



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

*Fiscal Year ended June 30, 2011*

May 2012

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May 9, 2012

Mr. James O'Reilly  
Executive Director  
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Los Angeles Community College District  
770 Wilshire Boulevard, 3<sup>rd</sup> Floor  
Los Angeles, CA 90017

Dear Mr. O'Reilly:

This report presents the results of our performance audit of Los Angeles Community College District's (LACCD) Proposition A, Proposition AA and Measure J bond program for the fiscal year ended June 30, 2011, based on our agreed upon work plan with LACCD. Our work was performed during the period of December 1, 2011 and through the date of this report.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our issues and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our issues and conclusions based on the audit objectives.

This performance audit did not constitute an audit of financial statements in accordance with GAGAS. KPMG was not engaged to, and did not render an opinion on the LACCD's internal controls over financial reporting or over financial management systems (for purposes of OMB's Circular No. A-127, *Financial Management Systems*, July 23, 1993, as revised). KPMG cautions that projecting the results of our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

This report is 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.

Thank you to 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 serve LACCD in the coming years.

Sincerely,

**KPMG LLP**

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## **EXECUTIVE SUMMARY**

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and as a requirement for construction bond programs under California Proposition 39. Our work was performed during the period of December 1, 2011 and through the date of this report, with significant fieldwork concluded by March 20, 2011.

### **Scope and Objective**

The scope of this performance audit included testing of expenditures and internal controls for the Los Angeles Community College District's (LACCD or District) bond program costs incurred during the fiscal year ended June 30, 2011 related to Proposition A, Proposition AA, and Measure J funds for conformance with the requirements promulgated by Proposition 39, as approved by voters. The objective of this performance audit is to provide reasonable assurance and conclusions based on an evaluation of bond expenditures spent on specific purposes defined by the propositions to sell the bonds. Additionally, this performance audit intends to contribute to public accountability by enabling those in charge to improve program performance.

Total bond program fund expenditures during the fiscal year ended June 30, 2011 were \$520,277,383.

### **Observations**

LACCD has retained URS Corporation (URS or PM) as its current Program Manager to manage its bond program and account for bond program expenditures. Additional bond program functions, consultants and LACCD staff comprise BuildLACCD together with the PM staff.

During the period of audit, the PM and LACCD implemented and has continued to improve internal controls to help ensure bond funds are spent only for purposes approved by voters. LACCD's internal controls have helped LACCD improve its operational efficiency and effectiveness in its efforts to carry out a successful building program. Although many improvements have been made to the program since its inception, our audit identified additional opportunities for improvement, which are presented throughout this report along with recommendations to aid LACCD in further increasing program performance. Of the seven opportunities identified, two are of high priority, three are of medium priority and two are of low priority<sup>1</sup>. In addition to the opportunities for improvement identified, this audit also recognizes a number of key leading practices already in place by LACCD to manage the program.

### **Summary of Observations**

1. LACCD's bond program does not maintain comprehensive policies and procedures for certain construction management processes. (High Priority)
2. Project budgets and budget transfers are not consistently supported by fully documented assumptions. (High Priority)
3. The bond program currently does not have a centralized scheduling function providing oversight to scheduling activities performed by individual CPMs. Additionally, schedule variances are not sufficiently analyzed and reported to LACCD. (Medium Priority)
4. Project change orders and field orders did not consistently contain adequate supporting documentation or required approval signatures. (Medium Priority)

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<sup>1</sup> The order of priority is a subjective ranking of relative importance among the observations.

5. Contractors and consultants performed some work activities for LACCD before a contract or work authorization had been executed. (Medium Priority)
6. The project closeout process was not adequately completed; required project closeout documentation was inconsistently filed or at times not available. (Low Priority)
7. Certain invoiced amounts did not comply with the contractual terms and conditions or did not contain adequate documentation to support the charges. (Low Priority)

### **Summary of Leading Practices**

- The District Citizens' Oversight Committee (DCOC) developed a *Handbook for Citizens' Oversight Committee Members* and approved seven resolutions for procedural changes to increase the efficiency and effectiveness of the DCOC.
- LACCD adopted its *Cost Principles* and the PM issued a final version of the *Program Touchpoints Handbook (Touchpoints)*, a reference guide for interactions between the PM and the College Project Managers (CPM).
- A new more comprehensive monthly report was adopted and BuildLACCD is planning additional improvements to the monthly reports.
- A Quality Assurance / Quality Control manager position was created in November 2011 to provide constructability reviews and coordinate plan review.
- LACCD established the Office of Inspector General (OIG) to ensure that projects funded by Proposition A, Proposition AA, and Measure J are performing with integrity and efficiency.
- BuildLACCD implemented a database to improve tracking of the Furniture, Fixtures and Equipment (FFE) procurement process from the Proposed Board Actions (PBA) to the creation and execution of Purchase Orders (PO) and to analyze variances between encumbrances and expenditures.
- A dedicated closeout team is available to assist the colleges and CPMs with project closeout and BuildLACCD continues to make additional improvements to the closeout process.
- A document control team facilitates central collection and archiving of project documents.
- The PM worked with the colleges to baseline the schedule in September 2009 and a new budget baseline in October 2010.
- The PM improved the cost management system to calculate a projected completion cost or Estimate at Completion (EAC).
- The program is generating "exception reports" to highlight invoices that have remained in one review process in excess of a predetermined time period.
- Prior audit findings and recommendations are formally tracked and addressed by the PM.

## Conclusion

Based on our audit, we did not identify any significant<sup>2</sup> charges to the bond program that did not conform to the requirements of Proposition A, Proposition AA, and Measure J funds. We identified seven program areas with opportunities for improvement for LACCD. As a result, we recommend making significant improvements related to policies and procedures and the budgeting process and recommend other less critical improvements to processes and internal controls related to scheduling, change orders, contracting, and invoice review and approval, and project closeout.

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<sup>2</sup> GAGAS 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.

## LIST OF ACRONYMS

Acronym	Definition
AGC	American General Contractors
AIA	American Institute of Architects
AOR	Architect of Record
BAFO	Best and Final Offer
BOT	Board of Trustees
BuildLACCD	Blended program management team consisting of URS, other consultants, and members of LACCD
CDC	Child Development Center
COP	Change Order Proposal
CPM	College Project Manager
DCOC	District Citizens' Oversight Committee
DMJM	Daniel, Mann, Johnson & Mendenhall and Jenkins/Gales & Martinez (former Program Manager)
DSA	Division of State Architect (California)
FF&E	Furniture, Fixtures & Equipment
EAC	Estimate at Completion (i.e. completion costs)
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GC	General Contractor
IOR	Inspector of Record
KPMG	KPMG LLP
LACCD or District	Los Angeles Community College District
LAHC	Los Angeles Harbor College
LASC	Los Angeles Southwest College
MSA	Master Services Agreement
NLRC	New Learning Resource Center
NTP	Notice-to-Proceed
OIG	Office of Inspector General
PBA	Proposed Board Action
PM	Program Manager or URS Corporation
PMI	Project Management Institute
PMP	Program Management Plan
PSA	Professional Services Agreement
RFI	Request for Information
RFP	Request for Proposal
T&M	Time and Materials
Touchpoints	Program Touchpoints Handbook
UII	Universal Inquiry Interface
URS	URS Corporation (current Program Manager)

## **BACKGROUND**

Since the inception of Los Angeles Community College District's (LACCD or District) bond program in 2001, the program has operated under a decentralized model with significant level of autonomy resting with the individual colleges, including project management decisions, documentation requirements, and methodologies.

LACCD's program management practices and internal control of bond expenditures have evolved over time. LACCD has implemented internal controls for the purpose of ensuring that bond funds are not spent for purposes other than those approved by the voters. Additionally, LACCD has addressed historical deficiencies in internal controls and recommendations brought forward by prior audit reports including those issued by: performance auditors, financial auditors, the Office of the Inspector General (OIG), the California State Controller, the District Citizens' Oversight Committee (DCOC), the Independent Building Program Review Panel "Blue Ribbon", and the Program Management Functions Assessment consultants, among others.

### **Proposition 39**

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, LACCD 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 LACCD 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 \$5.725 billion of which LACCD has issued \$3.851 billion as of June 30, 2011. The bond funds are to be used for the renovation, repair and replacement of aging facilities and for the construction of new facilities.

### **BuildLACCD**

BuildLACCD is LACCD's organization in place to facilitate the delivery of projects under the bond program. It consists of over 200 positions in a number of functional areas, including several consultants and members of LACCD staff. The largest function of BuildLACCD is the program management function.

### **Program Manager**

URS and its team of professionals are responsible for managing all program-related activities, including maintenance of the master schedule and the master program budget. URS, however, does not oversee other functional areas within BuildLACCD. The Executive Director of Facilities Planning and Development oversees the PM team. The current program management services contract between LACCD and URS expires April 12, 2012. On March 21, 2012, the LACCD Board of Trustees (BOT) approved a short-term professional service agreement for continued program management services to be provided by URS through August 31, 2012.



## **College Project Management**

Nine College Project Manager (CPM) firms, one for each college, report directly to the college Presidents and are responsible for performing services to oversee college master planning, environmental impact studies, programming, design, construction, closeout, and occupancy; as well as overseeing design consultants, contractors, and vendors. LACCD has a separate contract directly with each one of the nine CPM firms for these services.

## **LACCD Expenditures**

As of June 30, 2011, LACCD had spent **\$3.162 billion** of the bond funds in total on its active and completed projects under the bond program. Total bond program expenditures for fiscal year ended June 30, 2011 were **\$520,277,383** of which \$64,776,724 were related to Proposition A, \$57,724,775 were related to Proposition AA, and \$397,775,884 were related to Measure J.

## AUDIT SCOPE AND METHODOLOGY

KPMG LLP (KPMG) was engaged to provide the annual bond program performance audits under a single agreement covering a three-year period, beginning with the fiscal year ended June 30, 2011. This performance audit encompasses the construction bond program of LACCD and does not include LACCD'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, facility operations and maintenance.

### Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) as promulgated by the Government Accountability Office (GAO). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our issues and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our issues and conclusions based on the audit objectives. As such, we followed the requirements of GAGAS and LACCD 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 LACCD based on the results of our performance audit.

We reviewed LACCD'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 LACCD bond program. We reviewed relevant source documentation to gain an understanding of the key functions of LACCD as they relate to the scope of this audit and corroborated key interview statements with test work.

### Project Sample Selection

Based on the agree upon work plan, a sample of four projects from two colleges (two projects at each college) were selected for testing of the overall program oversight, project management and administration of construction projects under the bond program. The colleges and projects selected in our sample included expenditures from Proposition A, Proposition AA and Measure J funds for the fiscal year ended June 30, 2011. Our selection of projects included the LASC Cox Building Upgrade, the LASC Child Development Center (CDC), the LAHC Science Complex, and the LAHC New Learning Resource Center (NLRC).

### Performance Audit Plan

Our objective of evaluating the processes surrounding program oversight, project management and administration of construction projects was to understand whether appropriate controls are in place to help ensure efficiency and effectiveness of the bond program. Specifically, we performed the following procedures:

- Evaluated initial project planning, scope development and project approval processes.
- Documented how project budgets are refined from the initially approved project budget.

