Subject: **2013-2014 BUDGET ADJUSTMENTS**

In the General Fund, transfer $526,652 from the Contingency Reserve to accounts 100000 and 200000 to provide funding for nine positions in the Educational Services Center. Funding for future years will be provided from an ongoing reduction to the General Reserve. (eBTA: D-0361).

The positions approved for funding are the following:

- Vice Chancellor of Human Resources
- Associate Vice Chancellor of Human Resources
- Administrator of Maintenance and Operating Standards Coordinator
- Energy Program Manager
- Facilities Project Managers (2 positions)
- Senior Research Analyst
- Auditor
- Data Communications Specialist

**Background:** As requested by the Chancellor, on November 13, 2013, the District Budget Committee (DBC) approved funding for an additional nine essential positions in the Educational Services Center. Funding for Fiscal Year 2013-2014 will be from the Contingency Reserve and prorated for the remainder of the fiscal year. (Attachment I)

For future years, funding for these positions will be provided from an ongoing reduction to the General Reserve.

**FISCAL IMPLICATIONS:** This action increases the Educational Services Center’s budget by $526,652 and reduces the Contingency Reserve by the same amount, leaving a balance in the Contingency Reserve of $14,068,100.

**REQUIRES FIVE (5) AFFIRMATIVE VOTES**

Recommended and Approved by: Adriana D. Barrera, Interim Chancellor
### Positions approved for Funding by District Budget Committee on November 13, 2013

<table>
<thead>
<tr>
<th>Office/Position Title</th>
<th>#FTE</th>
<th>Estimated Annual Salary</th>
<th>Approved (Y/N)</th>
<th>Funded Amount (6 months)</th>
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<tbody>
<tr>
<td>Chief Financial Officer's Office</td>
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<tr>
<td>Capital Outlay Accounting Manager</td>
<td>1</td>
<td>99,157</td>
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<tr>
<td><strong>Total Institutional Effectiveness</strong></td>
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<td>0</td>
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<tr>
<td>Office of Educational Programs and Institutional Effectiveness</td>
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<tr>
<td>Senior Research Analyst</td>
<td>1</td>
<td>89,088</td>
<td>Y</td>
<td>44,544</td>
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<td>Research Analyst</td>
<td>1</td>
<td>71,914</td>
<td>Y</td>
<td>35,957</td>
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<tr>
<td><strong>Total Institutional Effectiveness</strong></td>
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<td>71,914</td>
<td>1.0</td>
<td>35,957</td>
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<tr>
<td>Auditor</td>
<td>1</td>
<td>71,914</td>
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<td>35,957</td>
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<td><strong>Total Internal Audit</strong></td>
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<td>71,914</td>
<td>1.0</td>
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<tr>
<td>Facilities</td>
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<td>Administrator of Maintenance</td>
<td>1</td>
<td>112,200</td>
<td>Y</td>
<td>56,100</td>
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<td>Maintenance and Operating Standards Coordinator</td>
<td>1</td>
<td>102,000</td>
<td>Y</td>
<td>51,000</td>
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<td>Energy Program Manager</td>
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<td>98,484</td>
<td>Y</td>
<td>49,242</td>
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<td>Facilities Project Manager</td>
<td>2</td>
<td>176,952</td>
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<td>Human Resources</td>
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<td>Associate Vice Chancellor</td>
<td>1</td>
<td>140,000</td>
<td>Y</td>
<td>70,000</td>
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<td>Vice Chancellor (reclassified from Sr. Associate Vice Chancellor) ($163k-$149k)</td>
<td>1</td>
<td>14,139</td>
<td>Y</td>
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<td>Information Technology</td>
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<td>Data Communications Specialist</td>
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<td>79,504</td>
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<td>39,752</td>
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<td>79,504</td>
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<td><strong>TOTAL SALARIES</strong></td>
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<td>854,064</td>
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<td>341,867</td>
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<td>149,198</td>
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<td><strong>TOTAL</strong></td>
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<tr>
<td></td>
<td>1,195,931</td>
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<td>526,652</td>
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</table>
Summary Statement on Additional 9 Positions
(revised 12-19-13)

**Senior-Research Analyst, Office of Research and Institutional Effectiveness:**

The position is a critical position in the Office of Research and Institutional Effectiveness. It is the primary position responsible for formulating methodologies to address complex educational and public policy issues, strategic planning, accreditation, institutional accountability and effectiveness, and student success, and make recommendations for policies and procedures based on the results.

The senior research analyst also develops, implements, and directs the maintenance of the specialized data systems used for institutional research and planning activities. These systems contain District-wide information on student demographic, assessment, enrollment, achievement, and financial aid and information on college section and course offerings, FTES, and weekly contact hours as well as staffing information and are utilized in research by both colleges and the District Office of Research and Institutional Effectiveness.

This position assists with data-driven decision making and District strategic planning by preparing external and internal scan data (both quantitative and qualitative), constructing data measures corresponding to objectives in the District Strategic Plan, determining methodology for measuring and evaluating progress towards the goals/objectives.

**Auditor, Internal Audit:** IAD approved annual audit plan for 2013/2014 was executed with a budgeted hour that engaged a total of four auditors, a senior auditor, and a director. At the current time, the department is staffed with three auditors and the director. The workload of the department has increased because of the implementation of the whistleblower hotlines and requests from the colleges.
The audit plan includes the completion of one audit area which is below the normal completion rate of an audit department. However, in consideration of the current budget constraints IAD has adjusted its goal to one audit area per year. With the current staff, IAD is unable to complete 39% of its required plan. Additionally, of the 71% completion, IAD is unable to complete 85% of these requests in a timely manner. Our turnaround time for an assignment has increased tremendously. For example, the turnaround time for an investigation has increased from an average of 30 days to 90 days and an audit from an average of 90 days to 150 days.

Please note that budgeted hours are more than available hours with three auditors and one Director. The addition of an auditor will help the Department meets 99% of the scheduled audit plan (a completion of only one audit area “Procurement” for the fiscal year 2013-14).

**Administrator of Maintenance-Maintenance and Operating Standards Coordinator, Facilities:** The District is implementing the Computerized Maintenance Management System (CMMS) module of the SAP software. The District has owned this module since the purchase of the SAP software but has not implemented this module yet. There has been a concentrated effort through the Bond Program to capture all the information about the District’s fixed assets. The information about these assets is housed in the CMMS module and includes things such as warranty information, ongoing maintenance requirements, and records of work performed. This position is responsible for the continued management of the CMMS database.

In addition, this position is responsible for coordinating and tracking of specialized facilities training. The need for specialized facilities training has increased as a result of new and different facility systems being added through the construction and renovation of buildings and infrastructure improvements.

The impact to the District if this position is not filled are:

1. Increased expected maintenance costs
2. Increased equipment downtime
3. Increased level of outsourcing of repairs
4. Inadequate trained facilities staff
5. Increased safety risks

**Energy of Program Manager, Facilities:** In June of 2013 the Personnel Commission changed the title of this position to Utility Program Manager.

The District through the Bond Program has engaged in several energy initiatives which include the development of solar arrays, the building of energy storage systems, the
installation of metering and monitoring systems, and the construction of central plants, as well as, several other energy savings retrofits. In addition, the District has entered into several solar purchase and lease agreements, energy savings company (ESCOs) agreements, and applied for many energy incentives and grants. This position is instrumental in the review and follow-up to ensure the District is receiving what was promised. This position will also review utility usages throughout the district looking for abnormalities and investigate any discrepancies while making operational recommendations for improvements. The goal is to maintain a comfortable learning environment while achieving a reduction in utility consumption and expenditures.

