tier 4	Optimized	Integrated controls have been designed and are adequately documented, with real-time monitoring being completed and continuous improvement efforts underway to refine the control framework.
2.5 to 3.49	Tier 3	Monitored	Controls have been designed and are adequately documented for standardized use across the company. Some periodic testing is completed to report to management on the effective design and operation of the controls.
1.5 to 2.49	Tier 2	Standardized	Many controls have been designed and are adequately documented; but there are no established monitoring activities from which to test and improve the control framework.
1 to 1.49	Tier 1	Unreliable/ Informal	Unpredictable environment where many controls are not designed or in place, in which no documentation exists, and therefore, no monitoring or improvement activities are occurring. Some controls may have been designed but are not adequately documented, monitored, or refined.

We then compared LACCD’s ratings to other higher-education institutions and leading organizations outside of the higher education industry. These entities also deliver large, complex construction programs and have utilized KPMG’s *Controls Assessment Tool*.

KPMG conducted meetings with subject matter experts from the Program Management Office (PMO) and College Project Teams (CPTs) to walk-through activities performed and documentation prepared for specific process areas, in order to compare the PMO’s and CPT’s actual practice against the documented *SOPs*. The specific process areas reviewed during the walk-throughs included: contractor payment processing; change order and field order management; cost forecasting and reporting; project closeout; and schedule reporting.

Procurement

Our objective of auditing the procurement process for the program as a whole for contracts awarded and/or negotiated in the current audit period is to understand compliance with key procurement process steps and requirements.

We selected a sample of contracts awarded during the FY2015/16 audit period based on the population as a whole. We evaluated the key steps of the procurement process including, but not limited to, forming the solicitation; advertising and outreach; vendor evaluation, selection and notification; vendor negotiation; and contracting. We performed the following activities:

- Interviewed key program personnel with a specific knowledge related to the procurement and contract process.
- Evaluated the LACCD bond program *SOPs*, Program Management Administration - Contract Management, revised May 24, 2016.
- Evaluated any revisions to the *SOPs* on Contract Management.
- Documented the process for evaluating review of procurement process by Build-LACCD.
- Evaluated (on a sample basis) procurement controls for competitive bidding. Specific areas targeted included:
 - Procurement planning
 - Solicitation planning and solicitation
 - Compliance with *California Public Contract Code* and LACCD requirements, outreach efforts
 - Source selection
 - Contract negotiation and execution
 - Prequalification
 - Bid and proposal evaluation
 - Contract administration
 - Conflicts of Interest (COI)
- Assessed the experience level of the key employees involved with the procurement and contracting efforts.
- Evaluated procurement/contract process against industry leading practices.
- Documented improvements to the procurement process (based on KPMG's last assessment of procurement process in FY11/12).

Bond Expenditure Testing

Our objective of testing bond expenditures was to establish whether costs incurred, for which bond funds were used, were spent on projects and costs approved by the voters for allowable purposes and are accounted for properly. Specifically, we performed the following procedures:

We selected a sample of FY2015/16 bond expenditures and reviewed supporting documentation to validate the performance of bond program funds expended and measure against bond program criteria. Such criteria included the requirements of Proposition 39, LACCD *Cost Principles*, and other Performance Audit criteria, such as those set forth in and by Proposition 39, *Cost Principles*, the *Project Management Manual*, BuildLACCD *SOPs*, *California Public Contract Code*, contract language, and published industry practices. We performed the following activities:

- Performed a walkthrough of the bond funds expenditure cycle and documented instances of internal control weaknesses or non-compliance with audit criteria.
- Reconciled bond funds with project expenditures.
- Assessed whether costs incurred were compliant with bond program criteria stated above.

- Evaluated expenditure reporting to the Board of Trustees (BOT) and District Citizens' Oversight Committee (DCOC), which include *Dashboard* and audit reports.
- Documented instances where processes can be improved.

We evaluated compliance with the contract funding source and with Proposition 39. We performed the following procedures related to bond expenditure compliance:

- Compared Campus capital expenditures with LACCD expenditures accounting and funding source, if a separate system or file exists, to identify discrepancies, if any.
- Compared project budget and scope to current authorized budget and scope, and allowable purposes under Proposition 39.
- Evaluated expenditure controls.
- On a sample basis, tested contractor invoiced costs for compliance with contractual terms (a full contract compliance audit was not part of this audit scope).

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AUDIT RESULTS AND RECOMMENDATIONS

Program Processes

A bond program of the size and complexity like LACCD's, requires an adequate Program internal control structure in place. A Program's policies and procedures help create an internal control framework for an organization. It is this internal control framework that management will rely upon and that will help ensure the organization's objectives are being met. Well-written policies and procedures also allow employees to clearly understand their roles and responsibilities within predefined limits. LACCD's policies and procedures for the bond program are included with the Program's *SOPs*.

Over the past four years, our Performance Audit results indicated that the bond program *SOPs* and key processes and controls were incomplete. In certain process areas, prior years' observations identified several instances of inadequate oversight and incomplete monitoring activities by BuildLACCD. Additionally, past audit results identified a number of contract compliance issues, and insufficient Project documentation practices. These observations were attributed in part to the lack of documented leading practices incorporated with the bond program's *SOPs*.

This year, we noted that management implemented changes to the bond program's *SOPs*. BuildLACCD continues to improve bond program processes, incorporate leading practices and document requirements in the *SOPs*. Examples of changes noted are as follows:

- **Procurement** – Implementation of the web-based PlanetBids procurement system to allow for secure remote access and the ability for vendors to submit documents online.
- **Change order** – Improved organization of requirements for change order packages and definition of submittal requirements. Demonstrated understanding of required elements (i.e., forms, information, signatures) to confirm completeness of the change order package.
- **Forecasting and cost reporting** – Improved monthly cost and project status oversight and reporting process. Monthly Cost Reports included location/links to supporting documentation that justify reported costs. Project Controls Status Reports track various cost metrics using a stoplight chart to show overall status.
- **Pay applications** – Application of automated invoice routing through PMIS and staff training.
- **Schedule reporting** – Application of a third-party schedule analysis software to assess the quality of contractors' baseline and monthly schedule updates, and preparation of monthly reports based on the schedule analysis.
- **Project closeout** – Improved documentation and understanding of the closeout process, including on-going communication and forms prepared at various milestones. Demonstration that the closeout process is actively being tracked and that closeout activities are occurring throughout the project lifecycle.
- **Conflicts of Interest (COI)** – LACCD has implemented policies and procedures to address conflicts of interest in the procurement process in order to identify personal relationships or other relationships that would constitute a conflict. The new COI policies and procedures cover both for members of selection committees as well as members of the contractor community.

Our audit results, which are based on KPMG's controls assessment tool as described in our methodology, identified four areas where the District can continue to improve:

1. **Overall, LACCD's Standard Operating Procedures (SOPs) are comprised of many leading industry practices as promulgated by leading construction industry organizations. However, four processes areas were identified as having room for improvement. (Low)**

Criteria: Leading construction industry organizations have identified leading industry practices related to capital construction Programs, which include processes or methods that, when executed effectively, lead to enhanced project performance. Such leading practices have been proven through extensive industry use and/or validation.