- Documented how initial project schedules are set.
- Evaluated compliance with bond oversight and management requirements and controls.
- Evaluated the types of reports, both internal and external, available for the bond program.
- Evaluated whether segregation of funds and separate accounting for the receipt and expenditure of Proposition 39 related funds is being done appropriately.

We selected a sample of bond expenditures and supporting documentation to understand internal controls for bond program funds expended and to compare such expenditures against the requirements of Proposition 39, LACCD *Cost Principles*, LACCD *Draft Program Touchpoints Handbook*, executed contract documents as well as other performance audit criteria, as developed during the course of the audit. We performed the following procedures:

- Reviewed the bond expenditure financial statement auditors' scope, audit plan, expenditure cycle testing and results.
- Performed a walkthrough of the bond funds expenditure cycle and documented instances of internal control weaknesses or non-compliance.
- Assessed whether costs incurred were compliant with bond program requirements, LACCD *Cost Principles*, contract terms, and other requirements, as identified during the course of the audit.
- Specifically tested expenses related to the BuildLACCD team, District wide transactions, CPM billing and expenses and specialty consultant related expenditures.
- Evaluated expenditure reporting practices to the BOT and the DCOC.

We interviewed key college personnel, including facilities management, construction administration and accounting personnel. We also interviewed key consultants and contractors, as necessary.

We evaluated college compliance with the contract funding sources and Proposition 39 requirements. We performed the following procedures:

- Reconciled college capital expenditures with LACCD central accounting and funding source records.
- Compared project budget and scope to Board authorized budget and scope and allowable purposes under Proposition 39.
- 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).

We evaluated procurement controls for competitive bidding. Specific areas targeted included:

- Procurement planning, solicitation planning and solicitation.
- Source selection, including prequalification, bid and proposal evaluation, and contract negotiation and formation.
- Contract administration, contract standards and contract closeout, including audit and cost approvals.

We evaluated budgeting systems and scheduling processes to determine if project baseline budgets and schedules were established and maintained.

We performed change order testing, which included performing the following procedures:

- Determined whether selected change orders were appropriately authorized and supported by proper documentation from the contractor.
- Assessed projects with a high amount of change orders and documented reasons for change orders and, if possible, identified how change orders could have been minimized.
- Confirmed that charges were allowable under Proposition 39.

### **Program Touchpoints Handbook**

Our testing included review of compliance with the *Draft Program Touchpoints Handbook (Touchpoints)*, dated October 22, 2010, which was in effect during the period of audit. Subsequent to our fieldwork, but before report issuance, BuildLACCD issued a *Final Program Touchpoints Handbook*, dated March 6, 2012, to the CPMs. The observations made during our assessments are based on our review of documentation against the *Touchpoints* dated October 22, 2010, as this was the version in use during the audit period.

## AUDIT RESULTS AND RECOMMENDATIONS

### 1. LACCD's bond program does not maintain comprehensive policies and procedures for construction management processes. (High Priority)

**Criteria:** KPMG evaluated LACCD's existing policies and procedures against leading practices and established criteria such as policies and procedures typically in place by other government entities, including the California State University, the University of California System, City of Los Angeles, Los Angeles World Airports, as well as KPMG's experience with other bond and construction programs of similar size and complexity as that of LACCD. Additionally, KPMG evaluated LACCD's compliance with its policies and procedures related to the construction management of LACCD's capital program.

Comprehensive policies and procedures are utilized by leading organizations worldwide to describe the process requirements necessary to fulfill the goals and objectives of a major construction (or bond) program. Policies and procedures provide project personnel with the necessary guidelines, rules and controls for planning and executing a capital program and individual construction projects. Policies and procedures contain explicit, step-by-step instructions on how to perform specific tasks.

Given the size and nature of the bond program, it is important that LACCD maintains an adequate internal control structure to ensure compliance with the requirements of Proposition 39 and each ballot measure – Proposition A, Proposition AA, and Measure J. An important component of an effective internal control structure are the policies and procedures.

**Condition:** The history of the LACCD bond program policies and procedures and related documents is as follows:

- In August 2001, LACCD retained Daniel, Mann, Johnson & Mendenhall and Jenkins/Gales & Martinez (DMJM) to provide program management services for the LACCD bond program. DMJM issued the *Program Management Plan (PMP)* in January 2002, with the last revised version issued in September 2004. The *PMP* contains descriptive processes, roles and responsibilities, and detail level procedures.
- In 2007, the program management work was re-bid and awarded to URS.
- In 2009, due to the prescriptive nature of the *PMP* and associated issues raised by the CPM staff as stated above, LACCD and the PM (URS) decided to employ other tools to convey various compiled program documents in lieu of modifications, supplements and additions to the *PMP*. This was documented under Amendment 3 to the URS contract. Further discussion regarding the tools to be used led to the development of the *Touchpoints*.
- Since URS is not contractually obligated to maintain the *PMP*, volumes I and II were last updated in August of 2004 with volume III being updated in August of 2006.
- In October 2010, the PM on behalf of BuildLACCD, issued its first draft of the *Touchpoints*. This handbook is not intended to replace the *PMP* and does not provide step-by-step instructions on how to perform CPM or PM tasks. Instead, the *Touchpoints* was developed to serve as a reference guide for the various interactions between the PM and the CPM.
- Concurrent with KPMG's audit, the *Touchpoints* was issued in March 2012.
- The *Touchpoints* will continue to be updated over the course of the program. BuildLACCD has been coordinating with the OIG and LACCD regarding new policies and/or procedures. Should

LACCD, BuildLACCD, OIG, or ongoing program audits indicate needs to improve and strengthen the *Touchpoints*, it will be revised accordingly.

- LACCD also has its own District-wide policies and procedures.
- BuildLACCD maintains a website with various templates, forms and checklists available to outside contractors and vendors working on a BuildLACCD project.

In our discussion with individual colleges, members of the CPM teams expressed dissatisfaction with the lack of updated policies and procedures (PMP). The CPMs reported that they still rely on the outdated 2004 PMP in conjunction with their own internal CPM practices, and/or that they figure out process requirements on a case-by-case basis.

It is our opinion that the outdated *PMP*, the *Touchpoints* and the related documentation listed above do not provide the necessary level of detail or completeness required for a program of the size and complexity as the LACCD bond program and therefore represents a control deficiency. Although the building program has passed the mid-point of construction, there are still a significant amount of taxpayer dollars left to be spent and there are processes taking place as part of the day-to-day administration of the program that require an updated comprehensive policies and procedures manual.

In response to the State Controller's audit report on Proposition A, Proposition AA and Measure J expenditures issued in August 2011, LACCD recognized the need to develop policies and procedures in order to ensure that the intent of voters is being followed as specified in the bond measures. This management response was made in the context of specific use of Measure J funds<sup>3</sup>. Currently, Measure J funds are the primary source of funds remaining to spend on the bond program.

Subsequent to our fieldwork, Hill International<sup>4</sup> issued a *Program Management Functions Assessment* report to LACCD, dated March 28, 2012, commenting that the *Touchpoints* in its current form is insufficient. Our observations related to policies and procedures are consistent with Hill International's observations.

**Cause:** The current PM is not contractually obligated to maintain the *PMP*. Additionally, a decentralized project management model put the burden of construction administration practices on the individual CPMs, resulting in less focus on a standardized and centralized policies and procedures manual with step-by-step instructions on how to perform CPM and PM tasks.

**Effect:** If policies and procedures are not documented, adhered to, clearly communicated, and audited for compliance, there is a potential for a lack of consistency and baseline to measure project performance. As evidenced by our audit results, LACCD's opportunities for improvements identified in this report correspond to areas where no or limited systematic instructions exist for construction administration personnel to follow, primarily the CPMs.

We understand that developing, implementing and maintaining comprehensive and meaningful policies and procedures for the LACCD bond program with the right level of detail to be useful, instead of hampering the process of delivering projects, will require significant resources and time to complete. Nevertheless, we strongly suggest that LACCD consider making such an investment for the remaining

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<sup>3</sup> Los Angeles Community College District Audit Report, Proposition A/A and Measure J Bond Expenditures, July 1, 2001 through December 31, 2010, John Chiang, California State Controller, August 2011: Finding 1.

<sup>4</sup> Hill International is a global construction risk management firm retained by LACCD to provide a building program functional assessment.

program activities in order to provide an essential internal control mechanism and facilitate efficiency and effectiveness of its program.

It is not possible to quantify the amount of savings, cost avoidance, increased efficiency and effectiveness, or the level of improved quality LACCD will be able to realize in the future as a result of the implementation of formal policies and procedures. However, we believe the potential for significant cost savings exists.

**1-A Recommendation:** LACCD should develop, adopt, and maintain comprehensive policies and procedures for the bond program to guide and facilitate an efficient and effective project delivery process. This can be accomplished by updating the *Touchpoints* to incorporate detailed procedural steps for relevant program and project management processes.

Management Response:

Management agrees with the recommendation that the program is lacking a current set of comprehensive policies and procedures for the bond program. LACCD is in discussion with the PM to combine the existing PMP, *Touchpoints*, incorporate leading practices, and lessons learned from prior audits into one comprehensive set of policies and procedures for the bond program. Until such time, the *Touchpoints* will be maintained for the program.

**1-B Recommendation:** LACCD should consider implementing an internal audit function at the program level to facilitate continuous improvements to the bond program's internal controls and help ensure that key controls and processes are adequately documented (in *Touchpoints* or other policy and procedures document), implemented and followed.

Management Response:

Management agrees with the recommendation to implement a Quality Assurance/Quality Control (QA/QC) team with an internal audit function. BuildLACCD has already started this process with the creation of a QA/QC manager to oversee the quality of design documents. The QA/QC team could establish a continuous process improvement and lessons learned program. The QA/QC team will develop the baseline criterion performance metrics to measure performance of all the vendors, contractors, and consultants on the bond program.

## 2. Project budgets and budget transfers are not consistently supported by fully documented assumptions. (High Priority)

The LACCD bond program has traditionally been focused on actual costs and not budgets, which puts it at risk for not having an adequate point of comparison, or budget baseline, to measure against actual performance progress. Having a meaningful and justifiable budget baseline is a critical construction program control. Comparing costs incurred against the budget baseline is an effective tool to force critical evaluation and control costs overruns, help identify and explain cost variances, and ensure affective spending practices. There will always be unknown factors on a project, especially in the early phases. Therefore, it is critical for a program to measure how project changes affect the baseline budget. This can be accomplished by:

- Having a baseline budget with justifiable and well-documented assumptions.
- Evaluating, justifying and documenting the impact of changes on the budget.
- Conducting regular variance analysis and reporting on the budget.

### Project Budget Establishment

**Criteria:** Per *Touchpoints Section 0300.3 (Budget Management)*, project budgets are prepared by the CPMs using *Project Budget Establishment Form PMA-0040*<sup>5</sup>. The CPMs are required to determine the project budgets by estimating, evaluating, and preparing sufficient backup. According to BuildLACCD, *Project Budget Establishment Form PMA-0040* was used to establish Proposition A and AA budgets, but is no longer used and *Touchpoints* will need to be updated accordingly. Measure J project budget were established using the 'Project Budget Establishment Worksheet(s)' with a listing of project estimated costs signed off by the CPMs and college presidents. A requirement to establish baseline budgets was previously included in the *PMP*, as well as in requirements utilized by other organizations and industry standards. This promulgates the use of a budget establishment worksheet and a specified methodology for documenting assumptions and setting a budget baseline.