The risks to the District if this position is not filled are:

1. Utilities are not managed and the District spends considerably more than necessary
2. Energy agreements are not monitored and the District spends considerably more than necessary
3. Energy incentives are not managed and the District does not receive eligible funds
4. Excessive downtime in energy production and load shifting increasing the amount the District will spend in utilities
5. Harder to maintain a comfortable learning environment

**Facilities Project Manager, Facilities:** The District has over 500 buildings and the Bond Program is only touching about 200 of these buildings. The District’s Facilities Planning and Development department has the responsibility of managing all of the district projects over $125,000. LACCD employs project managers that handle all projects above $125,000 that are non-bond fundable.

Five years ago the District had six project managers. Since then four of these project managers have retired. The Facilities Planning and Development department had chosen not to fill the four open project manager positions because of a lack of non-bond construction funding. The current need is to increase the level of LACCD project managers by two.

This need is a result of the Board making the decision to set aside funding to address deferred maintenance issues throughout the district. In addition, the State has indicated there will be additional funding coming to the Districts to help address scheduled maintenance projects. Filling these two existing positions will allow the Facilities Planning and Development department to manage these additional projects.

The risk to the District if these positions are not filled is:
1. A majority of the projects that fall within the price range in which these projects will fall are labor intensive. External company overheads usually charged on projects this size are usually very high. Outsourcing this work would be very costly to the district and considerably more than doing the work using internal staff.

Without augmenting the Facilities Planning and Development department with the addition of the project managers, the deferred maintenance and scheduled maintenance projects will not be accomplished within this fiscal year.

**Vice Chancellor, Human Resources:** Head of the Human Resources division for the District, encompassing HR Operations, Employer-Employee Relations, Employee Benefits, and Health and Safety. Position recognizes additional responsibilities added to HR and replaces the Sr. Associate Vice Chancellor position that was being filled on an interim basis by the former Associate Vice Chancellor of Employer-Employee Relations. Interim assignments are limited in duration by law. The Vice Chancellor of Human Resources has been hired and the appointment was approved by the Board of Trustees at the November 20, 2013 meeting.

**Associate Vice Chancellor, Employer-Employee Relations:** Position is currently vacant. The former Associate Vice Chancellor of Employer-Employee Relations recently served on an interim basis as the Sr. Associate Vice Chancellor of Human Resources until his departure from the District in October 2013. The Associate Vice Chancellor of Employer-Employee Relation leads the District's employee and labor relations activities, including management coaching and consulting, discipline, appeal hearings, arbitrations, negotiations, and union relations. If position is not replaced and left vacant, there will be only one non-management employee remaining in the unit and services to the District will be severely curtailed.

**Data Communications Specialist, IT:** This position is responsible for network infrastructure changes and support. If this position is not filled, there will be an increased risk to all of our technology services. Also technology projects will take longer to complete. This position was already in the existing organizational chart.
Governor’s State Budget Proposal

Major Budget Highlights:
- Proposition 98 guarantee for K-14 estimated at $61.6 billion – 11.4% increase (from $55.3 billion last year)
- $3.3 billion in additional one-time K-14 - proposed to use to pay down deferral obligations

For CCC
- Access - $155.2 million to fund a 3% restoration of access.
- COLA - $48.5 million to fund a statutory COLA of 0.86%
- Student Success - $200 million to support student success programs and strengthen support for underrepresented students.
- Deferred Maintenance and Instructional Equipment - $175 million
- Deferrals - $235.6 million in budget years and $356.8 million proposed in one-time fund to complete payoff deferrals
- Proposition 39 $39 million for energy efficiency projects
- No student fee Increase
Additional Proposals for California Community Colleges

- RDAs – Moving up deadline to determine backfills for any RDA shortfalls - $38.4 million for 2013-14 and $35.6 million for 2014-15
- Categorical Flexibility - allow districts to reallocate up to 25% of funds from select categorical as identified in Student Equity Plans.
- Apportionment stabilization - As you may know, Proposition 30 requires that each district receive at least $100 per FTES from the Education Protection Account created by the ballot initiative. This resulted in additional unfunded obligations to districts that would not have otherwise received state General Fund. The administration proposes to fund these obligations not only for 2014-15 and subsequent years, but also to backfill obligations from 2012-13 and 2013-14. The Governor attempts to further stabilize the base apportionment by estimating local obligations for FTES stability and restoration costs provided in statute. Broadly, these changes are intended to mitigate structural deficits that have plagued the system in recent years.
- Adult Education - The Governor reiterates his commitment to provide funding in the 2015-16 budget to implement plans being developed by regional adult education consortia.
- Innovative Models of Higher Education – $50 million in one-time funding (non-Proposition 98) is proposed for incentive awards that recognize models of innovation in higher education that 1) increase the number of students earning bachelor’s degrees, 2) increase the number of bachelor’s degrees earned within four years, and 3) ease transfer the state’s education system.
Impact to the Los Angeles Community College District

- Access - $13.5 million for a 3% restoration of access (growth).
- COLA - $4.1 million to fund a statutory COLA of 0.86%
- Student Success – Approx. $15 million to support student success programs and strengthen support for underrepresented students.
- Deferred Maintenance and Instructional Equipment - $14 million
- Deferrals - $72 million to complete payoff deferrals
- Proposition 39 $3 million for energy efficiency projects (must apply)
- No student fee Increase
Summary

- District’s 2014-15 Proposed Preliminary Budget will be based on the Governor’s Budget Proposal and include an 3% funded enrollment growth revenue and a 0.86 %.

- Develop a balance budget with minimum impact on the District’s core educational program and services.

- What Don’t We Know?
  - Legislative Response to the Governor’s Proposed State Budget.
  - May Revise Changes?
<table>
<thead>
<tr>
<th>FY2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected Revenue</td>
</tr>
<tr>
<td>Projected Expenditures</td>
</tr>
<tr>
<td>Expenditures over Net Revenue</td>
</tr>
<tr>
<td>Balances Carried Forward for 2012-13</td>
</tr>
<tr>
<td>Projected Ending Balance</td>
</tr>
</tbody>
</table>

Percent of Projected Expenditures: 12.52%
2013-14 Funded Base = 96,893 FTES

2013-14 Budget Year Targets = 100,410 FTES
- Planning Growth Target = 3.63%
- State Funded Enrollment Growth = 1.63%
- District will fund colleges at cost = $2,324 per FTES for a 2% over-cap from Contingency Reserve
### 2013-14 PROJECTED BALANCE

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>General Reserve (6.5%)</td>
<td>33,916,876</td>
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<tr>
<td>Contingency Reserve (3.5%)</td>
<td>18,023,807</td>
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<tr>
<td>Deferred Maintenance Program Reserve</td>
<td>$4,938,275</td>
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<tr>
<td>- Matching fund for State Funded Deferred Maintenance Projects</td>
<td>(1,214,498)</td>
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<tr>
<td>- Funding for Local Deferred Maintenance Projects</td>
<td>(2,699,725)</td>
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<tr>
<td>Remaining Deferred Maintenance Reserve</td>
<td>1,024,052</td>
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<tr>
<td>Amounts Available for College Balances &amp; Others</td>
<td>13,860,805</td>
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</table>