Leading practices in policies and procedures promulgated by leading industry organizations were reviewed and considered during this analysis. The District's *SOP's* were compared against such leading practices as well as leading practices identifies by KPMG, other organizations, and governmental agencies incorporated into KPMG's *Controls Assessment Tool*. Included, but not limited to those leading practices are:

- Project Management Institute of America (PMI)
- Construction Management Association of America Construction Management Standards of Practice
- Construction Industry Institute (CII) Best Practices
- American Institute of Architects, The Architect's Handbook of Professional Practice
- Elements of policies and procedures for a variety of agencies previously reviewed by KPMG.

The prevailing industry standards on policies and procedures prescribe the following key elements of an effective procedure:

- The procedure identifies who is responsible, accountable, consulted, and/or informed.
- The procedure includes clear objectives and detailed instructions on how to perform the task.
- The procedure states when the tasks needs to take place.
- The procedure includes references to relevant forms and documents.
- The procedure includes graphic diagrams and or business process flow charts.
- The procedure prescribes records retention and document update requirements.
- The procedure is maintained, updated, and issued by a centralized function.
- Procedure update notifications are generated and distributed automatically through a Project Management Information System (PMIS) or other leading document repository system.
- End users are involved in developing procedures.
- Superfluous terms such as "may, should, as applicable, and as necessary" are avoided and replaced with clearly defined requirements.

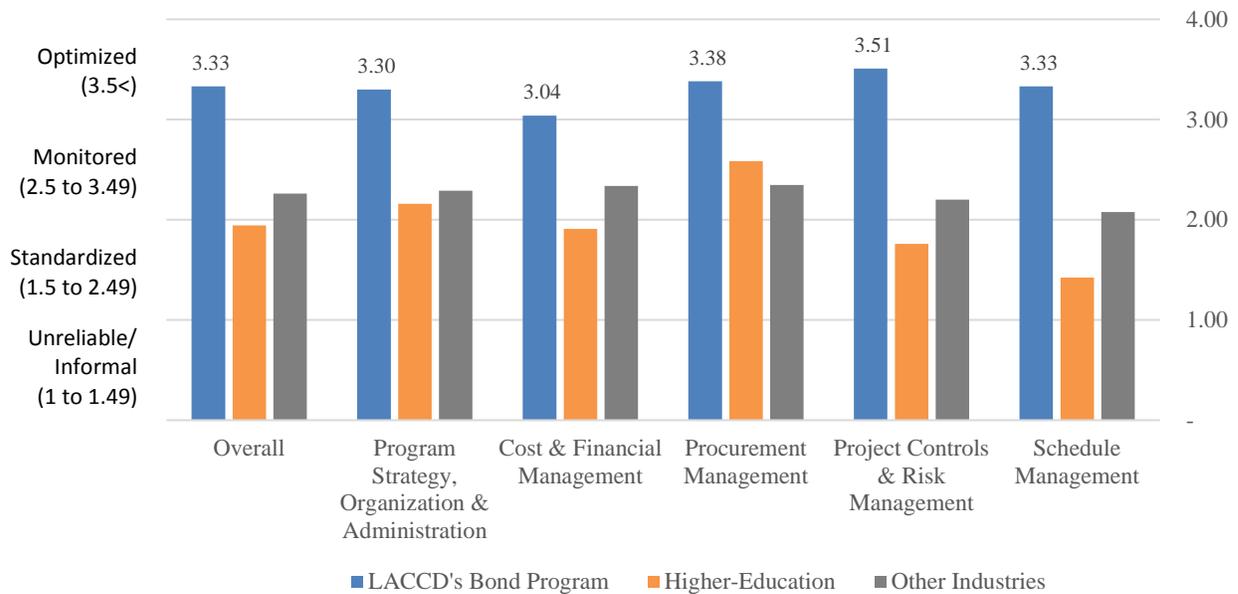
Condition: Based on KPMG's evaluation and scoring of the District's bond program processes utilizing KPMG's proprietary *Controls Assessment Tool*, the District achieved an overall average process control rating of "Monitored" or a score between 3.04 and 3.51 on a scale where a score above 3.5 is considered optimized and a score above a 2.5 means that controls are adequately documented for standardized use across the organization. Overall, the bond program's key processes and controls have been designed and are adequately documented for standardized use across the bond program with some periodic testing being completed and reported to management on the effective design and operation of the controls.

Table 1 below summarizes the District's bond program's average overall rating and the average rating for each of the five key program areas, as compared to other higher-education institutions and leading companies outside of the higher-education industry from KPMG's controls assessment tool and global database. Refer to Table 2 for a summary table of the District's bond program's rating for each of the 39 sub-category process areas.

Most of these entities included with KPMG's global database did not conduct continuous evaluations of their policies and proceduers to the extent that LACCD has done over the years prior to their *Controls Assessment*. As a result of ongoing efforts and improvements to their *SOPs*, LACCD was able to attain a higher than average overall score when compared to their industry peers, most whom conducted the

Control Assessment knowing or suspecting that their processes needed improvement.

Table 1 - Process Control Ratings by Category



Source: KPMG's Controls Assessment Tool and Global Database including 3 higher-education institutions and 40 other companies from healthcare, pharmaceuticals, power and utilities, oil and gas, manufacturing/industrial, engineering/construction, and technology industries.

1. Project Management Reporting (Core control)

- The *SOPs* do not include standardized report templates or format for weekly/monthly progress reporting, internal or external or for routine compliance testing to confirm that weekly/monthly progress reporting is consistently prepared and follows a standardized format. Although the monthly *Dashboard Report* is named, it is not incorporated as a template.
- Although required reports related to progress, cost, and schedule are mentioned throughout the *SOPs* there is not a comprehensive reporting matrix included with the *SOPs* to clearly identify all reports by type, timing, responsible entity, and distribution. The PMO provided a matrix, but it is not referenced by the *SOPs*.
- *Dashboard Reports* do not include overall or project metrics on schedule, such as original completion date, forecasted completion date, schedule variance, and percentage completion. Additional metrics that may be important for management to analyze trend and historical data are not tracked and reported. These additional metrics may include the recordable incident rate, the Lost daily case rate, number and amount of contractor claims, number and amount of project rework, Architect/Engineering (AE) fee percentage, Construction Manager/General Contractor (CM/GC) fee percentage and amount, price per square foot, change order percentage, and earned value management statistics. Dashboard reporting requirements should be defined in a template in the *SOPs*.

2. Value Engineering (Support control)

- Although value engineering activities may be performed on projects, there is not a formal, documented value engineering process with tracking, reporting, and monitoring of value engineering activities¹.

3. Procurement Planning (Support control)

- There is not a documented requirement in the *SOPs* to develop, review, approve, and monitor a formal project procurement plan for all projects above an established dollar threshold that is standardized across the bond program. A procurement planning process ensures that all contract activities and contract milestones are identified, and that the procurement plan is regularly updated and communicated. Procurement plans should include/address the following:
 - Identify which services are needed and which will be provided internally along with supporting justifications, key risks, assumptions/constraints, and market analysis.
 - Identify all owner procured equipment and responsible party.
 - Identify contract type/form for each major service and whether the contract will be competitively bid. This will include identifying which business unit/department is responsible for developing the scope statement.
 - Major milestones for each contract.
 - Owner's and actions for each procurement activity.

Although not audited by KPMG, the PMO reported that they conduct a number of Procurement planning activities. These activities have not been documented and incorporated with the *SOPs*.