**Condition:** There is limited documentation of underlying assumptions to justify how the current project budgets were established for Proposition A, and Proposition AA.

We requested documentation related to the Proposition A, Proposition AA and Measure J budget establishments for the LASC Cox Building, LASC CDC, the LAHC Science Complex, and LAHC NLRC projects.

- The URS contract was not in place and the *Touchpoints* requirements were not developed when budgets were established for projects funded by Proposition A and Proposition AA. As a result, the methods and assumptions used to establish the original LAHC NLRC and LASC CDC project budgets are not maintained by URS. Documented support for the original budgets maintained by the CPM's was incomplete.
- For the projects funded by Measure J - LASC Cox Building and LAHC Science Complex projects - the CPMs did supply sufficient explanations, justification and documented support for the original project budgets. However, the CPM's used their own worksheets to establish original project budgets instead of the current *Program Budget Establishment Form PMA-0041*. At the time the budgets were prepared, LACCD emphasized a decentralized program management

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<sup>5</sup> The *Project Budget Establishment Form PMA-0040* is an outdated form and has been replaced by *Project Budget Establishment Form PMA-0041* on BuildLACCD's website.



model and the CPM's were expected to document the budget development process at the college level.

- In October 2011, subsequent to our audit period, BuildLACCD published its current *Master Building Program Budget Plan*, which was the result of BuildLACCD working with the individual colleges to baseline the project budgets. We recognize this as a good practice by BuildLACCD, LACCD, the colleges and the CPMs. We understand that the new budgets were prepared largely based on estimated costs to complete. However, while the CPMs provided explanations of the process of re-baselining the budget, no support was provided to document the assumptions for the revised budget amounts or breakdown between budget categories.

**Cause:** The *Touchpoints* effective during the period under audit does not include a process for establishing an initial and subsequent baseline budget against which variance analyses may be performed. Additionally, the initial project budgeting was left to the individual CPMs resulting in differing approaches and varying levels of documentation of budget assumptions. Since the budgeting process is decentralized, the current *Touchpoints* does not provide step-by-step instructions. Lastly, the current bond program focuses on estimated costs to complete; traditionally the program has not enforced the establishment and tracking of costs against baseline budgets.

**Effect:** Without adequate support of the budgeting processes and assumptions justifying underlying budget amounts, the reasonableness of current project budgets cannot be substantiated. Without a meaningful budget baseline, there cannot be any meaningful variance analysis conducted. As a result, LACCD may incur additional costs.

### **Project Budget Transfers and Authorizations**

**Criteria:** *Touchpoints Section 0300.4 (Budget Transfers)* outlines a process for amending budgets through the use of BuildLACCD's Universal Inquiry Interface (UII) program<sup>6</sup> and the *Budget Transfer Form PMA-0043*<sup>7</sup>. *Touchpoints* indicates that all budget transfers should include sufficient backup to provide the PM the ability to validate the budget transfers. These requirements are similar to those included in the *PMP*, which were developed under the previous PM.

**Condition:** We reviewed ten budget transfers with a total value of \$11,995,301 covering each of the four projects to assess compliance with *Touchpoints* requirements.

We found that budgets had been adjusted without adequate and/or required documentation. Nine of the ten budget transfers appear to have been approved by the program budget management team without sufficient descriptions or support to validate the budget transfer. The level of detail provided in the description of the budget transfer varies by the CPM and personnel entering the information into UII. The following was noted for the budget transfer packages reviewed, which did not include sufficient documentation:

- LAHC Science Complex Budget Transfer Ref # 110714D.1: The description in UII was limited to "*Budget transfer to cover inspection, testing, specialty consulting.*" This description does not sufficiently justify the use of \$1.36 million of Construction Contingency funds. No additional supporting documentation was provided.
- LAHC Science Complex Budget Transfer Ref #110714C: The description in UII was limited to "*Budget transfer from owner reserve to cover furniture, fixtures and equipment costs.*" This

<sup>6</sup> UII is a cost management system utilized by BuildLACCD.

<sup>7</sup> *The Project Budget Transfer Form (PMA-0043)* is not included on the BuildLACCD website, but generated out of UII.

description does not sufficiently justify the use of \$379,699 Campus Program Management – Owner’s Reserve funds. No additional supporting documentation was provided.

- LAHC NLRC Budget Transfer Ref #100930A: The description in UII was limited to “*Budget Transfer to cover Furniture, Fixtures & Equipment (FF&E) in Prop AA.*” This description does not sufficiently justify the transfer of \$141,801 to other projects. No additional supporting documentation was provided.
- LAHC NLRC Budget Transfer Ref #110715B: The description in UII was limited to “*Budget Transfers within NLRC to balance GL accounts.*” This does not sufficiently justify the reason for the \$140,000 transfer. No additional supporting documentation was provided.
- LAHC NLRC Budget Transfer Ref #110715C: The project description in UII is limited to “*Budget Transfer from FF&E (owner’s reserve) to cover FF&E to the NLRC.*” This does not sufficiently justify the \$950,000 budget transfer. No additional supporting documentation was provided.
- LAHC NLRC Budget Transfer Ref #110721A: The description in UII is limited to “*Budget Transfer within projects to reallocate project management budget to costs and commitments.*” This does not sufficiently justify the \$497,590 reduction in Project Management budget and a \$993,307 increase in the FF&E budget. No additional supporting documentation was provided.
- LASC CDC Budget Transfer Ref #PBTF-259: The description in UII is limited to “*Budget transfer for SSEC Upgrade – Classroom and Offices.*” This does not sufficiently justify the transfer of \$359,627 Construction Contingency, Specialty Consulting, and Inspection & Testing budgets out of NLRC into other projects. No additional supporting documentation was provided.

Additional documentation was requested and received from the CPMs based on our audit inquiry in support of the following budget transfers (but was not included in the original budget transfer package provided to BuildLACCD):

- LASC Cox Building Upgrade Budget Transfer Ref #PBTF-J021: The description in UII provided sufficient justification for the budget adjustments, however no additional documentation was provided in support of the UII description. Upon request, the CPM provided sufficient documentation in support of the budget transfer.
- LASC Cox Building Upgrade Budget Transfer Ref #PBTF-J023: The description in UII provided sufficient justification for the \$230,274 budget adjustments. No additional documentation was provided in support of the UII description.

**Cause:** *Touchpoints* requirements related to budget management are based on the decentralized approach and therefore does not provide detailed instructions for the CPMs and PM to implement the processes and controls consistently across the projects. Although *Touchpoints* requires budget transfers to “*include sufficient backup to provide the ability to validate the budget transfers,*” the PM staff reviewing and validating the transfers have sole discretion in determining whether or not the support is sufficient. The *Touchpoints* requirements are not descriptive enough to provide sufficient controls for the budget management process.

**Effect:** As a result of lacking documentation and requirements surrounding the budgeting process, it is not possible to trace the evolution of a project budget or support how the original or current budget values were established. Therefore, the current project budgets may not be reliable for measuring the current status of the bond program’s performance.

**2-A Recommendation:** The PM should increase the oversight and control of the budgeting process. The PM should implement a set of comprehensive procedures to require CPMs to submit sufficient supporting documentation with all budget development and transfer requests. This also may include providing training to all CPM staff responsible for the budget management process in order to increase the consistency in which budget management is executed across the program.

**2-B Recommendation:** BuildLACCD should further develop the *Touchpoints* requirements to include sufficient process descriptions for each step in the budget management process, including:

- a) Budget Establishment – develop a requirement for the PM to retain all supporting documentation submitted in support of the methods and assumptions used by the CPMs.
- b) Baseline Budget – develop a requirement to re-establish baseline budgets at key milestones throughout the project lifecycle (i.e.; design document development, construction document development, Division of State Architect (DSA) approval, etc.). This process should be performed a regular basis.
- c) Budget Transfer Requests and Approvals – develop a requirement for the PM to retain all supporting documentation submitted in support of the methods and assumptions used by the CPMs.

Management Response:

Management agrees with the observation that the PM should provide adequate oversight and controls over the budget process. Management is also in discussions to establish a comprehensive document that will combine the features of the existing PMP, *Touchpoints*, best practices and lessons learned from prior year audits. This will serve as a single source document that provides comprehensive instructions and procedures for the PM and CPMs. This document will further strengthen specific requirements for project budget development, maintaining project budgets, re-baselining of budgets, and budget transfers including the requirements to submit sufficient supporting documentation for all budget transfers. Management will incorporate a strong emphasis for documenting assumptions used to develop budgets and corresponding analysis to compare revised assumptions with the original set of assumptions. The document will also require budget transfers to be supported with independent cost estimates if deemed necessary by the PM.

Subsequent to the development of an updated budget procedure, the PM will conduct training with each campus and follow up at regularly scheduled quarterly meetings.

As noted by KPMG, the Master Building Program Budget Plan published in October 2011 included Estimate at Completion (EAC) amount for each project. Since August of 2011 the Dash Board reports includes re-baselined budgets at a project level with respective cost variances. The program considers this budgeting methodology and reporting as a best practice.

**3. The bond program currently does not have an adequate centralized scheduling function providing oversight to scheduling activities performed by individual CPMs. Additionally, schedule variances are not sufficiently analyzed and reported to LACCD. (Medium Priority)**

A large capital program with many projects such as LACCD's bond program requires a rigorous scheduling control function to ensure schedules are realistically set, regularly updated and accurately maintained. A scheduling control function should require that any schedule variances are investigated, understood and appropriately mitigated to avoid costly project delays.

**Criteria:** By common industry measures, promulgated by American Institute of Architects (AIA), American General Contractors (AGC), Project Management Institute (PMI), other organizations and agencies, as well as federal and local governments nationwide, a focus on schedule management is a critical program control. This includes regular analysis and reporting of schedule variances.

Per *Touchpoints Section 0400.1(Defined Roles)*, when the CPMs submit updated schedules, the BuildLACCD Program Schedule Manager tracks and analyzes each period, noting any differences as variances to the schedule. However, *Touchpoints* does not specify what "noting any differences" entails. In the final version of *Touchpoints* issued in March 2012, BuildLACCD included a requirement for "a variance report with explanations for delays of more than 30 days shall be provided to the PM."

The professional service agreements (PSA) executed in 2009 between the CPMs and LACCD include a requirement for the CPM to prepare and continuously update the project schedules. *Exhibit B, Section 1.1.9 Project Schedules* of the CPM PSA states: "Consultant shall, no less frequently than monthly, update and expand the level of detail as the project progresses, indicating current status of design and permitting activities, projections of potential completion of major tasks, if significant variance from planned activities occurs, recommendations for recovery plans to District and, upon obtaining District's approval thereto, Consultant shall modify the Project Schedule to incorporate such recovery plans. The Project Schedules shall be reviewed and validated by the Program Manager."