**Total Projected Balances**

$66,825,540
<table>
<thead>
<tr>
<th></th>
<th>2012-13 As of 09/30/13</th>
<th>2013-14 Budget</th>
<th>2013-14 Actual As of 09/30/14</th>
<th>2013-14 Projected As of 09/30/2014</th>
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<tbody>
<tr>
<td><strong>A. BEGINNING BALANCE</strong></td>
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<td>Open Orders</td>
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<td>68,300,163</td>
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<td>ADJUSTED BEGINNING BALANCE</td>
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<td>66,699,483</td>
<td>66,699,483</td>
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<td><strong>B. REVENUE</strong></td>
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<td>Base Revenue (excluding EPA fund)</td>
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<td>Growth</td>
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<td>Workload Reduction</td>
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<td>Education Protection Act Fund (EPA)</td>
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<td>85,692,554</td>
<td>16,465,329</td>
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<td>Adjustments for Prior years</td>
<td>4,039,093</td>
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<td>Deficit</td>
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<td>Part-time Faculty Office Hours</td>
<td>1,214,245</td>
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<td>1,202,112</td>
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<td>Part-time Faculty Compensation</td>
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<td>2,203,448</td>
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<td>Apprenticeship</td>
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<td>83,709</td>
<td>23,455</td>
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<td><strong>State</strong></td>
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<td>Lottery</td>
<td>12,246,752</td>
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<td>Mandated Cost BFAP, and Other State</td>
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<td>406,119</td>
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<td><strong>Total State</strong></td>
<td>16,744,740</td>
<td>14,750,000</td>
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<td>12,700,000</td>
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<td><strong>Local</strong></td>
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<td>Interest</td>
<td>160,665</td>
<td>1,609,500</td>
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<td>TRAV*</td>
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<td>Other (One Time Miscellaneous)</td>
<td>2,458,635</td>
<td>2,003,770</td>
<td>584,477</td>
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<td><strong>Total Local</strong></td>
<td>3,988,017</td>
<td>3,613,270</td>
<td>888,855</td>
<td>2,804,378</td>
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<td><strong>TOTAL REVENUE</strong></td>
<td>495,519,617</td>
<td>526,132,919</td>
<td>104,469,451</td>
<td>533,852,946</td>
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<td><strong>C. TOTAL AVAILABLE (A+B)</strong></td>
<td>574,299,424</td>
<td>592,832,402</td>
<td>171,158,924</td>
<td>600,652,429</td>
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<td><strong>D. EXPENDITURES</strong></td>
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<td>Certificated Salaries</td>
<td>208,084,018</td>
<td>205,663,349</td>
<td>34,003,583</td>
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<td>Non-Certificated Salaries</td>
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<td>106,393,089</td>
<td>26,521,414</td>
<td>111,184,904</td>
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<td>Employee Benefits</td>
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<td>34,796,199</td>
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<td>Books &amp; Supplies</td>
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<td>6,266,456</td>
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<tr>
<td>Other Operating Expenses (5000-Repairs)</td>
<td>62,332,269</td>
<td>72,754,897</td>
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<tr>
<td>Capital Outlay (6000)</td>
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<td>Other</td>
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<td>2,107,051</td>
<td>2,100,000</td>
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<td><strong>TOTAL EXPENDITURES</strong></td>
<td>501,107,378</td>
<td>584,416,578</td>
<td>110,190,828</td>
<td>525,311,065</td>
</tr>
<tr>
<td><strong>E. NET REVENUE OVER/UNDER EXPENDITURE</strong></td>
<td>(5,587,761)</td>
<td>(58,283,659)</td>
<td>(5,731,177)</td>
<td>8,541,881</td>
</tr>
<tr>
<td><strong>F. OTHER SOURCES/USES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Reserve</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Interfund Transfers</td>
<td>(6,492,563)</td>
<td>(8,415,824)</td>
<td>(2,107,051)</td>
<td>(8,415,824)</td>
</tr>
<tr>
<td><strong>TOTAL OTHER SOURCE/USES</strong></td>
<td>(6,492,563)</td>
<td>(8,415,824)</td>
<td>(2,107,051)</td>
<td>(8,415,824)</td>
</tr>
<tr>
<td><strong>G. TOTAL OUTGO (D-F)</strong></td>
<td>507,599,941</td>
<td>592,832,402</td>
<td>112,297,879</td>
<td>533,726,889</td>
</tr>
<tr>
<td><strong>H. CHANGE IN FUND BALANCE (E+F)</strong></td>
<td>(12,080,324)</td>
<td>(66,999,493)</td>
<td>(7,838,228)</td>
<td>126,057</td>
</tr>
<tr>
<td><strong>I. OPEN ORDERS</strong></td>
<td>8,389,320</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>J. ENDING BALANCE (C-G-I)</strong></td>
<td>68,300,163</td>
<td>68,825,540</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**UNREV03**
## Los Angeles Community College District
### 2013-14 First Quarter Report Status

#### Budget and Expenditure Projection by Colleges

<table>
<thead>
<tr>
<th>Location</th>
<th>City</th>
<th>East</th>
<th>Harbor</th>
<th>Mission</th>
<th>Pierce</th>
<th>Southwest</th>
<th>Trade-Tech</th>
<th>Valley</th>
<th>West</th>
<th>ITV</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2012-13 Actual</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2012-13 Actual Expenditures</strong></td>
<td>54,929,486</td>
<td>85,315,881</td>
<td>79,207,002</td>
<td>26,852,247</td>
<td>54,723,233</td>
<td>26,562,298</td>
<td>49,090,046</td>
<td>57,664,687</td>
<td>25,746,986</td>
<td>1,190,017</td>
<td>405,809,983</td>
</tr>
<tr>
<td><strong>2012-13 Year-end Balance</strong></td>
<td>1,749,274</td>
<td>13,116,579</td>
<td>357,582</td>
<td>414,750</td>
<td>8,206,842</td>
<td>(669,435)</td>
<td>1,045,424</td>
<td>(1,947,686)</td>
<td>2,440,402</td>
<td>380,695</td>
<td>25,094,437</td>
</tr>
<tr>
<td><strong>Add/Less. Year-end Adjustments</strong></td>
<td>(411,099)</td>
<td>633,438</td>
<td>(10,611)</td>
<td>(386,201)</td>
<td>(31,810)</td>
<td>121,884</td>
<td>240,149</td>
<td>305,976</td>
<td>33,579</td>
<td>0</td>
<td>495,005</td>
</tr>
<tr>
<td><strong>2012-13 Adjusted Year-end Balance</strong></td>
<td>1,338,175</td>
<td>13,749,717</td>
<td>346,971</td>
<td>28,549</td>
<td>8,175,032</td>
<td>(547,551)</td>
<td>1,285,573</td>
<td>(1,643,719)</td>
<td>2,473,981</td>
<td>380,695</td>
<td>25,589,432</td>
</tr>
<tr>
<td>(including open orders)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 2013-14 Projection

#### September Projection

| 2013-14 Current Budget | 56,246,181 | 98,247,141 | 28,144,082 | 26,552,845 | 64,493,168 | 22,076,845 | 49,810,582 | 49,553,875 | 32,689,955 | 1,565,466 | 429,480,140 |
| 2013-14 Additional Revenue (projs.) | 2,216,776 | na | 1,920,334 | 568,626 | na | 1,543,978 | 2,205,000 | 2,097,234 | 665,350 | na | 11,217,298 |
| Suspension of Debt Repayment | 463,220 | 0 | 1,236,134 | 0 | 0 | 1,171,664 | 0 | 558,037 | 0 | 0 | 3,429,055 |
| 2013-14 Projected Ending Balance | (481,055) | 6,952,242 | 120,947 | (385,649) | 4,265,359 | (1,502,973) | 15,676 | (3,414,030) | 762,810 | 0 | 6,333,126 |
| Percentage of 2013-14 proj exp over 2012-13 exp. | 108.15% | 109.31% | 106.75% | 101.98% | 110.06% | 107.18% | 105.91% | 106.08% | 109.57% | 134.95% | 107.85% |
| Percentage of Projected balance over 2013-14 Final Budget | -0.86% | 7.08% | 0.43% | -1.45% | 6.61% | -6.81% | 0.03% | -6.89% | 2.33% | 0.00% |