4. Project Site Security (Support control)

- There are no formal site security policies and procedures in the *SOPs* that identify requirements for physical site access, video cameras, background checks, etc. Although contractor responsibilities are incorporated into their respective contracts, the *SOPs* do not reference them and the language is general in nature and language does not include all leading practices.
- Leading practices may include formalized site security policies and procedures utilized on all major construction projects with real time tracking of project personnel (professional services, construction, as well as Build and District personnel) via electronic badging system and project video cameras setup throughout project sites. District Project personnel may be vetted via formal background checks and project personnel may be required to pass drug screening, as required. Site security should perform frequent and routine project site security checks that are documented and all incidences are formally documented, tracked and investigated.

Additionally, we understand that requirement of background checks is currently being considered by the District.

Cause: The *SOPs* are continually refined and improved by BuildLACCD and have not optimized and documented all required core and support processes related to value engineering, project management reporting, procurement planning, and project site security, and the standardized documentation required to be prepared as part of the process.

Effect: Project Management Reporting: Without standardized reporting templates for external and internal KPI reporting and instructions how to prepare it incorporated with the *SOPs*, individuals tasked with reporting may report key performance data differently, and the District and management may not receive sufficient insight into overall project and program performance as it relates to schedule, change orders, contractor fees, claim, and other metrics, for example.

¹ The purpose of value engineering is to improve the value of projects by identifying opportunities to reduce cost while maintaining or improving the essential functions, performance, quality, and safety of the project.

Value Engineering: LACCD may not be maximizing opportunities to increase project value due to the lack of a documented and formalized value engineering process that is incorporated throughout the project lifecycle.

- The term Value Engineering (VE) is mentioned in several areas throughout the *SOPs*, however, the term Value Engineering is not defined in the *SOPs* nor are the required action steps explained at each point in the process where the term is mentioned.
- Leading value engineering practices include a formalized value engineering process that is incorporated throughout the project lifecycle for all major construction projects with tracking and reporting of value engineering activities via a database that provides real time updates and includes prioritization, activity scheduling/tracking, ownership identification and cost estimation.

Procurement Planning: Informal procurement planning by the PMO and CPT for major construction projects may result in limited or incomplete identification, evaluation, and communication of major contracts, contract activities, milestones, and ownership of major procurement activities.

Project Site Security: With informal or limited site security policies and procedures utilized on major construction projects, there may be little or no formal tracking and monitoring of site access, which may not be sufficiently monitored. As a result, LACCD's bond program facilities and project information may be accessed by unauthorized individuals.

Recommendation 1a: Project Management Reporting (Core control): Build should consider incorporating standardized reporting template(s) with their *SOPs*. In addition, Build should incorporate their reporting matrix into the *SOPs* listing all required, reoccurring reports prepared by the PMO, CPT, and contractors, by type, timing, and distribution.

Recommendation 1b: Value Engineering (Support control): Build should consider documenting in their *SOPs* a formalized value engineering process for relevant projects an established dollar threshold, with tracking and reporting of value engineering activities that provides updates and includes prioritization, activity scheduling/tracking, ownership identification and cost estimation.

Recommendation 1c: Procurement Planning (Support control): Build should consider incorporating with their *SOPs* a formalized procurement planning process on all construction projects that includes planning for all major contracts and supplier agreements that is updated and reported on a frequent basis and includes identification of contracts, contract activities, key risks, milestones and ownership of procurement activities.

Recommendation 1d: Project Site Security (Support control): Build and the District should consider documenting formalized site security policies and procedures for monitoring and vetting of project personnel and site access within their *SOPs* and District policies, as applicable

Table 2 – PROGRAM PROCESS RATING BY SUB-CATEGORY PROCESS AREA

The table below summarizes the District’s bond program’s rating for each of the 39 sub-category process areas.

Overall Score: 3.33							
Score: 3.3	Score: 3.04		Score: 3.38	Score: 3.51	Score: 3.3		
Strategy, Organization, & Administration	Cost & Financial Management		Procurement Management	Project Controls & Risk Management	Schedule Management		
Project Strategy & Authorization	Project Budgeting	Variance Analysis	Procurement Planning	Contracting & Contract Standards	Change Management	Compliance Auditing	Schedule Development Stands & Processes
Policies & Procedures	Payment Processing & Administration	Project Cost Coding	Solicitation Planning	Contract Administration	Risk Management	Project Site Security	Schedule Change Management
Project Management Reporting	Project Cost Reporting	Cash Disbursement Tracking & Cash Flow Reporting	Solicitation	Contract Closeout	Design Standards & Specifications	Quality Control & Inspection	Schedule Management Process
Communications Planning	Estimating & Contingency Management	Historical Trend Analysis	Source Selection	Materials Management	Regulatory Compliance	Environmental, Health & Safety	Schedule Integration
Roles & Responsibilities	Forecasting	Value Engineering			Project Assessments		
Project Planning & Integration Management							
Systems & Tools (Project Infrastructure)							
Document Management							

Legend

Core Process Control

Support Process Control

Score	Tier	Rating	Rating Description
≥3.5	Tier 4	Optimized	Integrated controls have been designed and are adequately documented, with real-time monitoring being completed and continuous improvement efforts underway to refine the control framework.
2.5 to 3.49	Tier 3	Monitored	Controls have been designed and are adequately documented for standardized use across the company. Some periodic testing is completed to report to management on the effective design and operation of the controls.
1.5 to 2.49	Tier 2	Standardized	Many controls have been designed and are adequately documented; but there are no established monitoring activities from which to test and improve the control framework.
1 to 1.49	Tier 1	Unreliable/ Informal	Unpredictable environment where many controls are not designed or in place, in which no documentation exists, and therefore, no monitoring or improvement activities are occurring. Some controls may have been designed but are not adequately documented, monitored, or refined.

Procurement

The FY2015/16 Performance Audit results indicated that the District has formal, standard operating procedures over the procurement process. Our prior audit of procurement in FY2011/12 identified limitations in the District's retention of procurement documentation. As a result, we were not able to conclude that the District's procurement process was effective, efficient, or in line with leading practices.

This year, we noted changes were implemented to the District's procurement practices, including the District's application of PlanetBids for procurement. PlanetBids is a web-based eProcurement solution that also used by several other public entities in California. This practice appears to have contributed to a more efficient and effective procurement process.

Additionally, BuildLACCD made changes to its procurement policies and procedures, *Standard Operating Procedures (SOPs)*. We identified the following additional areas that could further enhance the process:

2a. The LACCD bond program Standard Operating Procedures (SOPs) for Contracts and Procurement Management currently do not reference two procurement/contracting methods used by the Program: (a) Construction Orders and (b) pre-qualified Multiple Award Task Order Contracts (MATOC). (Low/Medium)

Criteria: The bond program *SOP's dated May 24, 2016*, specifically, the *Professional Services Contract Management Procedure: Multiple Award Task Order Contracts* and the *Design Bid Build Contract Management Procedure: Projects of \$45,000 or less*, establishes and defines the procurement requirements.

Condition: In our discussions with the PMO about the procurement process, it was explained that there is a procedure for a Multiple Award Task Order Contract (MATOC) procurement of pre-qualified construction service providers. This type of MATOC procurement is currently not incorporated with the *SOPs*.