In February 2011, LACCD renegotiated with all nine CPMs to execute new professional services agreements, which also include a requirement to prepare and update monthly project schedules. *Section 2.1.9 Project Schedules* requires "a variance report shall be prepared and submitted each month that includes a list of all Campus Projects in which there has occurred a delay or modification to a phase, major task, or milestone of more than 30 Days as compared to the Master Campus Schedule, and a narrative describing the modification and recommended corrective actions."

**Condition:** Currently, LACCD's scheduling function lies primarily with the individual colleges and their CPMs. The CPMs submit their schedules on a monthly basis to the BuildLACCD Program Schedule Manager who compiles the data on a District wide level. The BuildLACCD Program Schedule Manager does not provide any critical analysis or review of the underlying assumptions to the schedule information provided by the individual CPMs, nor does the BuildLACCD Program Schedule Manager conduct any schedule variance analysis.

Docview<sup>8</sup> contained monthly reports without any schedule variance reporting from LAHC and LASC for the periods April 2007 through September 2007 and April 2007 through June 2008, respectively. Starting in August 2011, monthly reports including narratives for schedule variances greater than 30 days, were included in Docview for both colleges. Although both the 2009 and 2011 CPM agreements included

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<sup>8</sup> Docview is LACCD's electronic document management system.

requirements to submit monthly variance reports to the PM, the CPMs did not submit such reports within the audit period. The *Dashboard Reports* for the audit period provided “planned” and “current” dates from which variances may be computed, but narratives explaining the reason for, impact of and planned mitigation of the schedule variances were not included.

As noted in the *Dashboard Reports*, all schedule dates are based on a “*Comparative Baseline Schedule as of: September 2009.*” According to the PM, all project schedules were re-evaluated in September 2009 at which time new baseline project schedules were established. Schedule variances experienced since September 2009 through the end of the audit period are summarized below:

- The LAHC Science Complex project was 26 days behind the baseline schedule as of June 2011. The overall construction delay was due to updates to the design duration as well as the DSA submittal process of plan check and approval, which extended beyond the scheduled duration.
- The LAHC NLRC project was 197 days behind the baseline schedule as of June 2011. The CPM provided explanation for 168 days: Request for Information (RFI) response delays (12 days), Owner delays (9 days), Contractor delays (21 days), scope changes (75 days) and weather delays (41 days).
- The LASC Cox Building Upgrade was 278 days behind the baseline schedule as of June 2011. Per the CPM, 241 days of this delay were due to the extended Request for Proposal (RFP) process, which included 15 Addendums and two requests for *Best and Final Offers (BAFOs)* from the proposers. As a result, project start was delayed and the duration of the project was extended. The additional 31-day slip resulted from the CPM’s estimated completion date before the RFP process was complete. The variance since the completion of the RFP process is 3 days. The delay explanations were supported by Cox Building procurement documentation.
- As of July 2010, the LASC CDC “Final” schedule had no significant changes from the September 2009 baseline.

**Cause:** In accordance with LACCD’s previous emphasis on a decentralized project management model, BuildLACCD has consistently relied on the individual CPMs to set and manage project schedules and evaluate schedule impacts. The existing central BuildLACCD scheduling function does not provide analytical reviews or validation of project schedules. Additionally, the CPMs did not consistently comply with the requirement to provide monthly schedule variance analysis and reporting to BuildLACCD and, ultimately, the Chancellor. We recognize that in the *2010-11 DCOC Annual Report*, the DCOC requests that *Dashboard Reports* include a budget variance and schedule variance to show the difference between planned and actual construction data. Our audit findings concur with the *2010-11 DCOC Annual Report*.

**Effect:** Limitations in schedule variance reporting and PM validation of college scheduling efforts may lead to difficulty in determining project schedule performance and predicting and understanding schedule delays. As a result, the LACCD bond program may experience sudden, unfavorable schedule changes, which in turn may result in additional costs.

**3-A Recommendation:** LACCD should reinforce a central PM scheduling function to increase the oversight of college scheduling efforts. General oversight functions should include, but not be limited to validating underlying assumptions used by the CPMs and reviewing monthly schedule variance analyses prepared by colleges. The PM should maintain documentation and justification of schedule changes at the program level.

**3-B Recommendation:** LACCD should require individual colleges and CPMs to provide a monthly schedule variance reports including narratives of the cause and impact of any schedule delays as well as any mitigating measures.

**3-C Recommendation:** LACCD should determine if schedule variance reporting should be incorporated into the *Dashboard Reports*, as requested by the DCOC, or if schedule variances will be reported using an alternate format.

Management Response:

In general, management agrees with these observations. Management agrees that the PM should perform a high-level analysis of project schedules on a regular basis and continue to enforce the requirements for CPMs to provide detail written narratives for variance in excess of the 30-days for the monthly report. The CPMs will continue to be responsible to prepare and update monthly project schedules for each campus project and to supply their contractual schedule variance reports including narratives.

Subsequent to the period of audit, management is currently providing a high-level active project schedule report under the dashboard section of the LACCD website for the DCOC and the public. However, management disagrees with the recommendation to incorporate a detailed schedule variance report into the Dashboard report due to its technical and complex nature that may not add value to the public. A schedule variance report should be published for the DCOC and internal management use as part of the CPM monthly reports.

**4. Project change orders and field orders did not consistently contain adequate supporting documentation or required approval signatures. (Medium Priority)**

**Work Completed Prior to Field Order and Change Order Execution**

**Criteria:** The design-build construction contracts and *Touchpoints* specify a field order process for work that has to be completed in advance of substantiation and evaluation of a corresponding contract adjustment. Therefore, in order for authorized work to be performed prior to execution of a change order, an executed field order is required. However, KPMG acknowledges that exceptions apply when work performed on an emergency basis.

*Touchpoints Section 1800.3 (Change Order Process) and Section 1800.3 (Field Construction Order Process)* provides a list of the submittal requirements in a typical change order and field order package.

Design-build and design-bid-build *General Conditions Section 7.5.1 (Purpose)* states that the purpose of a field order is to “...establish a mutually agreed basis for compensation to [Contractor or Design-Builder] for a Compensable Change under circumstances where performance of the Compensable Change needs to proceed in advance of complete substantiation and evaluation of the Contract Adjustment thereof.”

Design-build and design-bid-build *General Conditions Section 7.2.4 (Written Authorization of Essence)* states: “It is of the essence to the Construction Contract between the Contractor and the District that all contract adjustments must be authorized in advance in writing, as required by this Article 7. Accordingly, no verbal directions, course of conduct between the parties, or express or implied acceptance of change or of the Work, and no claim that the District has been unjustly enriched (whether or not there has been such enrichment) shall be the basis for a contract adjustment if the Contractor has not obtained advance written authorization in the manner required by this Article.”

*Touchpoints Section 1800.3 (Field Construction Order Process)* provides a list of the submittal requirements in a typical field order package, and the required signature thresholds based on the proposed cost adjustment. A field order is considered executed once all required signature approvals are obtained.

**Condition:** Work was performed prior to the execution of a field order, when a field order was required. For 12 of 19 *Change Order Proposals* related to LAHC NLRC Change Order No. 002, in the amount of \$46,809, there was no documentation in the change orders on Docview showing that the CPM submitted a *Construction Field Order Form CP-0330*, or other documentation of authorization to proceed prior to completing the work. Although the work performed by the contractor was supported by time and material tickets and/or subcontractor invoices, the appropriate field order process was not in place prior to work commencing, as required.

In addition, for 57 of 75 field orders totaling \$8,101,736 in additive and deductive changes, the *Construction Field Order Form CP-0330* submitted with the change order package did not contain the required field order approval signatures and was not executed prior to the work commencing<sup>9</sup>. In both situations, a change order was not executed until after work commenced.

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<sup>9</sup> For field order testing, KPMG expanded its sample to include 75 field orders from eight colleges in order to get broader representation of the results. BuildLACCD has not verified the results from this expanded analysis.

For the LASC Cox Building Upgrade Change Order No. 002, 11 of 14 *Construction Field Order Forms CP-0330* were not dated by the design-builder, CPM, or college president, as required by the signature blocks on the form. Although these field orders had the required approval signatures, the date of field order execution is unknown.

**Cause:** The CPMs did not comply with field order requirements. Instead, they allowed contractors to proceed with work without having obtained the required advance approvals and LACCD notification through the field order process.

Additionally, the field order signature requirements outlined in *Touchpoints Section 1800.4 (Field Construction Order Process)* are not consistent with the signature requirements in the *Design-Build and Construction Contract, General Conditions Section 7.5.2 (Authorization)* or signature requirements on the *Construction Field Order Form CP-0330*. This inconsistency may have contributed to college confusion on the field order process. The LAHC CPM also used an outdated version of the *Construction Field Order Form CP-0330*, which did not reference the signature requirements.

*Touchpoints* also lacks a detailed description and process flow outlining the steps and approvals that must occur in order to process and execute a change order or field order, contributing to the confusion on requirements for authorizing work performed prior to issuing a change order.

**Effect:** Without obtaining appropriate approval from LACCD to authorize additional work, as required through the field order process, the CPMs are committing LACCD without LACCD's knowledge or consent. Additionally, inadequate records of the approval process does not allow the PM to track when critical decisions are made. Since the authorized signatories for 11 of 14 LASC field orders did not provide an approval date on the *Construction Field Order Form CP-0330*, it is unknown whether work proceeded ahead of the required approvals.

**4-A Recommendation:** LACCD should require CPMs and colleges to follow the field order process and enforce this requirement. The enforcement of these requirements could be assisted by increasing the onsite presence and oversight by the PM.

#### Management Response:

Management agrees with the observation that the CPMs should ensure that no work is allowed to commence work prior to properly executing field orders or other authorizing documents constitutes a risk for the District, BuildLACCD, CPMs, and vendors. The CPM should follow the contractual process set by the contacts General Conditions.

We agree there was a control deficiency at the CPM level that resulted in work performed without proper field order approval. For the LASC field orders selected for KPMG test-work, a number of field orders were reviewed by Program Management prior to commence of work and were not approved pending additional requested information. When presented to PM for approval, a series of information requests regarding the Field Orders were presented to CPM for response. For purposes of the review and approval of the Change Order, which included said Field Orders, the execution of the Field Order was not material as the request for execution of the Field Order was superseded by the request for execution of the Change Order. The Field Order was merely included in the package as informative back up documentation, as it contained description and explanation regarding the change, though existing in only a partially executed draft at the point of Change Order Execution. As the



District did not execute the draft Field Order, it was not an enforceable or effective document (per General Conditions Section 7.5.2); entitlement resulted only from the execution of the Change Order. All outstanding information requests originally posed were satisfied for this Field Order prior to execution of the Change Order approving its content. The vendor performed the work despite the lack of proper execution, and thus performed the work at its own risk. The work performed was later incorporated into a change order and approved by the Board of Trustees.

While the requirements of the Field Order with regard to levels of execution are contained in the General Conditions for Construction of Design Build and Design Bid Build agreements, the *Touchpoints* Handbook, and on the face of the Field Order form; the PM will endeavor to further communicate the importance and process of the Field Order process to the CPM staff. The PM will assist the CPMs to follow the field order process by increasing onsite presence and oversight. In addition, the PM will seek to implement measures to enforce controls in place to ensure compliance with the procedures.