### FTES Projection (projected by colleges, 10/31/13)

<table>
<thead>
<tr>
<th>City</th>
<th>East</th>
<th>Harbor</th>
<th>Mission</th>
<th>Pierce</th>
<th>Southwest</th>
<th>Trade-Tech</th>
<th>Valley</th>
<th>West</th>
<th>ITV</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Summer 2013</strong></td>
<td>na</td>
<td>2,066</td>
<td>233</td>
<td>85</td>
<td>400</td>
<td>na</td>
<td>318</td>
<td>200</td>
<td>86</td>
<td>113</td>
</tr>
<tr>
<td><strong>Fall 2013</strong></td>
<td>6,764</td>
<td>9,849</td>
<td>3,454</td>
<td>2,900</td>
<td>6,638</td>
<td>2,590</td>
<td>5,703</td>
<td>6,200</td>
<td>3,367</td>
<td>183</td>
</tr>
<tr>
<td><strong>Winter 2014</strong></td>
<td>625</td>
<td>1,042</td>
<td>4</td>
<td>150</td>
<td>400</td>
<td>210</td>
<td>250</td>
<td>425</td>
<td>250</td>
<td>0</td>
</tr>
<tr>
<td><strong>Spring 2014</strong></td>
<td>6,764</td>
<td>9,449</td>
<td>3,409</td>
<td>2,938</td>
<td>6,850</td>
<td>2,337</td>
<td>5,566</td>
<td>6,000</td>
<td>3,305</td>
<td>209</td>
</tr>
<tr>
<td><strong>Summer 2014</strong></td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>8</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14,153</td>
<td>22,406</td>
<td>7,100</td>
<td>6,083</td>
<td>14,288</td>
<td>5,144</td>
<td>12,237</td>
<td>12,825</td>
<td>7,009</td>
<td>505</td>
</tr>
</tbody>
</table>

### 2013-14 Base FTES

| 2013-14 Funded Growth FTES (1.63%) | 13,681 | 20,999 | 6,424 | 5,855 | 13,859 | 4,964 | 11,596 | 12,372 | 6,747 | 426 | 96,893 |
| 2013-14 Funded Growth FTES (1.63%+2% = 3.53%) | 13,904 | 21,311 | 6,529 | 5,950 | 14,085 | 5,045 | 11,785 | 12,574 | 6,857 | 432 | 98,472 |
| Difference between Projection and Base FTES | 472 | 1,437 | 676 | 228 | 429 | 180 | 641 | 453 | 262 | 79 | 4,857 |

### Meet or Exceed Funded Base FTES (Y/N)

| Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y |

### Meet or Exceed Funded Growth FTES, 1.63% (Y/N)

| Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y |
Budget Outlook

- Legislative Analyst's Office Forecast (LAO)
- Status of RDA Backfills
- College Deficits
EFFICIENCY AUDIT UPDATE
PROPOSALS
Analyzing Los Angeles Community College Districts Disbursement Process to Achieve Process Improvement

Proposal for Accounts Payable Audit & Recovery Services

January 8, 2014

Presented by:

Krystina Trzaskowski
Regional Sales Manager
(310) 475-5935
klt@broniec.com
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“The Broniec review is in-depth and extensive. Additionally, you have been flexible and able to accommodate our ad-hoc requests. Your review identified overpayments, duplicate payments, and pricing issues. You also helped us by researching outstanding checks to help minimize our escheatment exposure.”

- Jessica Hill-Johnson, Amgen, Inc.

Executive Introduction

Selecting the right accounts payable audit firm is an important decision. The right firm will not only conduct a thorough review of your accounts payable transactions and processes, recover the maximum in overpayments, but also deliver workable solutions and recommendations for process improvement and future prevention of overpayments. The right firm will work with you to conserve your valuable vendor relationships and not cause disruption to your daily operations as a result of the audit.

In this proposal, the goal is to demonstrate that our 43 year history and staff's experience exceed all your requirements, and rival those of our competitors. Broniec Associates is a firm with an extensive client list. Our tagline of "Delivering the Simple Truth" means we delve deeper into our client's accounts payable to discover the maximum in recoveries and deliver a Final Report full of useable recommendations for process improvement and best practices.
The Challenges You Face

During our August meeting, you shared the following, which prompts the Los Angeles Community College District to consider a third-party accounts payable audit:

- While each of the nine colleges handles their own keying of invoices, payments are made centrally.
- In 2012, LACCD reduced headcount in the Accounts Payable Department.
- In 2013, an SAP upgrade took place.
- LACCD is interested in validating the security and controls of their accounts payable and purchasing procedures.

Following are the most important truth opportunities we discussed, and how a Broniec Audit will benefit you in achieving your company goals:

**Verification**

Today’s Accounts Payable departments operate with multiple obstacles: chaotic work environments, shortage in personnel, outsourcing/migration, acquisitions, system upgrades, and installations. With normal daily operations, ongoing project deadlines, as well as month, quarter, and year-end closes, there is always something that makes the AP environment a very busy one. When unexpected issues arise or priorities are shifted, the normal business flow is disrupted as well.

Broniec’s Audit Team, as part of our review, will uncover those situations which can cause errors in the accounts payable process at Los Angeles Community College District. By learning all we can about your operations, we can more efficiently direct our efforts and audit towards addressing the potential errors and overpayments that could result.

**Reduction in Headcount**

The recent state of the economy has caused many layoffs and employee turnover in the US, which can negatively affect the disbursement process. When one person is released from employment, another’s responsibilities are most likely increased to maintain the work flow. These changes can lead to errors such as invoices being paid twice, payments made to the wrong vendor, and other forms of overpayments. The same holds true for employee turnover. The more turnover in a position due to layoffs, promotions, or the like, the more opportunity there is for error.

From our comprehensive review, errors that occurred with the change in personnel can be identified and corrected. Recommendations to reduce the number of overpayments occurring can be found in the Management letter, which is written by our experienced Audit Manager.
SYSTEM UPGRADE

Upgrading the accounts payable software is common practice for many companies. While the process itself is simple, the results often are not. Multiple overpayments can occur as a result of simple keying errors, oversights, and training issues.

Our expertise in this field spans over three decades. We have conducted hundreds of audits for clients who have undergone system upgrades. First, we know where and how to look for possible overpayments that occurred during transition. Secondly, since we have extensive experience in this field, we can perform deeper audits more quickly.

The Solutions We Offer

Broniec Associates proposes to conduct a comprehensive review of LACCD’s accounts payables transactions for the period of July 1, 2010 through June 30, 2014 with the following objectives:

- Validate the security and controls of your accounts payable and purchasing procedures
- Recover the maximum in overpayments
- Get to the root cause of the overpayments
- Deliver a comprehensive Final Report with detailed audit results and process improvement recommendations
- Require no more than one hour of your staff’s time per week.
“Over the years we have seen advancements in the methods and technology you employing your audits. With the addition a few years ago of your web based Client Service System we have streamlined our communications with your audit staff and reduced the internal support time required which has been of great value.”

- Marcia Golden, Coca-Cola Bottling Co. Consolidated

The Broniec Difference

Longevity

Broniec Associates was founded in 1972, with the distinct mission of providing comprehensive post payment accounts payable audit and recovery services. Over the last 43 years, we have also provided debit balance recovery services, vendor surveys, ad-hoc mailing services, and process improvement recommendations, as determined by our client’s needs.