The Parking Lot Improvements at Pierce Center for the Sciences project at LAPC was procured through a construction order, which is currently used as a contract option for construction less than \$30,000; however, this contracting method is not defined in the *SOPs* and the template used is not incorporated with the *SOPs*. This limit was originally set by the District.

Cause: The Procurement *SOPs*, just like the overall *SOPs*, are continually refined by BuildLACCD and have not yet documented all permitted procurement methods. The *SOPs* do not include defined prequalified service provider tier assignments based on contract values for MATOC procurements nor do they include a reference to the use of construction orders for procurement.

Effect: Contract values serve as a driver for MATOC procurement. Lack of specified contract value limits may lead to inconsistencies in awarding contracts, and lack of transparency and adherence to the *SOPs* during the procurement process. In addition, a lack of documented procurement *SOPs* related to the use of construction orders may lead to inconsistencies during the procurement process.

Recommendation 2a: BuildLACCD should update MATOC procurement procedures to include the process for pre-qualified constructions service providers. BuildLACCD should also update the *SOPs* to include the process and requirement for the use of construction orders: the construction order contracting document should be updated to reflect the \$45,000 limit and included with the *SOPs*.

2b. Supporting documentation for procurement is at times incomplete. (Low)

Criteria: LACCD bond program SOP, Contracts and Procurement Management, effective May 24, 2016 establishes and defines procurement requirements.

Design Bid Build Contract Management Procedure: Projects of \$45,000 or less.

Professional Services Contract Management Procedure: Individual Procurement Exceeding \$87,800 Design Build Contract Management Procedure

Design Bid Build Contract Management Procedure: Projects over \$175,000

- Article 6.1.a states that, “PMO Program Controls confirms the available budget for the scope of work before PMO Contracts proceeds with procurement activities.”
- Article 8.2 states that, “The Construction Contracts Liaison (CCL) obtains confirmation from PMO Program controls that sufficient funds are available.”
- Article 7.2.1.b states that, “Budget Transfer or Project Budget Verification Form, signed, with transmittal copied to College President (or other verification of College President’s knowledge).”
- Article 7.2.2 states that, “The Notice to Bidders process also involves CPT/Construction Contracts Liaison (CCL) confirmation that estimates are aligned with the PMO Program Controls Budget.”
- Article 7.5.9 states that, “The Contract Administrator, CPT and Regional Program Liaison (RPL) will ascertain that the contractor has complied with all pre-award and post award requirements.”

Condition: Procurement documents do not consistently include evidence of required confirmations, approvals and validations. During our testing for existence and compliance of required procurement supporting documentation we noted 9 of 97 tests that failed or could not be performed due to missing or incomplete documentation. The test results relate to seven specific contracts out of ten contracts sampled in total:

- A project budget verification form or other verification or other sufficient form of verification of College President’s knowledge, as required by the SOPs, was not included with the procurement documentation for the following solicitation:
 - Design-bid-build (DBB) Parking Lot Improvements at Pierce Center for the Sciences project at Los Angeles Pierce College (LAPC).
- Confirmation of available budget for procurement was not included with the procurement documentation for the following solicitations:
 - OCIP Brokerage and Administrative Services throughout the District.
 - Multi-discipline Architectural-Engineering Design Services, the School of Math and Science at the Los Angeles Southwest Community College (LASC).
- Project budget verification forms were not validated (signed) by the Program Manager or Program Controls for the following solicitations:
 - Pierce Automotive CIP Architect of Record (LAPC).
 - Valley Central Plant project at Los Angeles Valley College (LAVC).
- CPT/CCL confirmation that estimates align with PMO for DBB task orders were not available for the following projects:
 - Performing Arts Amphitheater at West Los Angeles College (WLAC).
 - Central Plant Phase 2 (WLAC).
- Contract Administrator, CPT and RPL confirmation of contractor compliance with all pre- and post-award requirements for DBB task orders for the following projects:
 - Performing Arts Amphitheater (WLAC).
 - Central Plant Phase 2 at (WLAC).

Cause: The SOPs are not explicit in terms of how certain actions steps involving confirmation,

verification or compliance of various process requirements are to be documented and how that documentation should be retained.

In the case of the missing confirmations for available budget and estimate alignment, there were no specific forms or documents available to show record that this verification occurred. While the project budget verification forms were not signed as validated by the Program Manager or Program Controls, they were signed as prepared by Project Controls. Additionally, while a 'Responsiveness Check' document and the 'Task Order' document was provided to satisfy the pre-award and post-award requirements, respectively, neither of these documents serve the purpose of verifying requirements are met specifically during the pre-award and post award phases.

As a result of the lack of explicit compliance documentation requirements in the *SOPs*, it was not clear if the *SOPs* were followed or enforced by Program Manager.

Effect: The *SOPs* establish required documents, confirmation and approvals necessary for procurement. When these requirements are not obtained, the procurement and award process may be incomplete and prone to errors or project complications during construction. Missing documents in a database result in no back up of the original document and delays with document retrieval. Additionally, the Program Manager may not have confirmed that there are sufficient funds available to complete the project.

Recommendation 2b-1: The District should document all procurement confirmations, approvals and validations specific to their purpose to ensure they are official and traceable.

Recommendation 2b-2: Build should incorporate the documentation requirements above with the *SOPs*.

2c. Procurement documents do not incorporate a consistent naming convention and at times are not readily available electronically. (Low)

Criteria: LACCD bond program Standard Operating Procedures (*SOPs*) for Contracts and Procurement Management, date May 24, 2016 establishes and defines the procurement requirements.

- *Professional Services Contract Management Procedure: Multiple Award Task Order Contracts*
- *Professional Services Contract Management Procedure: Individual Procurement Exceeding \$87,800*
- *Design Bid Build Contract Management Procedure: Projects of \$45,000 or less*
- *Design Bid Build Contract Management Procedure: Projects over \$175,000*
- *Design Build Contract Management Procedure*
- *Master Agreement Contract Management Procedure: Formal Bids, exceeding \$87,800*

Condition: Procurement documents were difficult to locate in DocView, which serves as the bond program's primary document repository. No procedure or naming convention is incorporated in the *SOPs* to facilitate easy location reference and searchable terms of specific documents, whether maintained in DocView or located elsewhere.

Cause: Build maintains at least two document repositories, one for open Procurement files and DocView for completed solicitations. DocView also incorporates other Build documents as it serves as the Program's main document control tool. The two separate systems follow two different naming conventions, neither which is references by the *SOPs*.

Effect: As a result of the two document filing systems and the lack of a documented and meaningful naming convention to facilitate swift location and retrieval of documents, documents required for the audit needed to be located and retrieved by BuildLACCD and subsequently uploaded to DocView or

sent to the auditors to accommodate the audit requests. The lack of a formally documented naming convention and searchable terms incorporated with the *SOPs* also made searching for required documents in DocView more difficult for Build team members. Additionally, the lack of a naming convention also attributes to overlooking a document that actually has been uploaded to DocView and further complicates and delays document retrieval.

Recommendation 2c: Build should retain all relevant procurement documents based on the *SOPs* and track submission into DocView or other meaningful repository to ensure location, availability and completeness at any given point of the Procurement process (as well as other processes). Incorporating a formal naming convention will also help to improve document accessibility.