### **No Documentation of Board of Trustees (BOT) Ratification of Design-Bid-Build Change Orders**

**Criteria:** *Board Rule 7100* requires that all design-bid-build change orders be ratified via Board Action within 60 days of execution. Proposed Board Actions (PBA) for subject change orders are required to be submitted by the colleges to the PM accordingly, in order to comply with this requirement.

**Condition:** For four of eleven change orders, totaling \$443,862, evidence of BOT ratification could not be located on Docview or in the BOT reports within 60 days of change order execution. The PM confirmed that the change orders had not been appropriately ratified and that the colleges have been notified to compile PBAs to submit for BOT action for outstanding change orders. Additionally, three of seven change orders were ratified between 83 days to 9 months after change order execution.

**Cause:** The CPM did not comply with the *Touchpoints* requirements to submit a PBA to the PM for design-bid-build change orders to be ratified by the BOT. The controls in place at the college and program level to ensure that executed changes orders for design-bid-build contracts are ratified were not effective. Since change orders under 3% or \$100,000 are not required to be approved by the PM, the PM is unaware that these changes orders have been executed until the PBA is received. As a result, the PM cannot enforce compliance with the 60-day ratification requirement.

**Effect:** Failure to ratify changes orders in a timely manner may lead to under reporting of project commitments and remaining budgets, which increase the risk of budget, overruns.

**4-B Recommendation:** LACCD should work with the CPMs to highlight the importance of the ratification requirements and policies and request each college to confirm compliance or plan for compliance.

#### Management Response:

Management agrees with the observation noting that ratification of executed change orders must comply with the timing requirements set forth by the District. As stated by KPMG, the CPMs are responsible for submitting change orders to the PM for approval and submission to the BOT for ratification. For the change orders where ratification could not be located, the CPM has not originated the Proposed Board Action (PBA) process to ratify the change orders. Subsequent to

KPMG fieldwork, Program Management has requested that the CPM start the PBA process to ratify the identified change orders.

**4-C Recommendation:** LACCD and colleges should track change orders to enforce compliance with the 60-day ratification requirement through a central tracking tool at the program level.

Management Response:

Management will incorporate a ratification tracking system into the construction 'Project Executive Summary Report' to notify and follow up with CPM's on Change Orders, to comply with the 60-day ratification requirement. The policies and procedures will be updated respectively to reflect the requirements of the CPMs and ratification tracking system.

**Missing Required Change Order Forms and Signatures**

**Criteria:** We assessed compliance with *Touchpoints Section 1800.3 (Change Order Process)*, which identifies a list of forms and signature approvals that are required to be submitted to BuildLACCD by the CPM, which includes:

- *Change Order Processing Checklist CP-0325* - signed by the CPM Director.
- *Independent or CPM Estimate Summary Form CP-0280 or CP-0290 or equivalent.*

**Condition:** We observed change order packages that did not meet one or more of the following submittal requirements:

- Three of three change orders included a *Change Order Processing Checklist Form CP-0325* that was signed by a member of CPM staff, but not by the CPM Director, as required.
- Nineteen of forty-one *Change Order Proposals* did not include an *Independent or CPM Estimate Summary Form*, as required.

The controls in place to ensure that change order packages are approved with the required supporting documents and approval signatures were not operating effectively and the colleges did not comply with the *Touchpoints Section 1800.3 (Change Order Process)* requirements. BuildLACCD did not enforce the requirements.

**Cause:** The PM informed KPMG that an independent estimate was not performed in the following situations: the difference of the potential savings or the cost to perform the estimate was not cost effective; the work was for material cost only; or the field order used Time and Material (T&M) services and was verified and approved by an Inspector of Record (IOR). *Touchpoints* does not define dollar or materiality thresholds for when an independent estimate should be performed. In addition, *Touchpoints* does not indicate that an independent estimate is not required when field orders use T&M services that are verified and approved by an IOR. However, KPMG agrees that an independent estimate should not be required for T&M work, as long as a Not-to-Exceed (NTE) or a Rough Order of Magnitude (ROM) amount is included in the field order.

**Effect:** Change order packages were approved without required documentation and signatures resulting in approval of non-compliant change orders. The lack of independent estimates could result in change orders being approved for amounts above fair market price.

**4-D Recommendation:** LACCD should work with the CPMs to highlight the importance of the change order requirements and these audit findings to avoid future shortcomings in the change order process.

Management Response:

Management agrees with KPMG's recommendation that the requirements for Cost Estimates be more specifically articulated in the *Touchpoints* Handbook and associated forms. The current checklist of Change Order requirements lists documents, which may or may not be relevant to the package depending on the content and nature of the change. For example, one item in the list is "Request for Information" or RFI. This particular document may or may not be the origin or back up to a particular change order, but is listed in the checklist as a reminder to include an RFI in the back up if appropriate. With regard to cost estimates, the use of third party versus in house cost estimates currently depends on the size, nature and urgency of a project change. The PM agrees with an approach that creates dollar amount thresholds for the need for cost estimates (CPM In House or 3<sup>rd</sup> Party) provided that, at the discretion of the PM/LACCD, third party estimates maybe required regardless of the dollar amount.

**5. Contractors and consultants performed some work activities for LACCD before a contract or work authorization was executed. (Medium Priority)**

Consultants, vendors and contractors have Master Services Agreements (MSA), Professional Services Agreements (PSA), or Construction / Design-Build Agreements with LACCD containing a broad description and terms and conditions for the work. For MSAs and PSAs, specific scopes of work were typically authorized through a task order against the MSAs or PSAs and assigned its own contract number suffix by BuildLACCD. The Construction / Design-Build Agreements contain project specific conditions and scope of work, against which Notice-to-Proceed (NTP) letters were issued to authorize commencement of work. CPMs have college-specific contracts.

**Criteria:** The contract documents, including MSAs, PSAs, task orders, and other types of contracts, specify an effective date and, at times, an execution date. Although there is no express statement in *Touchpoints* that work should not commence prior to execution or effective date of a contract document or issuance of a NTP, industry leading practices do not recommend contractor to begin work prior to executing the contract documents.

**Condition:** We reviewed 27 invoices associated with 19 different contractors and consultants, totaling \$5,690,585. The results and details of this assessment are outlined below:

- One invoice for student transportation passes could not be supported by a valid LACCD contract agreement, totaling \$1,009,966 in charges. A prior agreement for similar charges expired in 2009. LACCD's approach to establishing the unit prices for the transportation passes appear reasonable and allowable under *LACCD Cost Principles*, however the charges should still be supported by a valid contract.
- One contractor invoice in the amount of \$338,475 was submitted for a period of work beginning almost two months before the performance period start date set forth in the NTP letter. The contract does not permit any work to start prior to execution of the NTP.
- Three consultant and CPM invoices were submitted for a period of work occurring prior to the date of execution of an MSA or PSA (but on or after the effective date of the MSA or PSA). [Consultant and CPM invoice amounts totaling \$557,368]
- Four consultant invoices were submitted for periods of work beginning prior to the task order effective and execution date. For these task orders, there was a valid MSA or PSA in place. [Consultant and services task orders, invoice amounts totaling \$268,128]
- Four consultant invoices were submitted for a period of work beginning prior to the task order execution date (but on or after the effective date of the task order). For these task orders, there was a valid MSA or PSA in place. [Consultant invoice amounts totaling \$298,869]
- Three invoices did not include period of performance start dates, and as a result it could not be determined if work was performed before a valid contract was in place.
- Seven contracts were not dated on the execution page and as a result, could not be determined if the contracts were executed timely relative to commencement of work.

**Cause:** Allowing a contractor or consultant to begin work prior to the execution of a contract or task order is currently allowed by LACCD, as long as the effective date of the task order or contract retroactively reflects the actual start date.

Allowing a contractor to begin work prior to the effective date of a contract or a NTP is currently not allowed by LACCD, but may occur when time is of essence and the “paper work process” is slow and holding up work.

**Effect:** Allowing work to commence prior to having a contract in place for the work, puts LACCD at risk of contractual disputes and forces the contractor and consultants to carry the cost and assume the risk of the work until a contract has been executed against which billings can be submitted. Although the risk is lessened by having an MSA or PSA already in place for task order work, as we observed in some cases during this audit, a better practice is to plan all work and contract negotiations or task order execution to avoid any work being performed before the appropriate contract vehicle is in place. Additionally, dating an MSA or PSA to reflect the actual start date or effective date is not a leading practice.

**5-A Recommendation:** LACCD should improve its contract and task order negotiation and execution process to avoid starting work before the contract vehicle is in place. By formalizing a time frame for contract negotiation and execution, and formally communicating this to contractors and consultants, LACCD would be in a better position to avoid future contract performance discrepancies related to timing of the work.

Management Response:

Management agrees that vendors should not be allowed to start work prior to the contract effective date or contract execution.

**5-B Recommendation:** LACCD should not permit work to be performed prior to the effective date of a contract vehicle or NTP or prior to the execution of contract documents containing critical terms and conditions.

Management Response:

Management agrees with the observation, however, management believes that this observation poses minimal risk to the bond funded construction program due to the fact that contract associated to the NTP was properly approved and executed prior to the start of work.

**5-C Recommendation:** LACCD should enforce tracking of executed contracts and make sure a valid contract is in place for all invoiced costs.

Management Response:

Management agrees with this recommendation.

**6. The project closeout process was not adequately completed; required project closeout documentation was inconsistently filed or not consistently available. (Low Priority)**

**Invalid Document Location References, Missing Documentation**

**Criteria:** The CPM agreements requires the CPM to review and confirm the completeness and accuracy of the as-built documents and other closeout documents; and obtain, verify and transmit warranties, keys, maintenance stocks and other closeout documents, as required. In addition, the agreement requires the CPM to archive all documents related to the college projects in accordance with the program management documents<sup>10</sup> and document control system.

Per *Touchpoints Section 1900.2 (Archiving)*, the PM is responsible for coordinating archiving with the CPM at final completion with the balance of completed project closeout documents (*Project Closeout Checklist CP-0135*). The PM warranty team, when advised by the CPM of a project closeout files being prepared and complete, will meet with the CPM to review closeout documentation; *Closeout Doc Box Inventory List CC-0135A* and *LACCD's Master File Index CC-0140*. The PM will collect completed project closeout packages from the CPM; scan the entire closeout package, reproduce, and distribute the essential elements for campus facilities; and deliver the complete project closeout package into LACCD's permanent record.

The *LACCD Master File Archives Index* is an internal document used by PM Document Control that describes LACCD's filing system taxonomy.