Branch Office Structure

Broniec Associates maintains 23 branch offices across North America. This structure allows us to most effectively serve and communicate with clients nationwide. Branch offices are staffed with trained, experienced, and enthusiastic managers and auditors. Branch offices are located in Atlanta, Baltimore, Boston, Charlotte, Chicago, Cleveland, Cincinnati, Dallas, Denver, Detroit, Houston, Kansas City, Los Angeles, Memphis, Minneapolis, New York City, Orange County, CA, Philadelphia, Phoenix, San Francisco, Seattle, South Florida, and Toronto.
Client List

Broniec’s various branches perform a combined total of **over 300 audits yearly**. This level of production equates to one of the most experienced teams in the industry. We perform audits for clients including University of California System, General Mills, Loyola Marymount, John Deere, David Weekley Homes, General Electric, Amgen, FedEx, tw telecom, Scholastic, Mercedes-Benz, TD Bank, Sony Pictures, McKesson, New Process Steel, Con-Way Transportation, TIBCO Software, Darden Restaurants, Electrolux Major Appliances, and various Blue Cross Blue Shield affiliates.

Technology

Broniec Associates remains an **industry leader in audit technology**. First released in 1985, our proprietary AUDITMAX® software has been continually enhanced by in-house programmers based on emerging technologies and audit categories as well as feedback from auditors. Recent and continued enhancements to AUDITMAX allow Broniec’s auditors to stay ahead of advancements in purchasing and disbursement practices and systems such as EDI, ERS, and procurement card programs.

In addition, clients can monitor audit results online via our secure Client Services System (CSS). With this access, clients can review audit progress, approve claims, communicate with auditors, view backup documentation, and access our Value-Added Reports package.

Customer Service

Our audit teams not only consist of a thoroughly trained and experienced audit staff, but also an **extensive support structure**. Broniec’s **MIS Department** exclusively handles the acquisition and processing of client data. The department’s multiple programmers, report specialists, and analysts are trained to thoroughly dissect data, and using AUDITMAX®, create invaluable exception reports for our auditors.

Our dedicated **Statements and Mailing Departments** handle the millions of pieces of correspondence we send annually on behalf of our clients, including the requests for statements of account that are part of every audit. Our **Call Center** tracks all incoming responses and performs follow-up calls as necessary. In similar fashion, our **Recovery Department** assists the audit teams in recovering open chargebacks, freeing the auditors to continue performing their work.

Our **Quality Assurance Department** periodically performs re-reviews of select audits to ensure the thoroughness of the audit. This department also conducts year-round training courses for auditors to keep them apprised of new or emerging technologies, laws, and audit techniques. In addition, throughout the audit engagement, every client has constant access to their Regional Sales Manager and Broniec’s chief executives.
"Broniec’s staff’s diligence and attention to detail creates a successful audit year over year. Using Broniec helps relieve our staff from the detailed review required, and allows more time for a strategic and process improvement focus."”

- Kristine Milanes, Sony Pictures, Inc.

The Audit Team

Due to Broniec's standing as an industry leader, we attract the very brightest auditors and support staff. Our typical audit teams consist of an Audit Manager and one to two additional auditors (Staff, Associate, and/or Senior Auditor).

Our Audit Managers have a four year degree, typically in Business or Accounting. Many Audit Managers have earned additional degrees, such as an MBA or are Certified Public Accountants, and have extensive business experience in financial management as Controllers, Assistant Controllers, or Internal Auditors. Senior Auditors have an average of five to ten years of accounts payable audit experience. We look for individuals with experience in large accounts payable operations. All associates are required to successfully complete an in-house training program and participate in frequent intermediate training programs.

All associates of the firm are employees. We believe one of our core strengths and reasons for our long history of success is the quality and professionalism of the audit staff. All audit work is performed by full time, highly experienced and professional auditors. This allows us to consistently deliver the highest quality of service and performance to our clients.
Broniec's auditors are compensated via a base salary program that includes incentives for individual performance, branch profitability, and profitability of the company. This compensation model provides clients with the greatest opportunity for a truly comprehensive audit and eliminates the “write claims regardless” approach that can occur in commission only compensation models. Additionally, this model reduces the likelihood of adversarial positions being taken between auditors and client staff and the erosion of key vendor relationships.

Broniec's combined audit staff has over 350 years’ tenure with the firm. While the majority of the audit staff has been with us for over five years, we have a number of associates with between ten to twenty-plus years of experience with our firm. In addition to the experience gained with us, our audit staff has also gained multiple years of experience outside the firm. Most of our current auditors have held various accounting and/or business positions as accounts payable personnel, controllers, or department managers. This experience and knowledge of the “other side” has been invaluable in their audit work.
“We were impressed by the thoroughness of the Broniec audit team from start to finish. The final reports reflected the time and effort put into our audit right away. Those reports revealed the kinds of things that were falling through the cracks.”

- Guy A. Wilson, Northwestern University

The Audit Process

Audit Scope

The Broniec Audit focuses on the most comprehensive scope in the industry. A thorough analysis of each vendor’s data is performed to identify overpayments significantly beyond basic categories of duplicate and erroneous payments. As discussed, our audit of LACCD will include the following categories:

- Open Credits
- Credit Memos
- Advertising Allowances
- Sales & Use Tax
- Rebates & Allowances
- Trade Discounts
- Contract Compliance
- Erroneous Payments
- Cash Discounts
- Freight

- Exchange Rates
- P-Card
- Unclaimed Property
- Escheatment Prevention
- Duplicate Payments
- Pricing Errors
- Missed Discounts
- VAT
- GST/VST
The Process

Pre-Audit Conference Call
This 30 minute call is a collaboration between the Audit Manager and you, with an internal follow-up call between the Audit Team, IT department, and the Sales Manager. This is an opportunity to discuss audit scope, audit restrictions/exclusions, client expectations, audit categories, and answer preliminary questions. This call assists us in better planning and preparation for our comprehensive audit.

Acquisition & Analysis of Data
Once the audit plan is understood, our MIS Department provides your IT personnel a customized data request. This document focuses on the specific tables required to enable our firm to provide you with a comprehensive audit.

Using our proprietary AUDITMAX software we create an electronic audit tool that provides our audit team an extensive array of standard exception reports, as well as the ability to create customized reporting. Utilizing the various data components you have provided, we can effectively review for overpayments that occur across the procure-to-pay cycle. Additionally, AUDITMAX contains a database of vendors we have experienced audit recoveries from. The AUDITMAX tool also has the flexibility to allow our audit staff to fully utilize their expertise to create ad-hoc reporting based on what they encounter during a particular engagement. AUDITMAX helps ensure an accurate and efficient audit process.

Opening Meeting
A Broniec Audit is designed to be a truly comprehensive review of the entire purchase-to-pay cycle. Before the physical audit begins, the Audit Manager will make contact with the appropriate client contacts (including the accounts payable, purchasing, tax, and freight departments) to review the proposed audit scope, timeline, and any other information relevant to the audit. This additional information may include a discussion of key vendor relationships and specific concerns or needs of the client. The Audit Team will also request and arrange for access to appropriate client systems and/or locations where data/documents may be stored.

Statement Mailing
As part of every Broniec Audit, we request statements of account from your vendors to determine if any open credits are available. Our process leverages economies of scale that enable efficient masterfile preparation, communications, tracking, vendor correspondence, and resolution. We employ a multi-tiered communication strategy to ensure maximum response from your vendor base. Complete documentation of overpayments, as well as detailing the source of the open credit, are provided in our comprehensive reports.
**Physical Audit & Claims**

The physical audit follows. During this phase, we employ our three-pronged approach to the audit, which is highlighted by the comprehensive physical review of transactions for errors. This process is a key differentiator to the services provided by other recovery audit firms. It is a significant determinant to the success of your audit. Once a potential overpayment is identified the auditor is responsible for researching and reviewing all available supporting documentation to verify the claim. When the claim is verified, the information is entered into the Broniec Claims System (BCS), and presented to the client for approval to pursue.