Expenditures

3. **Certain invoiced amounts do not comply with the contractual terms and conditions, and supporting documentation is incomplete by immaterial amounts. (Low)**

Prior Performance Audit results have indicated that that certain invoices related to bond expenditures did not comply with contractual terms and conditions and/or did not contain adequate supporting documentation to support the charges. Areas of non-compliance included missing required forms and signatures, incorrectly calculated invoice amounts, and expenditures that were not compliant with certain terms and conditions of the governing contract. Our audit findings have been minor in nature and have not resulted in significant overbillings to the District.

This year, we have one repeat finding. Although the finding is minor, the District would still benefit from making adjustments to certain contractual clauses or invoice practices. Specifically, we identified the following opportunities for improvement:

Condition:

- Seven invoices in the amount of \$203,134 did not include conditional or unconditional waivers as required by the contract terms. According to the District, waivers are not required for professional services and do not apply. However, this should be reflected in the contract. (This is a repeat observation.)
- Six invoices in the amount of \$104,032 did not include a narrative progress report as required by the contract terms. According to the District, the invoices are for professional services and a narrative progress report does not apply. However, this should be reflected in the contract.

Cause: Some of the contractual requirements do not apply and, therefore, were not enforced by the project team, while other invoicing requirements have been overlooked.

Effect: The District may be subject to overcharges or unwarranted liens due to lacking and/or complying with proper contract terms and conditions.

Recommendation 3: The District should ensure appropriate contract terms related to contractor and vendor billings are executed and subsequently followed.

MANAGEMENT RESPONSES

N.	FY16 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	BuildLACCD Process Owner
OBSERVATIONS OVER SOP REVIEW				
1a	<p>Project Management Reporting (Core control)</p> <ul style="list-style-type: none"> The SOPs do not include standardized report templates or format for weekly/monthly progress reporting, internal or external or for routine compliance testing to confirm that weekly/monthly progress reporting is consistently prepared and follows a standardized format. Although the monthly Dashboard Report is named, it is not incorporated as a template. 	<p>Effect: Without standardized reporting templates for external and internal KPI reporting and instructions how to prepare it incorporated with the SOPs, individuals tasked with reporting may report key performance data differently, and the District and management may not receive sufficient insight into overall project and program performance as it relates to schedule, change orders, contractor fees, claim, and other metrics, for example.</p> <p>Recommendation: Build should consider incorporating standardized reporting template(s) with their SOPs. In addition, Build should incorporate their reporting matrix into the SOPs listing all required, reoccurring reports prepared by the PMO, CPT, and contractors, by type, timing, and distribution.</p>	<p><i>The Program Management Team feels requirements for standardized reports, including weekly/monthly progress reports at Program and Project levels, are included throughout the SOPs, including in the PMA 1.0 Overview and PMO Internal Policy SOP; PMA 5.0 Budget and Cost Management SOP; PMA 6.0 Schedule Management SOP; PMA 7.0 Finance/Accounting Management SOP; PMA 10.0 Risk Management SOP; and CP 3.0 Safety SOP. Additionally, internal monthly project progress reporting is documented during the Program Controls guided Campus Regional Review work sessions conducted for full compliance by the Deputy Program Director and Program Controls department lead. All reporting output is recorded and verified in standardized templates, and delivered to the CFE on a monthly basis, including the standardized monthly Dashboard Report posted to the BuildLACCD.org public website.</i></p> <p><i>However, the Program Management Team will review the SOPs for needed additional guidance on requirements for specific templates that Bond Program teams need to utilize to prepare these various reports.</i></p>	Kathleen Copus

N.	FY16 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	BuildLACCD Process Owner
	<ul style="list-style-type: none"> Although required reports related to progress, cost, and schedule are mentioned throughout the SOPs there is not a comprehensive reporting matrix included with the SOPs to clearly identify all reports by type, timing, responsible entity, and distribution. The PMT provided a matrix, but it is not referenced by the SOPs. 		<p><i>Late in 2013, and in the ongoing effort to track and monitor reporting compliance, a fully detailed PMO Reporting Deliverables Matrix was developed, clearly identifying all required PMO reports by type, timing, point of contact and distribution in compliance with the basic services agreement. In response to the needs of the District, in May 2015, the PMO provided and the LACCD Chief Facilities Executive authorized an update to this Deliverables Matrix showing a revised PMO-suggested frequency of reporting interval(s). This Deliverables Matrix has been subsequently updated and continues to be utilized to manage and direct PMO reporting efforts.</i></p> <p><i>The Program Management Team will review the SOPs, in particular the Overview and PMO Internal Policy SOP, to incorporate language referencing this Deliverables Matrix as a reports management tool.</i></p>	<p>Kathleen Copus</p>

N.	FY16 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	BuildLACCD Process Owner
	<ul style="list-style-type: none"> Dashboard reports do not include overall or project metrics on schedule, such as original completion date, forecasted completion date, schedule variance, and percentage completion. Additional metrics that may be important for management to analyze trend and historical data are not tracked and reported. These additional metrics may include the Recordable Incident Rate, the Lost Daily Case Rate, number and amount of contractor claims, number and amount of project rework, AE Fee percentage, CM/GC Fee percentage and amount, price per square foot, change order percentage, and earned value management statistics. Dashboard reporting requirements should be defined in the SOPs. 		<p><i>The new enhanced Dashboard Report to be produced in October 2016 incorporates updated schedule data for each active sub-project in the program, including active construction physical percent complete. The monthly Campus Regional Reviews include a project health check reviewing and comparing current forecasts to the April 2016 Deep Dive Forecasts.</i></p> <p><i>In addition, PMO notes that some of additional KPMG noted metrics are considered confidential information and therefore are not appropriate for the published public Dashboard report. Some of these metrics are tracked and reported in separate KPI reports and/or to client separately. PMO will review and consider these recommendations for possible implementation.</i></p>	<p>Kathleen Copus Jennifer Salinas</p>
<p>1b</p>	<p>Value Engineering (Support control)</p> <p>Although value engineering activities may be performed on projects, there is not a formal, documented value engineering process with tracking, reporting, and monitoring of value engineering activities.</p>	<p>Effect: LACCD may not be maximizing opportunities to increase project value due to the lack of a documented and formalized value engineering process that is incorporated throughout the project lifecycle.</p> <ul style="list-style-type: none"> The term Value Engineering (VE) is mentioned in several areas 	<p><i>The PMO regularly implements value engineering and other cost savings practices despite the lack of a formal process. PMO will add the Value Engineering (VE) definition to the SOPs as part of adding additional VE narrative in the SOPs.</i></p>	<p>Nader Farnoush Daynard Tullis</p>

N.	FY16 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	BuildLACCD Process Owner
		<p>throughout the SOPs, however, the term Value Engineering is not defined in the SOPs nor are the required action steps explained at each point in the process where the term is mentioned.</p> <ul style="list-style-type: none"> • Leading value engineering practices include a formalized value engineering process that is incorporated throughout the project lifecycle for all major construction projects with tracking and reporting of value engineering activities via a database that provides real time updates and includes prioritization, activity scheduling/tracking, ownership identification and cost estimation. <p>Recommendation: Build should consider documenting in their SOPs a formalized value engineering process for relevant projects an established dollar threshold, with tracking and reporting of value engineering activities that provides updates and includes prioritization, activity scheduling/tracking, ownership identification and cost estimation.</p>		