**Condition:** *The Closeout Doc Box Inventory List CC-0135A* includes invalid Master File Index Number Location references. We observed documents that were not named according to the *LACCD Master File Index List CC-0140* as well as file location references for items not contained in the closeout package as follows:

- The file names and numbers referenced on the LASC CDC *Project Closeout Checklist CP-0135* and the CDC *Closeout Doc Box Inventory List CC-0135A* do not consistently correspond to the actual names and numbers of the files located in Docview. Of the nine sampled documents, eight documents were not located on Docview by the *Master File Index Number Location* specified on the CDC *Project Closeout Checklist CP-0135*.
- Four of the nine sampled documents were specified on the CDC *Project Closeout Checklist CC-0135* as being located in *File No. 10.00 (Closeout Documents)*, which was not a file on the *LACCD Master File Index List CC-0140* nor was the file located in Docview. Four of the documents indicated as being located in *File No. 10.00* were found in Docview in *File No. 10.01 (Final Certificates of Occupancy)*. *File No. 10.01 (Final Certificates of Occupancy)* was not referenced on the CDC Closeout Doc Box Inventory List.
- The CDC *Project Closeout Checklist* indicates that the "Contractor As-Built submitted" documentation was sent to LACCD in March 2011, and filed under *Master File Index No. 9.08 (Submittals)*. *File No. 9.08 (Submittals-General)* in Docview does not contain contractor's as-builts. On January 27, 2012, contractor as-builts were added to Docview.

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<sup>10</sup> Program Management Documents means the written guidelines, processes, plans and procedures prepared by Program Manager for management, administration and oversight of the Campus Projects, including, without limitation, Program Touchpoints Handbook, Program Management Plan, Program Management Health, Safety and Environmental Plan, program bulletins and program addenda setting forth modifications or additions to the Program Management Documents (*Contract No. 33250 Section 1.1.106*).

- The *CDC Project Closeout Checklist* indicates that “Punch list completed and signed off” documentation was sent to LACCD in March 2011 and filed under *Master File Index No. 10.02*. *File No. 10.02* was not included on the *CDC Closeout Doc Box Inventory List*. Contractor punch lists were located in *Docview File No. 10.01 (Final Certificates of Occupancy)*. However, documentation confirming that all punch list items have been completed and signed off was not located.
- The *CDC Project Closeout Checklist* indicates that “Release of Claims by GC” documentation was sent to LACCD in March 2011 and filed under *Master File Index No. 10.00 (Closeout Documents)*. *File No. 10.00* does not correspond to the *LACCD Master File Index List CC-0140* nor was the file located in Docview. Upon requesting documentation from BuildLACCD, KPMG was provided with Conditional and Unconditional Waiver and Release Upon Final Payment documentation included in *Invoice No. 30* for final payment, which BuildLACCD considers to be a “Release of Claims.” However, the documentation was not located in the CDC closeout package.

**Cause:** The PM did not comply with the *Touchpoints* oversight requirements and the CPM did not comply with *Touchpoints* or its contractual terms. In addition, the document management controls set forth in *Touchpoints* appears to be insufficient and ineffective at the college and program levels. The PM team does not have the resources to complete a 100% review of the closeout documents provided by the colleges and provides only a cursory review.

Both CPMs explained that the *LACCD Master File Index List CC-0140* is not inclusive of all document file names, or document types, that are retained by the CPM. As a result, both CPMs modified the *LACCD Master File Index List* to include additional document names in order to reflect the actual documentation that the CPM retained. The LASC CPM’s modified *LACCD Master File Index List* did not consistently follow the names and numbers for items on the original *LACCD Master File Index List CC-0140*. As a result, the *CDC Closeout Doc Box Inventory List* contains file numbers and names that are not consistent with *Master File Index List CC-0140*.

Although the CPM’s closeout package may not have been named and numbered in accordance with the *LACCD Master File Archive Index*, the PM did not rename the files to reflect LACCD’s *Master File Archives Index* when uploading the closeout package to Docview. Per the “Notes” section of LACCD’s *Master File Archives Index*, “if the folder has an incorrect or different name, use the correct name first and then the folder name.” Therefore, PM document management controls were ineffective in ensuring that the closeout file uploaded to Docview included the correct file name per the *LACCD Master File Index List CC-0140* and the file named used by the CPM.

In addition, items on the *CDC Project Closeout Checklist* were not located on Docview. According to *Touchpoints Section 1900 (Warranty /Archive)*, the PM warranty team collaborates with the CPM for compilation of a complete closeout package. The CPM at LASC explained that a PM warranty team staff reviews the *Project Closeout Checklist* to make sure the items listed on the *Project Closeout Checklist* are actually included in the closeout package. Once the closeout package is confirmed complete, the CPM and the PM warranty team staff sign the *Project Closeout Checklist*. This control was ineffective during closeout of the CDC project as items, including the contractor’s as-builts and the completed and signed off punch list, were not located in the closeout package even though the *CDC Project Closeout Checklist* provided a file location reference.

**Effect:** The inability to retrieve project documentation after project closeout may put the LACCD at risk of non-compliance with document retention requirements, as well as decreasing the LACCD's ability to retrieve supporting documentation in the event of a claim or other event.

## **Process Documentation**

**Criteria:** BuildLACCD explained that completion of items representing processes on the *CDC Project Closeout Checklist* are documented by the CPM's and PM's signatures.

**Condition:** The *CDC Project Closeout Checklist* does not identify a Docview Master File Index Number Location for any documentation generated as a result of processes, even though documentation may exist within the closeout package. A Docview Master File Index Number Location was not referenced for the following processes<sup>11</sup>:

- Substantial performance certificate signatures.
- GC / CPM working files turned over to LACCD after review by PM.
- PM review and acceptance of close out package.
- Final Inspection Acceptance completed.

Although "Substantial performance certificate sign off" is a process, *Certificate of Substantial Completion* (dated December 12, 2005) was retrieved from *File No. 10.01 (Final Certificates of Occupancy)* on Docview.

Without documentation to support the completion of a process and without dates indicating completion on the *CDC Project Closeout Checklist*, the date that the *CDC Project Closeout Checklist* was signed may not accurately reflect when each process was completed.

**Cause:** BuildLACCD explained that the *Project Closeout Checklist* includes items that do not have a Master File Number Location because they represent processes to be completed by the CPM. The *Project Closeout Checklist* does not distinguish between documents or processes, nor does it provide instruction regarding whether any relevant documentation is required for items that represent processes. The *CDC Project Closeout Checklist* also does not include a space to input a process completion date.

**Effect:** Determining which items on the *CDC Project Closeout Checklist* require documentation or represent processes may be open to the interpretation of the CPM. A CPM that does not provide documentation to support a process may not provide the closeout documents required by their contract.

**6-A Recommendation:** LACCD should update the *Project Closeout Checklist* to better reflect college project filing structures. LACCD should include a narrative explanation of requirements to satisfy completion of each item in the *Project Closeout Checklist*, including completion of a process.

**6-B Recommendation:** LACCD should improve the quality assurance control process on the closeout documentation provided by colleges to help facilitate adequate closeout of projects, including timely receipt of required closeout documentation and an appropriate filing structure.

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<sup>11</sup> For closeout process testing, KPMG sampled 13 out of 58 items from the *CDC Project Closeout Checklist*, which included nine documents and four closeout processes.



Management Response:

Management agrees with the observations; however notes that the audited sampled project was from a Contract let in 2005 with project substantial completion in 2007. As best practices in project management dictate, closeout begins at the start of a project, and attempts to forensically compile project documentation well after the completion of a project for archiving purposes is difficult and not ideal. Program level resources have been added to buttress CPM Project Management activities including warranty and whole building commissioning, generation, compilation and proper document to comply with the current closeout requirements.

**7. Certain invoiced amounts did not comply with the contractual terms and conditions or did not contain adequate documentation to support the charges. (Low Priority)**

Our audit of bond expenditures and invoices identified instances where certain consultant charges appeared to have occurred outside the contract terms and conditions, and/or lacked supporting documentation necessary to justify the cost.

Our observations are consistent with the LACCD Office of the Inspector General (OIG) audit report related to reimbursable costs dated February 11, 2012. The OIG report, however, pertained only to CPM invoices, while this performance audit focused on invoices from a broad base of general contractors, architects, design-builders, vendors and consultants in addition to CPMs.

**Calculation of Design Fee Progress Payments**

**Criteria:** The method for calculating progress payments for design services fees is stated in the *Design-Build Contract General Conditions, Section 9.4.1 (Progress Payment Amount)*, where it defines specific payment milestones. Each payment milestone includes a certain fee to be payable at a specified percent completion of a certain design task.

**Condition:** BuildLACCD appears to inconsistently allow or disallow design fee progress payments based on partial completion of contractual payment milestones. *Design-Build Contract No. 33063, General Conditions Sections 9.4.1 (Progress Payment Amount)* specifies that:

- 15% of the Preconstruction and Design Services Fee is payable upon 50% completion of *Design Development Documents*; and
- 15% of the Preconstruction and Design Services Fee is payable upon 100% completion of *Design Development Documents*.

Payments were actually made upon 24.7%, 50%, and 90% completion of the *100% Design Development Phase* milestone. As such, it appears these payments were prematurely made of completing the *100% Design Development Phase* milestone, among several other similar payments. The contract language in *Section 9.4.1* is ambiguous as it also states that percentage completion billing is permitted. If compensation on a percent complete basis is the intent, there would be no need to identify separate 50% and 100% payment milestones for a single task.

*Design-Build Contract No. 32535, General Conditions Sections 9.4.1 (Progress Payment Amount)* contains a payment schedule, but the percentages of the design fee allocated to each payment milestone were blank. The invoices appear to follow the format laid out in the *Best and Final Offer* from the contractor, which was not incorporated into the payment schedule of the actual contract. Therefore, progress payments were invoiced based on percentage completion of the 'Description of Work' described in the *Best and Final Offer* and not the payment schedule milestones for design services listed in Contract No. 32535.

In addition, design services fees are inconsistently calculated between projects for the same contractor on the same college. "*Submission of Construction Documents to DSA*" is a single-event milestone, defined in *Contract No. 33063* as payable upon 100% completion. However, BuildLACCD allowed a partial progress payment for "*Submission of Construction Documents to DSA*" at 10.58% completion for the

Cox Building Upgrade, while a partial progress payment at 50% completion of “*Submission of Construction Documents to DSA*” for the School of Math and Sciences<sup>12</sup> was denied by BuildLACCD.

**Cause:** The language in the *Design-Build Contract General Conditions* that stipulates how progress payments should be calculated is open to interpretation.

The PM explained that early in the design-build process, the CPMs were given discretion to alter the *Design Fee Payment Schedule*, as agreed with the design-builder. Although this privilege has since been revoked from the CPMs, invoices, which fall under this category, are still submitted. When BuildLACCD reviews an invoice that does not meet the current *Design Fee Payment Schedule*, as set forth by the *General Conditions of the Design-Build Contract Section 9.4.1 (Progress Payments)*, they contact the CPM to verify if there was an informal agreement made between the CPM and the Design-Builder. If an informal agreement was made to modify the *Design Fee Payment Schedule*, BuildLACCD will request a letter from the CPM Director explaining the agreement and BuildLACCD will honor that agreement.

BuildLACCD indicated that beginning in Fall 2011, as the design-build process has progressed and been refined, BuildLACCD strictly enforces compliance with contract requirements as interpreted by BuildLACCD. Standard contract and *General Conditions* documents are now required for all design-build projects and are available for viewing through the BuildLACCD website.