**Weekly Update Meetings**

We conduct weekly update meetings with you throughout the course of the on-site audit. At these meetings, the Audit Manager will present their client contact with a listing of its findings for the current period, and requests their approval to pursue new claims. This meeting also serves as an opportunity to discuss any vendor conflicts, obstacles, or answer any questions related to the audit. If desired, we can also provide interim reports on any time interval requested. These reports can be customized to reflect any unique reporting requirements.

**The Final Report & Recommendations**

At the close of the audit, a Final Report and Management Letter is presented. This report includes an audit summary with an analysis of the most prominent claims and/or error categories, and provides recommendations, which could result in vast improvements in your accounts payable operations.

**Quality Control**

Our quality control programs are built around traditional methods. Throughout the audit, your Regional Sales Manager, Krystina Trzaskowski, will maintain regular communication with you to ensure satisfaction with the level of service provided by the audit staff and corporate personnel.

Our auditors’ work is reviewed from a quality perspective for thoroughness of content and scope throughout the audit. For instance, the Regional Operations Manager, or a member of the corporate staff will routinely visit audit sites and re-review payment histories and supporting documentation previously audited. The results of this review are provided to each audit team member so they may better understand the level of accuracy of their work.

The audit staff is equally gauged on both formal and informal client feedback. At the close of the audit, and accompanying the Final Report, clients are requested to complete a formal Client Satisfaction Survey. The information collected is documented for the continuous improvement of the audit process and staff. Internally, we track the accuracy of each auditor in number of claims generated, the types of overpayment errors they identify, total overpayments recovered, and an efficiency measure of time to recover.
Sample Audit Timeline

The audit timeline on the following page is representative of a typical audit. Extenuating circumstances (i.e. client contact on vacation) will challenge the timeline. Promptly addressing time-consuming issues will keep cycle times at a minimum.

<table>
<thead>
<tr>
<th>Computer Analysis of Data First 30 Days</th>
<th>Accounts Payable Audit 31-60 Days</th>
<th>Accounts Payable Audit 61 – 100 Days</th>
<th>Accounts Payable Audit 101 – Completion</th>
<th>Report Process 30 Days After Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BRONIEC ASSOCIATES DELIVERABLES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Process A/P history data within 30 days of receiving clean data.</td>
<td>• Review Audit checklist with client and develop audit program.</td>
<td>• Identify and document overpayments.</td>
<td>• Send third statement mailing and initiate telephone inquiries with non-respondents.</td>
<td>• Produce draft of Final Report and Management Letter.</td>
</tr>
<tr>
<td>• Apply AUDITMAX software.</td>
<td>• Initiate audit.</td>
<td>• Respond to Vendor correspondence.</td>
<td>• Conduct review with client to determine Final Report content.</td>
<td>• Conduct review with client to determine Final Report content.</td>
</tr>
<tr>
<td>• Develop audit reports.</td>
<td>• Send initial statement mailing.</td>
<td>• Send Second Statement Mailing.</td>
<td>• Complete Final Report and Management Letter.</td>
<td>• Complete Final Report and Management Letter.</td>
</tr>
<tr>
<td>• Conduct preliminary review of reports.</td>
<td>• Identify and document overpayments.</td>
<td>• Initiate collection procedure for inactive vendors.</td>
<td>• Deliver and review report with client.</td>
<td>• Deliver and review report with client.</td>
</tr>
<tr>
<td><strong>LACCD’S PARTICIPATION</strong></td>
<td>• Create chargebacks.</td>
<td>• Continue to Review chargebacks with client.</td>
<td>• Review Final Report and Management Letter.</td>
<td>• Review Final Report and Management Letter.</td>
</tr>
<tr>
<td>• Provide A/P data for processing</td>
<td>• Review chargebacks with client.</td>
<td>• Continue sending chargebacks to vendors.</td>
<td>• Review draft of Final Report and Management Letter.</td>
<td>• Review draft of Final Report and Management Letter.</td>
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<td>• Send chargebacks to vendors.</td>
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<td></td>
<td>• Continue approval of chargebacks and input of deductions.</td>
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<td>• Review status of audit.</td>
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<td></td>
<td>• Review and approve chargebacks weekly.</td>
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<td>• Discuss draft with Audit Manager.</td>
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<tr>
<td></td>
<td>• Review Final Report and Management Letter.</td>
<td></td>
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"Broniec has done an exemplary job for our company in recovery, analysis, and recommendation for several years. Their trusted associates not only skillfully seek out and recover funds on our behalf, but also provide important feedback which allows us to reduce future overpayments."

- David R. Lundin, Univar USA, Inc.

Client Requirements & Broniec Deliverables

Broniec's commitment to each client is to have as minimal an impact as possible on their day-to-day operations. This means our auditors work independently and in virtual transparency to the client's staff. However, in order to ensure the success of the audit, we need your assistance in obtaining data, approving claims, and documenting recoveries within your accounts payable system.

Data Requirements

For each audit, we request a complete copy of selected electronic files pertinent to the audit scope. Prior to beginning the audit, our MIS Project Manager will contact your IT department to gain an understanding of the day-to-day functioning of the purchase-to-pay cycle and how this translates to captured electronic data.

We then develop a customized data request specific to your situation. Instead of asking your IT staff to write an extract script to pull the data, Broniec will simply request a copy of complete files. Using our advanced methodology and experience,
we link the various files together to create reports and databases for the auditors. As a general overview, we request the following files:

- Payment History File
- Vendor Masterfile
- Purchasing/Receiving Files
- Item Masterfile
- EDI Transmission File
- Freight Payment File
- G/L Chart of Accounts
- Procurement Card File

**Personnel Requirements**

Personnel requirements are kept to a minimum. Upon assignment of the audit, the Audit Manager will contact the designated contact(s) at LACCD to arrange the pre-audit conference call. Your cooperation will also be essential during the Opening Meeting.

The balance of the time requested of your staff is related to the review and approval of claims. We request this process be performed on a weekly basis. The only other requirement relates to the delivery of the Final Report, where we request key personnel be available for its delivery.

**Broniec Deliverables**

Our comprehensive scope includes the following deliverables, with an emphasis on recovering the maximum in lost funds.

- Documentation of overpayments
- Completed Chargeback Forms to support recoveries
- Weekly status meetings to review Chargebacks for collection
- Vendor mailings and related mail handling
- Optimized recovery from active & inactive vendors
- Documentation of Unclaimed Property, if applicable
- Documentation of Statement Review results
- Final Audit Report with Quantitative Analysis Report
- Management Letter and Audit Summary containing observations and process improvement recommendations
- Value Added Reports to simplify process analysis
- Audit Review Meeting to go over the results of our audit with your management team
- Full access to our online Client Services System (CSS)
“We’ve been quite surprised by the findings and definitely see the need to continue the agreement in the future. Your thoroughness has uncovered opportunities that would have otherwise been left on the table. You’ve had a significant financial impact to our bottom line with the recoveries you’ve brought in.

- Matt Harris, El Camino Hospital

### Fee Proposal & Invoicing

Our practice of performing careful due diligence on every claim to not only verify the accuracy, but also that it is not currently being pursued by the client further solidifies our commitment to preserve the client/supplier relationship. Our clients receive an invoice for services only once a claim has been recovered. Invoices are accompanied by some form of payment (credit memo, signed authorization to deduct, or check), and an itemized invoice with supporting detail to substantiate amounts recovered. All invoices will include a cumulative listing of recoveries.

### Fee Schedule

The proposed fee is calculated based on a comprehensive analysis that included consideration for the audit scope, the volume of accounts payable transactions included in the review, the total investment of resources required, and the potential profitability of the engagement. Any modification to the elements of this calculation could materially change the pricing of this engagement.
The following fee schedule is based on a full scope audit as outlined in our Contract for Audit Services.