N.	FY16 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	BuildLACCD Process Owner
1c	<p>Procurement Planning (Support control)</p> <p>There is not a documented requirement in the SOPs to develop, review, approve, and monitor a formal project procurement plan for all projects above an established dollar threshold that is standardized across the bond program. A procurement planning process ensures that all contract activities and contract milestones are identified, and that the procurement plan is regularly updated and communicated. Leading practices procurement plans include/address the following:</p> <ul style="list-style-type: none"> • Identify which services are needed and which will be provided internally along with supporting justifications, key risks, assumptions/constraints, and market analysis. • Identify all owner procured equipment and responsible party. Identify contract type/form for each major service and whether the contract will be 	<p>Effect: Informal procurement planning by the PMO and CPT for major construction projects may result in limited or incomplete identification, evaluation, and communication of major contracts, contract activities, milestones, and ownership of major procurement activities.</p> <p>Recommendation: Build should consider incorporating with their SOPs a formalized procurement planning process on all construction projects that includes planning for all major contracts and supplier agreements that is updated and reported on a frequent basis and includes identification of contracts, contract activities, key risks, milestones and ownership of procurement activities.</p>	<p><i>Procurement planning for major capital improvements and smaller design-bid-build construction projects procured through the Prequalified Construction Service Provider (PQSP) multiple award task order contract is performed on a weekly basis through a coordination meeting between Contracts, Construction, and Program Controls utilizing the Program P6 Milestones in the Bid & Award phase</i></p> <p><i>The results of this meeting are a schedule matrix comparing current procurement schedules to the April 2016 Baseline Schedule. This matrix is recorded and presented to Senior Staff weekly and to the District at the weekly Touch Base update.</i></p> <p><i>Procurement planning and aggressive management of procurement schedule have resulted in an average tender-to-award duration of 112 days. This is an improvement of 39.4% over the 185-day average pre-April 2013.</i></p> <p><i>A formal Procurement Planning process will be incorporated into the SOP in the next update cycle.</i></p>	Bryan Payne

N.	FY16 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	BuildLACCD Process Owner
	<p>competitively bid. This will include identifying which business unit/department is responsible for developing the scope statement.</p> <ul style="list-style-type: none"> Major milestones for each contract. Owner's and actions for each procurement activity. 			
1d	<p>Project Site Security (Support control)</p> <p>There are no formal site security policies and procedures in the SOPs that identify requirements for physical site access, video cameras, background checks, etc. Although contractor responsibilities are incorporated into their respective contracts, the SOPs do not reference them. The language in the contracts is general in nature and does not include all leading practices.</p> <p>Leading practices may include formalized site security policies and procedures utilized on all major construction projects with real time tracking of project personnel (professional services, construction, as well as Build and District personnel) via electronic badging system and project video cameras setup</p>	<p>Effect: With informal or limited site security policies and procedures utilized on major construction projects, there may be little or no formal tracking of internal and external project site personnel, which may not be sufficiently monitored. As a result, LACCD's bond program facilities and project information may be accessed by unauthorized individuals.</p> <p>Recommendation: Build and the District should consider documenting formalized site security policies and procedures for monitoring and vetting of project personnel and site access within their SOPs and District policies, as applicable.</p>	<p><i>RE: Campus security - The District has operational policies and procedures that are implemented in coordination with the Sheriff's department on each campus. This is not part of the PMO contractual responsibility.</i></p> <p><i>The District construction contracts make provisions Project Site Security – This appears to be two separate issues. Construction site security and background checks for personnel who work on the program.</i></p> <p><i>RE: construction site security – security of the contractually defined limits of the construction site is the responsibility of the General Contractor. This requirement is contained within their respective contracts. The methodology for securing the area is part of the contractor's means and methods and</i></p>	Bryan Payne

N.	FY16 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	BuildLACCD Process Owner
	<p>throughout project sites. District Project personnel may be vetted via formal background checks and project personnel may be required to pass drug screening, as required. Site security should perform frequent and routine project site security checks that are documented and all incidences are formally documented, tracked and investigated.</p>		<p><i>must comply with the terms of the contract and standard industry practice. The General Contractor is also responsible for complying with the security requirements in place at the College Campus. Campus security policy is the responsibility of the College not the PMO.</i></p> <p><i>RE: screening of professional service personnel – There is no statutory requirement for community college districts to perform background checks on the employees of independent contractors performing work for the District. Without a statutory requirement for these checks it is a District decision whether to require them or not. Build is not legally in a position to impose such a requirement and as a result cannot unilaterally issue a policy as part of its SPOs. The District has indicated a desire to begin performing background checks of professional personnel and has engaged an outside labor law firm to develop this policy. Once put in place by the District, the PMO will incorporate the policy into its SPOs.</i></p> <p><i>As it relates to construction personnel, while section 45125.1 of the Education Code provides for background checks for contractors working with K-12 school districts, there is no parallel requirement for community college districts. In fact, in 1999, the Legislature rejected Senate Bill No. 358 that would have placed this requirement on community colleges. Again the decision to</i></p>	

N.	FY16 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	BuildLACCD Process Owner
			<p><i>require background checks for construction personnel is one that is a District option. Until the District puts such a policy in place, Build is not in a legal position to require them. If a District policy is issued, Build will incorporate it into its SPOs.</i></p>	
OBSERVATIONS OVER PROCUREMENT REVIEW				
2a	<p>The LACCD bond program Standard Operating Procedures (SOPs) for Contracts and Procurement Management do not include certain procurement requirements used by the bond program. (Low)</p> <p>The bond program SOP's dated May 24, 2016, specifically, the Professional Services Contract Management Procedure: Multiple Award Task Order Contracts and the Design Bid Build Contract Management Procedure: Projects of \$45,000 or less, establishes and defines the procurement requirements.</p> <p>In our discussions with the PMO about the procurement process, it was explained that part of the procedure for a Multiple Award Task Order Contract (MATOC)</p>	<p>Effect: Contract values serve as a driver for MATOC procurement. Lack of specified contract value limits may lead to inconsistencies in awarding contracts, and lack of transparency and adherence to the SOPs during the procurement process. In addition, a lack of documented procurement SOPs related to the use of construction orders may lead to inconsistencies during the procurement process.</p> <p>Recommendation: BuildLACCD should update MATOC procurement procedures to include the process for pre-qualified constructions service providers. BuildLACCD should also</p>	<p><i>The Prequalified Construction Services Provider Multiple Award Task Order Contract (PQSP Bench) is a new process for bidding design-bid-build projects under \$2.5million in value. This process and the associated contracts were approved by the Board of Trustees in April 2016 just before commencement of this Performance Audit. Projects are bid to the entire bench of prequalified providers and selection goes to the lowest bidder in accordance with the provisions of Public Contract Code.</i></p> <p><i>Bidders may only bid up to the single-project limit of their bonding capacity. This ensures that there is no inconsistency in awarding task orders to contractors who do not have the capacity. Upon advice of counsel, enforcing specific tier assignments was deemed improper and could improperly limit</i></p>	Bryan Payne

N.	FY16 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	BuildLACCD Process Owner
	<p>procurement of pre-qualified construction service providers. This type of MATOC procurement is currently not incorporated with the SOPs.</p> <p>The Parking Lot Improvements at Pierce Center for the Sciences project at LAPC was procured through a construction order, which states it is a contract option for construction less than \$30,000; however, this contracting method is not defined in the SOPs and the template used is not incorporated with the SOPs.</p>	<p>update the SOPs to include the process and requirement for the use of construction orders: the construction order contracting document should be updated to reflect the \$45,000 limit and included with the SOPs.</p>	<p><i>competition within the bench. Accordingly, the bonding capacity limit serves as the limitation and enforcement of consistency.</i></p> <p><i>An SOP providing guidance to the use of the PQSP Bench will be issued pending revision of SOP Section 7.0 Design-Bid-Build Construction Contracts in the next SOP revision cycle. Because bidding of design-bid-build projects including those procured under the PQSP Bench are specifically addressed in SOP Section 7.0 in accordance with Public Contract Code and the California Uniform Construction Cost Accounting Act (CUPCAA), this risk should be deemed low.</i></p> <p><i>Construction Orders are a form of contract used only for small informal bids. The process for procuring informal bids (\$45,000 or less) is specifically addressed in SOP Section 7.2.1, page 30 in accordance with Public Contract Code Section 22032 and Board Rule 7103.08. Accordingly this risk should be deemed low.</i></p> <p><i>An SOP will be issued to provide guidance on the use of Construction Orders for design-bid-build projects under \$30,000 pending revision of SOP Section 7.2.1 to specifically address the use of Construction Orders in the next update cycle.</i></p>	

N.	FY16 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	BuildLACCD Process Owner
			<i>An SOP will be issued to provide guidance on the use of Construction Orders for design-bid-build projects under \$30,000 pending revision of SOP Section 7.2.1 to specifically address the use of Construction Orders in the next update cycle.</i>	
2B	<p>Supporting documentation for procurement is at times incomplete. (Low)</p> <p>2b.1 A project budget verification form or other verification or other sufficient form of verification of College President's knowledge, as required by the SOPs, was not included with the procurement documentation for the following solicitation:</p> <ul style="list-style-type: none"> Design-bid-build (DBB) Parking Lot Improvements at Pierce Center for the Sciences project at Los Angeles Pierce College (LAPC). <p>2b.2 Confirmation of available budget for procurement was not included with the procurement documentation for the following solicitations:</p> <ul style="list-style-type: none"> OCIP Brokerage and Administrative Services throughout the District. Multi-discipline Architectural-Engineering Design Services, the School of Math and Science at the Los Angeles Southwest Community College (LASWC). 	<p>Effect: The SOPs establish required documents, confirmation and approvals necessary for procurement. When these requirements are not obtained, the procurement and award process may be incomplete and prone to errors or project complications during construction. Missing documents in a database result in no back up of the original document and delays with document retrieval. Additionally, the Program Manager may not have confirmed that there are sufficient funds available to complete the project.</p> <p>Recommendation 2b-1: The District should document all procurement confirmations, approvals and validations specific to their purpose to ensure they are official and traceable.</p>	<p><i>2b.1 This issue is being addressed through the implementation of PMIS. Because PMIS will not allow procurement to proceed without budget authorization, this risk should be deemed low.</i></p> <p><i>2b.2 This issue is being addressed through the implementation of PMIS. Because PMIS will not allow procurement to proceed without appropriate approvals in accordance with the SOP, this risk should be deemed low.</i></p> <p><i>2b.3 This issue is being addressed through the implementation of PMIS. Because PMIS will not allow procurement to proceed without appropriate approvals in accordance with the SOP, this risk should be deemed low.</i></p> <p><i>2b.4 This issue is being addressed through the implementation of PMIS. Because PMIS will not allow procurement to proceed without appropriate approvals in accordance with the SOP, this risk should be deemed low.</i></p> <p><i>2b.5 This issue is being addressed through the implementation of PMIS. Because PMIS will not allow procurement to proceed without</i></p>	<p>Bryan Payne Jennifer Salinas</p>

N.	FY16 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	BuildLACCD Process Owner
	<p>2b.3 Project budget verification forms were not validated (signed) by the Program Manager or Program Controls for the following solicitations:</p> <ul style="list-style-type: none"> • Pierce Automotive CIP Architect of Record (LAPC). • Valley Central Plant project at Los Angeles Valley College (LAVC). <p>2b.4 CPT/CCL confirmation that estimates align with PMO for DBB task orders were not available for the following projects:</p> <ul style="list-style-type: none"> • Performing Arts Amphitheater at West Los Angeles College (WLAC) • Central Plant Phase 2 (WLAC). <p>2b.5 Contract Administrator, CPT and RPL confirmation of contractor compliance with all pre- and post- award requirements for DBB task orders for the following projects:</p> <ul style="list-style-type: none"> • Performing Arts Amphitheater (WLAC). • Central Plant Phase 2 (WLAC). 	<p>Recommendation 2b-2: Build should incorporate the documentation requirements above with the SOPs.</p>	<p><i>appropriate approvals in accordance with the SOP, this risk should be deemed low.</i></p>	
2c	<p>Procurement documents do not incorporate a consistent naming convention and at times are not readily available electronically. (Low)</p>	<p>Effect: As a result of the two document filing systems and the lack of a documented and meaningful naming convention to facilitate swift location and retrieval of documents, documents</p>	<p><i>Procurement documents for fully executed contracts are stored in the DocView document control system. Working procurement documents for ongoing procurements are contained in the PlanetBids bidding system pending full execution and</i></p>	<p>Bryan Payne</p>

N.	FY16 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	BuildLACCD Process Owner
	<p>Procurement documents were difficult to locate in DocView, which serves as the bond program’s primary document repository. No procedure or naming convention is incorporated in the SOPs to facilitate easy location reference and searchable terms of specific documents, whether maintained in DocView or located elsewhere.</p>	<p>required for the audit needed to be located and retrieved by Build and subsequently uploaded to DocView or sent to the auditors to accommodate the audit requests. The lack of a formally documented naming convention and searchable terms incorporated with the SOPs also made searching for required documents in DocView more difficult for Build team members. Additionally, the lack of a naming convention also attributes to overlooking a document that actually has been uploaded to DocView and further complicates and delays document retrieval.</p> <p>Recommendation: Build should retain all relevant procurement documents based on the SOPs and track submission into DocView or other meaningful repository to ensure location, availability and completeness at any given point of the Procurement process (as well as other processes). Incorporating a formal naming convention will also help to improve document accessibility.</p>	<p><i>storage in DocView. Also, a redundant paper procurement file is maintained as a backup.</i></p> <p><i>The samples chosen were at different stages in the procurement lifecycle. Consequently, some documents available in PlanetBids were not available in DocView.</i></p> <p><i>Because the entire procurement file is uploaded to DocView after Board award and execution of the contract, this risk should be deemed low.</i></p> <p><i>A revised naming convention and cross-reference system will be issued in the next Contracts SOP update cycle.</i></p>	
3	<p>Certain invoiced amounts do not comply with the contractual terms and</p>	<p>Effect: The District may be subject to overcharges or unwarranted liens due to lacking and/or</p>	<p><i>The contracts with upcoming expiration dates will be allowed to expire.</i></p>	<p>Chris Bushra Bryan Payne</p>