- Recoveries up to $400,000: 29%
- Recoveries of $400,001 to $1,000,000: 27%
- Recoveries over $1,000,000: 25%
- Single recoveries of $200,000 or more: 25%

This proposal is valid for the period of 90 days from the date of this proposal.

Our Commitment

“Clients are paramount” reads the first line of Broniec’s Values Statement. Throughout our 40+ year history, we have built one of the most impressive client lists of any company in this industry. Our reputation is built on our commitment to provide quality services to every client, ensure their satisfaction with the services, offer new opportunities for scope expansion, and maintain a mutually satisfactory relationship.
“We’ve been quite surprised by the findings over the past years, and definitely see the need to continue the agreement in the future.”

- Sharon Jarvis, McKesson Corporation

References

Listed here are the customer references that you requested. We encourage you to contact these references so you can hear, first hand, about the quality of the services we provide.

University of California, Los Angeles

Founded in 1919, UCLA has one of the largest enrollment of students among the UC schools, with roughly 40,000 undergraduate and graduate students. The university offers 125 undergraduate and 200 graduate programs. Being so close to Hollywood, UCLA’s film school is renowned for turning out aspiring movie directors and screenwriters. UCLA and the University of California College System have been Broniec clients since 2011.

Ian Ross Da Costa
Manager, Accounts Payable
(310) 794-8790
idacosta@finance.ucla.edu
Loyola Marymount University

LMU has a current enrollment of 8,800. It offers more than 115 graduate and undergraduate programs through four colleges, as well as graduate programs, and continuing education options. The university was formed in 1973 by the merger of Loyola College and Marymount Junior College. Broniec has provided LMU with accounts payable audit and recovery services since 2008.

Lori Husein
Controller, Vice President of Finance
(310) 338-7552
lhusein@lmu.edu

Sony Pictures Entertainment

A unit of Sony Corporation of America, Sony Pictures operates the Columbia TriStar Motion Picture Group, which includes Columbia Pictures, Screen Gems, Sony Picture Classics. Their library contains more than 3,500 titles including movie classics and television series. Other holdings include Sony Pictures Television, Sony Pictures Home Entertainment, Sony Pictures Digital Production, and the online video portal Crakle. Broniec has performed audits of this film and movie giant since FY 2000.

Kristine Milanes
Director Corporate Accounts Payable
(310) 665-6340
Kristine_Milanes@spe.sony.com
**Professional Services Agreement**

This Professional Services Agreement ("Agreement") is made and entered into, effective as of __________, 2013 ("Effective Date"), by and between Vizant Technologies, LLC ("Vizant"), a Delaware Limited Liability Company, located at 5 Christy Drive, Suite 202, Chadds Ford, PA 19317 and Los Angeles Community College District doing business as Los Angeles Community College District ("Client"), a California state organization, located at 770 Wilshire Blvd. Los Angeles, CA 90017. Client shall include all current and future locations, subsidiaries, parents, divisions, affiliates, successors and assigns of Client. Vizant and Client are jointly referred to as the “Parties” and individually as a Party.

Vizant is engaged in the business of providing professional services, as set forth in Section 1, and Client desires to have Vizant perform the professional services as set forth in Section 1;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties intending to be legally bound hereby, agree as follows:

1. **Professional Services:** Vizant will perform an evaluation, assessment and customized analytical review of Client’s Payment Card Transactions and Other Payment Transactions, including its financial payments environment, payment acceptance, payment processing, payment channels, payment methods and payment types. In performing such services, Vizant will utilize its analytical tools, processes, methods, intellectual property, cost analyses expertise and price benchmarking, all with the goal of identifying and recommending solutions designed to result in Client attaining maximum cost efficiency and reduction of the Client’s Financial Payment Costs.

   Vizant will provide to Client specific and actionable strategies and solutions that will collectively result in the reduction of Client’s Financial Payment Costs. The strategies and solutions to attain cost efficiency and reduce costs may include, but are not limited to, recommendations and actions to increase, decrease and/or reallocate Financial Payments from one payment channel, payment method or payment type to a different payment channel, payment method or payment type. Vizant’s services will include the delivery to Client of a comprehensive initial Financial Payments Analysis and Recommendations Report ("Report") and ongoing consultation, advice, analysis, education and reporting related to the strategies and solutions for reducing and recouping Client’s Financial Payments Costs.

2. **Financial Payments:** means all payments accepted and received by Client and categorized as follows: Payment Card Transactions or Other Payment Transactions

3. **Payment Card Transactions:** means all payments received by Client from, with or via: consumer cards, commercial cards, credit cards, debit cards, prepaid cards and gift cards, including all card brands, card networks and all acceptance methods and all types of payment devices, whether via in-person, online or any other manner.

4. **Other Payment Transactions:** means all payments received by Client from, with or via: paper check payments, e-check payments, ACH payments, cash payments and any other types and methods of payment that are not a Payment Card Transaction.

5. **Financial Payment Costs:** means all of the Client’s costs, charges and fees associated with the acceptance and processing of Financial Payments.

6. **Pre-Agreement Financial Payment Costs:** means the Financial Payment Costs that Client incurred on a monthly basis or average monthly basis, prior to the Effective Date.

7. **Post-Agreement Financial Payment Costs:** means the Financial Payment Costs that Client incurs on a monthly basis, as a result of the implementation of the strategies and solutions that have been identified and recommended by Vizant in performance of its professional services under this Agreement.

8. **Financial Payment Cost Reductions:** means any and all Financial Payment Costs that are reduced, recouped and realized by Client during the Agreement Term, provided that they have been identified and recommended by Vizant in performance of its professional services under this Agreement. On a monthly basis, during the term of this Agreement, the calculation of Financial Payment Cost Reductions shall be as follows: Utilizing the “Cost Reduction Calculation Methods”, Vizant shall
compare the Post-Agreement Financial Payment Costs to the Pre-Agreement Financial Payment Costs. If the Post-Agreement Financial Payment Costs are less than the Pre-Agreement Financial Payment Costs, then the differential shall be considered the “Financial Payment Cost Reductions” for the month. If the Post-Agreement Financial Payment Costs are more than the Pre-Agreement Financial Payment Costs, there are no “Financial Payment Cost Reductions” for that month.

9. **Cost Reduction Calculation Methods**: The method of calculating cost reductions shall be based on the most accurate measure of the Financial Payment Cost Reductions. Cost Reduction Calculation Methods shall be: 1) “Effective Rate” by payment channel, payment method or payment type; 2) “Per Transaction Rate” by payment channel, payment method or payment type; 3) “Elimination and/or Reduction of Cost” by payment channel, payment method or payment type 4) A combination of all of the above. “Effective Rate” shall be calculated as follows: total dollar cost for a particular payment channel, payment method or payment type divided by the total dollar volume of the financial payments for each payment channel, payment method or payment type. “Per Transaction Rate” shall be calculated as follows: the cost per transaction to accept and process financial payments for a particular payment channel, payment method or payment type. “Elimination and/or Reduction of Cost” shall be calculated as a cost or expense that Client incurred prior to the Effective Date, but that was eliminated and/or reduced after the Effective Date.

10. **Professional Services Fee**: Vizant shall invoice its professional services fee (“Services Fee”) for Financial Payment Cost Reductions on a monthly basis during the Billing Term of this Agreement. The Services Fee shall be calculated by multiplying the applicable “monthly rate” times the applicable monthly “Financial Payment Cost Reductions”. The monthly rates shall be as follows: 50% for months 1 through 12 of the Billing Term; 45% for months 13 through 24 of the Billing Term and 40% for months 25 through 36 of the Billing Term.

11. **Billing Term**: The Billing Term shall be the period of thirty six (36) months, commencing with the issuance of the first invoice by Vizant to Client for Financial Transaction Cost Reductions. The first invoice will be issued to Client in the month after the Client has realized Financial Payment Cost Reductions.

12. **Agreement Term**: The Agreement Term commences on the Effective Date and shall end with the conclusion of the Billing Term.

13. **Client Data and Information Obligations**: Client shall provide all of the data and information necessary for Vizant to perform its professional services under this Agreement. The data and information must be provided in electronic version and via electronic access. Vizant shall work to secure the data and information directly from Client’s financial payment service providers whenever possible, and only with proper written authorization by Client. Any letters of authorization for Vizant to work on behalf of Client to obtain data shall be provided within 7 days of request. The following data and information shall be provided by Client or its service providers within 10 days of request by Vizant and shall be required to produce and deliver the Report.

For Payment Card Transactions:

a. Copies of all agreements, contracts, documentation and amendments to the same, that relate to the acceptance and processing of Payment Card Transactions.

b. Monthly merchant processing statements that identify all Payment Card Transactions and associated fees, costs and charges, for the 12 months prior to the Effective Date.

c. Monthly statements and billing for any and other costs associated with the acceptance and processing of payment cards from any other payment card service provider.

For Other Payment Transactions:

a. Copies of all agreements, contracts, documentation and amendments to the same, that relate to the acceptance and processing of Other Payment Transactions.

b. Monthly bank, financial and other schedules that identify Other Payment Transactions and associated fees, costs and charges, for the 12 months prior to the Effective Date.
The following data and information shall be provided by Client or its service providers on a monthly basis during the Agreement Term, within 5 days of request by Vizant, and shall be required for Vizant to provide its ongoing professional services.

For Payment Card Transactions:
  a. Copies of any agreements, contracts, documentation and amendments to the same, that relate to the acceptance and processing of Payment Card Transactions.
  b. Monthly merchant processing statements that identify all Payment Card Transactions and associated fees, costs and charges.
  c. Monthly statements and billing for any and other costs associated with the acceptance and processing of payment cards from any other payment card service provider.

For Other Payment Transactions:
  a. Copies of all agreements, contracts, documentation and amendments to the same, that relate to the acceptance and processing of Other Payment Transactions.
  b. Monthly bank, financial and other schedules that identify Other Financial Payments and associated fees, costs and charges.

In addition, Client shall provide to Vizant all data and information reasonably requested by Vizant to enable Vizant to perform its professional services under and during the Agreement Term.

14. **Election “Not to Implement” Recommendations:** The Client may elect “Not to Implement” the strategies and solutions recommended by Vizant to reduce its Financial Payment Costs. Client may make this election at any time within thirty (30) days of the presentation of the Report by Vizant. This election “not to implement” must be received in writing by Vizant, with signed acknowledgment of receipt.

In the event that the Client makes this election, the Client shall continue to be obligated to provide all of the data and information required under Section 13 and the Client shall continue to be obligated to pay the Services Fee to Vizant in accordance with this Agreement for Financial Payment Cost Reductions, if such Financial Payment Cost Reductions were identified by Vizant as part of its professional services. The Client’s obligations to pay the Services Fee shall continue for the lessor of 36 months or the remaining Billing Term of the Agreement. The Client shall not be required to pay any Fees to Vizant with respect to any Financial Payment Cost Reductions that were not identified as part of Vizant’s professional services.

15. **Payment Terms.** Payment by Client shall be due upon receipt of invoice from Vizant. Unpaid balances will accrue interest at the monthly rate of 1.0%.

16. **Confidentiality.** In performing their respective duties under this Agreement, each Party will disclose to the other, certain confidential, proprietary and trade secret information. All such information shall be treated as “Confidential Information for purposes of this Agreement.” Confidential Information” shall include all information created by Vizant not otherwise in the public domain prior to the execution of this Agreement, as well as information that was derived from the public domain but was subsequently collected into a list or other document of any kind or has been fashioned, manipulated, sorted, organized, categorized, and/or filtered by Vizant. The Parties agree that each shall hold all Confidential Information exchanged in strictest confidence and that such Confidential Information shall not be used by either Party nor revealed to any third party, including any subsidiaries or affiliates, for any purpose other than to facilitate the performance of the Parties’ respective obligations under this Agreement. The provisions of this Section shall survive the termination of this Agreement.

17. **Automatic Renewal.** Unless Client notifies Vizant in writing within 90 days prior to the expiration of the Billing Term, the Billing Term of this Agreement shall automatically renew for 12 months at the Services Fee rates under this Agreement.

18. **Independent Contractor.** Client expressly acknowledges that Vizant is engaged by the Client as an independent contractor and consultant to the Client. Vizant shall not be considered an employee of the Client for any purposes, and Client shall not withhold payment of any amounts for federal, state or local income taxes, employment taxes, unemployment taxes, social security tax, or any other federal, state and/or local taxes from amounts due to Vizant; and further, Client shall not provide any health insurance coverage, life insurance, vacation pay, sick pay or other benefits to Vizant or any of its associates.
19. **Successors and Assigns.** This Agreement shall be binding on all successors and permitted assigns of Client or Vizant. Neither Party shall assign this Agreement, or any of its rights or obligations hereunder, without the prior written consent of the other Party hereto, except that each of Client or Vizant shall have the right to assign this Agreement, without such consent, to any third party purchaser if the Client or Vizant, as the case may be, is purchased or acquired, whether by stock or asset sale, merger or otherwise, on the condition that the purchaser confirms in writing its assumption of the obligations of the assigning Party under this Agreement.

20. **Governing Law.** For any controversy, dispute, or claim arising out of or relating to this Agreement, the Parties expressly agree that the laws of the Commonwealth of Pennsylvania will control. The prevailing Party shall be entitled to attorney fees and costs, including expert witness fees.

21. **Authority and Merger.** The undersigned hereby warrants that he/she has the authority to enter into this Agreement on behalf of Client. This Agreement represents the entire agreement between the Parties and shall supersede any prior proposals, offers, negotiations, revisions, unincorporated written communications or oral discussions, statements, representations or agreements.

22. **Handwriting and Modifications:** The entirety of this Agreement is typed. Should any handwritten modifications, notations or the like appear on this Agreement, without being signed by an authorized representative of each Party, said handwriting is expressly not a part of this Agreement and shall be ignored in interpreting this Agreement. This Agreement may not be altered, amended or modified except by a written instrument signed by an authorized representative of each Party.

23. **Enforceability.** Should any provision of this Agreement be held to be void, invalid, unenforceable or illegal by a court of competent jurisdiction, the validity and enforceability of the other provisions shall not be affected.

24. **Non-Waiver; Amendments.** Failure by a Party to enforce any provision of this Agreement shall not constitute or be construed as a waiver of such provision or the right to enforce such provision. Any waiver of any right by a Party, or any breach by the other Party, under this Agreement must be in writing and signed by the Party to be charged with providing such waiver. This Agreement may be amended only by a written instrument signed by an authorized representative of each Party.

25. **Legal Construction.** Each Party has participated in negotiating and drafting this Agreement, so if an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if the Parties had drafted it jointly, as opposed to being construed against a Party.

26. **Drafting Conventions.** The headings in this Agreement are for convenience only and do not affect its meaning. The words "include," "includes," and "including" are to be read as if they were followed by the phrase "without limitation." Any reference to an agreement means that agreement as amended or supplemented, subject to any restrictions on amendment contained in that agreement.

27. **Execution Counterparts.** This Agreement may be executed in counterparts, each of which shall constitute an original, and all of which when taken together, shall constitute one and the same agreement. Facsimile transmission and/or validated electronic transmission to one Party of a true copy of a counterpart duly executed by the other Party shall constitute valid delivery of such counterpart.

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**Vizant Technologies, LLC**

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Vizant Professional Services Agreement