N.	FY16 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	BuildLACCD Process Owner
	<p>conditions, and supporting documentation is incomplete. (Low)</p> <ul style="list-style-type: none"> Seven invoices in the amount of \$203,134 did not include conditional or unconditional waivers as required by the contract terms. According to the District, waivers are not required for professional services and do not apply. However, this should be reflected in the contract. (This is a repeat observation.) Six invoices in the amount of \$104,032 did not include a narrative progress report as required by the contract terms. According to the District, the invoices are for professional services and a narrative progress report does not apply. However, this should be reflected in the contract. 	<p>complying with proper contract terms and conditions</p> <p>Recommendation 3: The District should ensure appropriate contract terms related to contractor and vendor billings are executed and subsequently followed.</p>	<p><i>The professional services contracts in the 1000 series noted are in the process of being updated and amended; these provisions will also be addressed in that amendment. This amendment is expected to be completed by the end of November 2016.</i></p> <p><i>All other professional services contracts carrying these provisions will be amended according to Recommendation 3 in Q1 2017.</i></p>	

APPENDIX A – LIST OF ACRONYMS

Acronym	Definition
AECOM	Program Manager or AECOM Technical Services, Inc.
AE	Architect/Engineering (firm)
AIA	American Institute of Architects
BOT or Board	Board of Trustees
BuildLACCD	Los Angeles Community College District Program Management Office, a blended program management team consisting of URS or AECOM (after April 4, 2013), other consultants, and members of the District.
CII	Construction Industry Institute
CM	Construction Manager
COI	Conflicts of Interest
CPM	College Project Manager
CPT	College Project Team
DB	Design-Build
DBB	Design-Bid-Build
DCOC	District Citizens' Oversight Committee
DocView	Document records and storage system maintained by Program Manager
EAC	Estimated Cost at Completion (for a project)
ELAC	East Los Angeles College
GAS	Government Auditing Standards
GAO	Government Accountability Office
GC	General Contractor
IOR	Inspector of Record
KPMG	KPMG LLP
LACC	Los Angeles City College
LACCD or District	Los Angeles Community College District
LAHC	Los Angeles Harbor College
LAPC	Los Angeles Pierce College
LASC	Los Angeles South College
LASWC	Los Angeles Southwest College
LATTC	Los Angeles Trade Technical College
LAVC	Los Angeles Valley College
MATOC	Multiple Award Task Order Contracts Technical Services
OCIP	Owner Controlled Insurance Program
PM or PMO	Program Manager or Program Management Office
PMI	Program Management Institute
PMIS	Program Management Information System
PMP	Program Management Plan
SOPs	Standard Operating Procedures Manual
Touchpoints	Program Touchpoints Handbook
UII	Universal Inquiry Interface
URS	URS Corporation (Program Manager from March 2007 to April 2013)
VE	Value Engineering
WLAC	West Los Angeles College

APPENDIX B – SUMMARY OF MANAGEMENT’S PLANS

(Improvements reported by BuildLACCD, and not subject to audit)²

The current PM has continued many initiatives to improve the bond program under its current leadership. Below are examples of leading practices that started during and after the period of audit, as represented by management, but have not yet been audited by KPMG:

Program Improvements:

- 18 *Standard Operating Procedures (SOPs)* were created or revised
- Over 140 bond program forms were reviewed and/or revised for enhanced efficiencies
- Program level and college level *Key Performance Indicators (KPIs)* criteria were reviewed and revised for improved reporting
- CPT staff training on accounting principles and fiscal year-end accrual process was enhanced
- Average major procurement tender time is currently 112 days
 - 3.4% improvement from 116 day average reported on prior performance audit
 - 6.7% improvement from 120 day average reported in April 2015
 - 39.4% improvement from 185 day average pre-April 2013
- Zero protests filed in 2016
- Automated email reminders were created and went live in June 2016 to encourage vendors and subcontractors to submit invoices to the program for payment in a timely manner
- The District worked with the BuildLACCD PMO to set up a reserve fund and put it in place in May 2016 to help improve the vendor payment process in order to help reduce the number of payment processing days
- The PMO encouraged prime contractors to pay their subcontractors using electronic funds transfer and several have accommodated as per payment process improvement recommendation from Invoice Payment and Processing Review (IPPR) conducted by Deloitte in June 2016

² KPMG did not audit these “leading practices” against PM represented performance criteria.

- The PMO has been working on improving throughput for vendor payment processing. Starting in January through June 2016, the number of days from receipt of invoice to payment to vendors had been decreased:
 - General Contractor vendors invoice receipt to payment days had declined from 30 to 28 days
 - Multiple Award Task Order Contract (MATOC) vendors invoice receipt to payment days had declined from 27 to 17 days
- In order to improve compliance and expedite approvals, beginning October 2016 Build LACCD PMO has implemented eight electronic workflow processes in PMIS. A coordinated team (led by Accounting, Contracts, Project Controls) developed these workflows to automate approval and posting of the following:
 - Master Service Agreements
 - Master Purchase Agreements
 - Professional Services Agreements
 - Purchase (PO) and Task Orders (TO)
 - Construction Contracts
 - Construction Change Orders
 - PO and TO Financial Close outs
 - Invoice approvals for all of the above

APPENDIX C - SUMMARY AND STATUS OF 2014-15 OBSERVATIONS AND RECOMMENDATIONS

(Management’s response provided by BuildLACCD)

2014-2015 Observations and Recommendations	Management’s Response and Status
<p>1. <u>Scheduling</u></p> <p>1a. The District should update their monthly Dashboard reporting practices to include schedule variances, substantial completion dates, and correct reference to source documentation.</p> <p>1b. The District should start tracking individual line item schedule changes on a monthly basis for purposes of conducting their own internal schedule variance analysis.</p> <p>1c. The District should create and implement uniform scheduling activity codes for project scheduling purposes.</p>	<p><u>Management’s October 2016 Update:</u></p> <p>1a. Closed</p> <p>1b. Open.</p> <p>The PMO Project Controls team has taken great measures to implement new fields in the Program’s P6 scheduling software to capture the Contract NTP and Contract Finish for active Construction projects. Variances are reviewed on a monthly basis. Implementation of a new change management log template incorporating additional data will allow increased visibility on approved contract duration changes.</p> <p>1c. Closed</p>

2014-2015 Observations and Recommendations	Management's Response and Status
<p>2. <u>Budget and Cost</u></p> <p>2a. The District should complete the revised project baseline effort for all projects.</p>	<p><u>Management's October 2016 Update:</u></p> <p>Open</p> <p>In April 2016 the Program performed a bottoms up estimate at each campus on the active projects. The revised baseline was presented to the District and FMPOC but not incorporated in to the LACCD Dashboard at the request of the District. Starting in October 2016, the PMO kicked off a second Estimate at Completion (EAC) update exercise to confirm each active projects bottoms up estimate, and refine where necessary with the intent of incorporating a new baseline by January 2017.</p>

2014-2015 Observations and Recommendations	Management's Response and Status
<p>3. <u>Project Expenditure</u></p> <p>3a. The District should ensure appropriate contract terms related to contractor and vendor billings are executed and subsequently followed.</p>	<p><u>Management's October 2016 Update:</u></p> <p>Open</p> <p>The contracts with upcoming expiration dates will be allowed to expire.</p> <p>The professional services contracts in the 1000 series noted are in the process of being updated and amended; these provisions will also be addressed in that amendment. This amendment is expected to be completed by the end of November 2016.</p> <p>All other professional services contracts carrying these provisions will be amended according to Recommendation 3 in Q1 2017.</p>

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