**Effect:** Calculating the progress payments for design-build preconstruction and design services fees is left to the interpretation and discretion of the CPM. As a result, LACCD may not be able to enforce timely progression of deliverables and may be at risk of paying for work not completed in a timely fashion.

**7-A Recommendation:** On future design-build contracts, LACCD should clarify *Design-Build Contract Section 9.4.1 (Progress Payments)* and prepare a meaningful payment milestone schedule that is not subject to interpretation.

#### Management Response:

Management agrees in principal that the Design-Build contracts reviewed under audit were not clear on whether the contract application for payment could be invoiced on a percentage of completion or milestone basis. However, the contracts under audit have informal arrangements between the CPM’s and vendors that are documented. To clarify the progress payment section of the design build contracts, the PM proactively worked with outside counsel to better define the payment schedule and this section was revised for contract documents effective January 2011

#### **CPM Reimbursable Expenses**

**Criteria:** CPMs, architects and consultants are required to comply with Proposition A, Proposition AA, Measure J, contract terms, LACCD *Cost Principles* and the draft *Touchpoints* when incurring actual bond fund expenditures. The CPM contracts require written approval of reimbursable costs over \$500 or as otherwise specified.

**Condition:** Five CPM invoices included with our sample of fifty-four invoices from CPMs, consultants and architects included the following, totaling \$12,933:

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<sup>12</sup> The School of Math and Sciences project was not part of our initial audit selection; however, the project was invoiced together with the Cox Building Upgrade project and under the same contract number. As a result, we were able to compare invoicing practices between the two projects.

- Lack of prior written pre-approval: Charges for items requiring written pre-approval such as permit fees, meals, miscellaneous costs, cell phone accessories, field expenses, office services, reprographics, office equipment, and other charges were invoiced without evidence of the prior written approval having been obtained totaling \$12,008.
- Unallowable Charge: One instance where the personnel billed was not included on the approved *CPM Team Staff Billing Rate List* was identified totaling \$456.
- Error: We identified one instance where expenses, although allowable, were charged to the incorrect reimbursement expense category totaling \$24. The amount is insignificant; no other coding errors were identified.
- Insufficient Documentation: Costs without documentation to justify the charge such as long distance charges resulting from a CPM exceeding the monthly plan minutes for long distance, late charges for a copier, and unexplained monthly storage fees were invoiced totaling \$445.

**Cause:** CPM contractual requirements are not consistently enforced.

**Effect:** LACCD is at risk of overpaying for reimbursable expenses.

**7-B Recommendation:** LACCD should reinforce documentation and retention of documentation of written pre-approvals for reimbursable CPM expenses, as required by the contract.

Management Response:

Management agrees with the observations regarding coding errors, pre-approval of reimbursable expenses over \$500 and retention of approval documents for audit purposes. Management will take corrective action to avoid recurrence of such issues. However, it should be noted that most of the \$12,008 were reimbursements for valid expenses including \$4,124 for permit fees, which was part of the vendor's contract deliverable.

**Missing Required Invoice Forms and Signatures**

**Criteria:** *Touchpoints Section 1800.1 (Contract Invoice (Project Payment) Process)*, identifies a list of forms and associated signature approvals that are to be submitted to BuildLACCD by the CPM in a typical invoice package.

**Condition:** 34 invoices tested included a *Contractor Payment Certification Form CP-0191* (Design-Build) or *CP-0190* (Design-Bid-Build) that was not signed by the college, as required by *Touchpoints*.

In addition to invoices being submitted without a college signature, “*Unconditional Waiver and Release Upon Progress Payment*”<sup>13</sup> (*Unconditional Waiver*) for 5 of the 34 invoices were not located in the invoice packages in Docview. The *Unconditional Waivers* for the five invoices were not submitted to BuildLACCD prior to KPMG requesting documentation during this audit:

- Three of the five *Unconditional Waivers* were held by the CPM; however, the CPM did not submit the *Unconditional Waivers* to BuildLACCD.

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<sup>13</sup> An “*Unconditional Waiver and Release Upon Progress Payment*” discharges the contractor’s claimant rights through a specific date, with no stipulations and indicates contractor’s receipt of payment.

- Two of the five *Unconditional Waivers* were not submitted by the contractor to the CPM upon receipt of payment, but were requested from the contractor and submitted the CPM and BuildLACCD as a result of this audit.

**Cause:** The *Contractor Payment Certification Form* is inconsistent with the *Touchpoints* requirements, as the form does not have a signature block for a college representative. The *Touchpoints* requirements specify that signature by the college is needed. The form includes signature blocks for the design-builder/contractor, architect of record (AOR), IOR, CPM, and PM. With the exception of one invoice, all other submitted *Contractor Payment Certification Forms* included signatures where a signature block was provided. BuildLACCD explained that *Touchpoints* is incorrect and will be updated as *Contractor Payment Certification Form CP-0191* does not need to be signed by the college.

Approval of the invoice without all required signatures also indicates that the college and program level were not aware of the discrepancy between *Touchpoints* and the actual *Contractor Payment Certification Form CP-0191*. Additionally, there is no effective tracking of *Unconditional Waivers* at the PM or college level, resulting in missing *Unconditional Waivers*.

**Effect:** Discrepancies between *Touchpoints* requirements and required forms may cause approval of potentially non-compliant invoices and result in potential overpayment. Non-receipt of *Unconditional Waivers* does not provide LACCD with release from potential claims brought by contractors, which is the intent of this form.

**7-C Recommendation:** LACCD should start tracking *Unconditional Waivers* both at CPM and PM level and enforce submission upon payment to contractor.

Management Response:

Management agrees with the observation that the CPM did not submit several *Unconditional Waivers* to Program Management as part of the invoicing process. The CPM was able to obtain *Unconditional Waivers* subsequent to KPMG fieldwork. The Program Manager has a system for tracking both conditional and unconditional waivers. This process has been in place since January 2011.

**Inconsistent use of Invoice Forms by CPMs**

**Criteria:** *Touchpoints* Section 1800.1 (*Contract Invoice (Project Payment) Process*) identifies forms to be submitted to the PM by the CPM as part of the contract invoice (progress payment) process. Current documents are accessible from the BuildLACCD website.

**Condition:** We observed that the CPMs were using outdated versions of certain invoice forms during the audit period as follows:

- The CPM at LASC used an outdated *Invoice Payment Checklist CP-0165* form starting May of 2010, when a newer version of the form was made available. The CPM at LASC continued using a version from January 2010.
- The CPM at LAHC used an outdated *Contractor Payment Certification CP-0191 (Design-Build)* form starting January of 2010, when a newer version of the form was made available. The CPM at LAHC continued using a version from December 2009.
- The CPM at LAHC used a 2004 version of the *Contractor Payment Certification CP-0190 (Design-Bid-Build)* for Invoices Nos. 2 through 6 and the November 2011 version for Invoices Nos. 7 through 13 for the NLRC project.

**Cause:** The PM has communicated to the CPM's that current forms are available on the PM's website. However, the CPMs failed to download and use the most current form. The CPMs from LASC and LAHC indicated that updates made to *Touchpoints* forms were not consistently communicated by the PM.

**Effect:** CPMs are using outdated forms that may not be compliant with current program requirements. A current version of a form may reflect new policies and procedures and require information that was not previously requested on an older version.

**7-D Recommendation:** LACCD should enforce the invoice review process requirements, including inclusion and tracking of unconditional waivers, and use of correct forms.

Management Response:

Management agrees with the observation and the PM will work with the CPM staff to provide training to ensure CPMs consistently utilize the latest forms available on the BuildLACCD website. PM will provide timely notifications to the CPM staff regarding any revisions to the forms.

## SUMMARY MATRIX OF OBSERVATIONS

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response
<p><b>1 (2011 KPMG 01):</b> LACCD's bond program does not maintain comprehensive policies and procedures for certain construction management processes.</p>	<p>High</p>	<p>If policies and procedures are not documented, adhered to, clearly communicated, and audited for compliance, there is a potential for a lack of consistency and baseline to measure project performance. As evidenced by our audit results, LACCD's opportunities for improvements identified in this report correspond to areas where no or limited systematic instructions exist for construction administration personnel to follow, primarily the CPMs.</p>	<p><b>1-A:</b> LACCD should develop, adopt, and maintain comprehensive policies and procedures for the bond program to guide and facilitate an efficient and effective project delivery process. This can be accomplished by updating the <i>Touchpoints</i> to incorporate detailed procedural steps for relevant program and project management processes.</p> <p><b>1-B:</b> LACCD should consider implementing an internal audit function at the program level to facilitate continuous improvements to the bond program's internal controls and help ensure that key controls and processes are adequately documented (in <i>Touchpoints</i> or other policy and procedures document), implemented and followed.</p>	<p><b>1-A:</b> Management agrees with the recommendation that the program is lacking a current set of comprehensive policies and procedures for the bond program. LACCD is in discussion with the PM to combine the existing PMP, <i>Touchpoints</i>, incorporate leading practices, and lessons learned from prior audits into one comprehensive set of policies and procedures for the bond program. Until such time, the <i>Touchpoints</i> will be maintained for the program.</p> <p><b>1-B:</b> Management agrees with the recommendation to implement a Quality Assurance/Quality Control (QA/QC) team with an internal audit function. BuildLACCD has already started this process with the creation of a QA/QC manager to oversee the quality of design documents. The QA/QC team could establish a continuous process improvement and lessons learned program. The QA/QC team will develop the baseline criterion performance metrics to measure performance of all the vendors, contractors, and consultants on the bond program.</p>
<p><b>2 (2011 KPMG 02):</b> Project budgets and budget transfers are not consistently supported by fully documented assumptions.</p>	<p>High</p>	<p>Without adequate support of the budgeting processes and assumptions justifying underlying budget amounts, the reasonableness of current project budgets cannot be substantiated. Without a meaningful budget baseline, there cannot be any meaningful variance analysis conducted. As</p>	<p><b>2-A:</b> The PM should increase the oversight and control of the budget process. The PM should implement a set of comprehensive procedures to require CPMs to submit sufficient supporting documentation with all budget development and transfer requests. This also may include providing training to all CPM staff responsible for the budget</p>	<p><b>2-A, 2-B:</b> Management agrees with the observation that the PM should provide adequate oversight and controls over the budget process. Management is also in discussions to establish a comprehensive document that will combine the features of the existing Program Management Plan, <i>Touchpoints</i>, best practices and lessons learned from prior year audits. This will serve as a single source document that provides comprehensive instructions and procedures for the</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response
		<p>a result, LACCD may incur additional costs.</p> <p>As a result of lacking documentation and requirements surrounding the budgeting process, it is not possible to trace the evolution of a project budget or support how the original or current budget values were established. Therefore, the current project budgets may not be reliable for measuring the current status of the bond program's performance.</p>	<p>management process in order to increase the consistency in which budget management is executed across the program.</p> <p><b>2-B:</b> BuildLACCD should further develop the <i>Touchpoints</i> requirements to include sufficient process descriptions for each step in the budget management process, including:</p> <ul style="list-style-type: none"> <li>a) Budget Establishment – develop a requirement for the PM to retain all supporting documentation submitted in support of the methods and assumptions used by the CPMs.</li> <li>b) Baseline Budget – develop a requirement to re-establish baseline budgets at key milestones throughout the project lifecycle (i.e.; design document development, construction document development, Division of State Architect (DSA) approval, etc.). This process should be performed a regular basis.</li> <li>c) Budget Transfer Requests and Approvals – develop a requirement for the PM to retain all supporting documentation submitted in support of the methods and assumptions used by the CPMs.</li> </ul>	<p>PM and CPMs. This document will further strengthen specific requirements for project budget development, maintaining project budgets, re-baselining of budgets, and budget transfers including the requirements to submit sufficient supporting documentation for all budget transfers. Management will incorporate a strong emphasis for documenting assumptions used to develop budgets and corresponding analysis to compare revised assumptions with the original set of assumptions. The document will also require budget transfers to be supported with independent cost estimates if deemed necessary by the PM.</p> <p>Subsequent to the development of an updated budget procedure, the PM will conduct training with each campus and follow up at regularly scheduled quarterly meetings.</p> <p>As noted by KPMG, the Master Building Program Budget Plan published in October 2011 included Estimate at Completion (EAC) amount for each project. Since August of 2011 the Dash Board reports includes re-baselined budgets at a project level with respective cost variances. The program considers this budgeting methodology and reporting as a best practice.</p>



Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response
<p><b>3 (2011 KPMG 03):</b> The bond program currently does not have an adequate centralized scheduling function providing oversight to scheduling activities performed by individual CPMs. Additionally, schedule variances are not sufficiently analyzed and reported to LACCD.</p>	Medium	<p>Limitations in schedule variance reporting and PM validation of college scheduling efforts has led to difficulty in determining project schedule performance and predicting and understanding schedule delays. As a result, the LACCD bond program may experience sudden, unfavorable schedule changes, which in turn may result in additional costs.</p>	<p><b>3-A:</b> LACCD should reinforce a central PM scheduling function to increase the oversight of college scheduling efforts. General oversight functions should include, but not be limited to validating underlying assumptions used by the CPMs and reviewing monthly schedule variance analyses prepared by colleges. The PM should maintain documentation and justification of schedule changes at the program level.</p> <p><b>3-B:</b> LACCD should require individual colleges and CPMs to provide a monthly schedule variance reports including narratives of the cause and impact of any schedule delays as well as any mitigating measures.</p> <p><b>3-C:</b> LACCD should determine if schedule variance reporting should be incorporated into the <i>Dashboard Reports</i>, as requested by the DCOC, or if schedule variances will be reported using an alternate format.</p>	<p><b>3-A, 3-B, 3-C:</b> In general, management agrees with these observations. Management agrees that the PM should perform a high-level analysis of project schedules on a regular basis and continue to enforce the requirements for CPMs to provide detail written narratives for variance in excess of the 30-days for the monthly report. The CPMs will continue to be responsible to prepare and update monthly project schedules for each campus project and to supply their contractual schedule variance reports including narratives.</p> <p>Subsequent to the period of audit, management is currently providing a high-level active project schedule report under the dashboard section of the LACCD website for the DCOC and the public. However, management disagrees with the recommendation to incorporate a detailed schedule variance report into the Dashboard report due to its technical and complex nature that may not add value to the public. A schedule variance report should be published for the DCOC and internal management use as part of the CPM monthly reports.</p>
<p><b>4 (2011 KPMG 04):</b> Project change orders and field orders did not consistently contain adequate supporting documentation or required approval signatures.</p>	Medium	<p>Without obtaining appropriate approval from LACCD to authorize additional work, as required through the field order process, the CPMs are committing LACCD without LACCD's knowledge or consent. Additionally,</p>	<p><b>4-A:</b> LACCD should require CPMs and colleges to follow the field order process and enforce this requirement. The enforcement of these requirements could be assisted by increasing the onsite presence and oversight by the PM.</p> <p><b>4-B:</b> LACCD should work with the</p>	<p><b>4-A:</b> Management agrees with the observation that the CPMs should ensure that no work is allowed to commence work prior to properly executing field orders or other authorizing documents constitutes a risk for the District, BuildLACCD, CPMs, and vendors. The CPM should follow the contractual process set by the contacts General Conditions.</p> <p>We agree there was a control deficiency at the</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response
		<p>inadequate records of the approval process does not allow the PM to track when critical decisions are made. Since the authorized signatories for 11 of 14 LASC field orders did not provide an approval date on the <i>Construction Field Order Form CP-0330</i>, it is unknown whether work proceeded ahead of the required approvals.</p> <p>Failure to ratify changes orders in a timely manner may lead to under reporting of project commitments and remaining budgets, which increase the risk of budget, overruns.</p> <p>Change order packages were approved without required documentation and signatures resulting in approval of non-compliant change orders. The lack of independent estimates could result in change orders being approved for amounts above fair market price.</p>	<p>CPMs to highlight the importance of the ratification requirements and polices and request each college to confirm compliance or plan for compliance.</p> <p><b>4-C:</b> LACCD and colleges should track change orders to enforce compliance with the 60-day ratification requirement through a central tracking tool at the program level.</p> <p><b>4-D:</b> LACCD should work with the CPMs to highlight the importance of the change order requirements and these audit findings to avoid future shortcomings in the change order process.</p>	<p>CPM level that resulted in work performed without proper field order approval. For the LASC field orders selected for KPMG test-work, a number of field orders were reviewed by Program Management prior to commence of work and were not approved pending additional requested information. When presented to PM for approval, a series of information requests regarding the Field Orders were presented to CPM for response. For purposes of the review and approval of the Change Order, which included said Field Orders, the execution of the Field Order was not material as the request for execution of the Field Order was superseded by the request for execution of the Change Order. The Field Order was merely included in the package as informative back up documentation, as it contained description and explanation regarding the change, though existing in only a partially executed draft at the point of Change Order Execution. As the District did not execute the draft Field Order, it was not an enforceable or effective document (per General Conditions Section 7.5.2); entitlement resulted only from the execution of the Change Order. All outstanding information requests originally posed were satisfied for this Field Order prior to execution of the Change Order approving its content. The vendor performed the work despite the lack of proper execution, and thus performed the work at its own risk. The work performed was later incorporated into a change order and approved by the Board of Trustees.</p> <p>While the requirements of the Field Order with regard to levels of execution are contained in the General Conditions for Construction of Design Build and Design Bid Build agreements, the</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response
				<p><i>Touchpoints</i> Handbook, and on the face of the Field Order form; the Program Manager will endeavor to further communicate the importance and process of the Field Order process to the CPM staff. The PM will assist the CPMs to follow the field order process by increasing onsite presence and oversight. In addition, the PM will seek to implement measures to enforce controls in place to ensure compliance with the procedures.</p> <p><b>4-B:</b> Management agrees with the observation noting that ratification of executed change orders must comply with the timing requirements set forth by the District. As stated by KPMG, the CPMs are responsible for submitting change orders to the Program Manager for approval and submission to the BOT for ratification. For the change orders where ratification could not be located, the CPM has not originated the Proposed Board Action (PBA) process to ratify the change orders. Subsequent to KPMG fieldwork, Program Management has requested that the CPM start the PBA process to ratify the identified change orders.</p> <p><b>4-C:</b> Management will incorporate a ratification tracking system into the construction 'Project Executive Summary Report' to notify and follow up with CPM's on Change Orders, to comply with the 60-day ratification requirement. The policies and procedures will be updated respectively to reflect the requirements of the CPMs and ratification tracking system</p> <p><b>4-D:</b> Management agrees with KPMG's recommendation that the requirements for Cost Estimates be more specifically articulated in the <i>Touchpoints</i> Handbook and associated forms. The current checklist of Change Order requirements</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response
				<p>lists documents, which may or may not be relevant to the package depending on the content and nature of the change. For example, one item in the list is “Request for Information” or RFI. This particular document may or may not be the origin or back up to a particular change order, but is listed in the checklist as a reminder to include an RFI in the back up if appropriate. With regard to cost estimates, the use of third party versus in house cost estimates currently depends on the size, nature and urgency of a project change. The Program Manager agrees with an approach that creates dollar amount thresholds for the need for cost estimates (CPM In House or 3<sup>rd</sup> Party) provided that, at the discretion of the Program Manager/LACCD, third party estimates maybe required regardless of the dollar amount.</p>
<p><b>5 (2011 KPMG 05):</b> Contractors and consultants performed some work activities for LACCD before a contract or work authorization was executed.</p>	<p>Medium</p>	<p>Allowing work to commence prior to having a contract in place for the work, puts LACCD at risk of contractual disputes and forces the contractor and consultants to carry the cost and assume the risk of the work until a contract has been executed against which billings can be submitted. Although the risk is lessened by having an MSA or PSA already in place for task order work, as we observed in some cases during this audit, a better practice is to plan all work and contract negotiations or task order execution to avoid</p>	<p><b>5-A:</b> LACCD should improve its contract and task order negotiation and execution process to avoid starting work before the contract vehicle is in place. By formalizing a time frame for contract negotiation and execution, and formally communicating this to contractors and consultants, LACCD would be in a better position to avoid future contract performance discrepancies related to timing of the work.</p> <p><b>5-B:</b> LACCD should not permit work to be performed prior to the effective date of a contract vehicle or NTP or prior to the execution of contract documents containing critical terms and conditions.</p>	<p><b>5-A:</b> Management agrees that vendors should not be allowed to start work prior to the contract effective date or contract execution.</p> <p><b>5-B:</b> Management agrees with the observation, however, management believes that this observation poses minimal risk to the bond funded construction program due to the fact that contract associated to the NTP was properly approved and executed prior to the start of work.</p> <p><b>5-C:</b> Management agrees with this recommendation.</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response
		<p>any work being performed before the appropriate contract vehicle is in place. Additionally, dating an MSA or PSA to reflect the actual start date or effective date is not a leading practice.</p>	<p><b>5-C Recommendation:</b> LACCD should enforce tracking of executed contracts and make sure a valid contract is in place for all invoiced costs.</p>	
<p><b>6 (2011 KPMG 06):</b> The project closeout process was not adequately completed; required project closeout documentation was inconsistently filed or not consistently available.</p>	<p>Low</p>	<p>The inability to retrieve project documentation after project closeout may put the LACCD at risk of non-compliance with document retention requirements, as well as decreasing the LACCD's ability to retrieve supporting documentation in the event of a claim or other event.</p> <p>Determining which items on the <i>CDC Project Closeout Checklist</i> require documentation or represent processes may be open to the interpretation of the CPM. A CPM that does not provide documentation to support a process may not provide the closeout documents required by their contract.</p>	<p><b>6-A:</b> LACCD should update the <i>Project Closeout Checklist</i> to better reflect college project filing structures. LACCD should include a narrative explanation of requirements to satisfy completion of each item in the <i>Project Closeout Checklist</i>, including completion of a process.</p> <p><b>6-B:</b> LACCD should improve the quality assurance control process on the closeout documentation provided by colleges to help facilitate adequate closeout of projects, including timely receipt of required closeout documentation and an appropriate filing structure.</p>	<p><b>6-A, 6-B:</b> Management agrees with the observations; however notes that the audited sampled project was from a Contract let in 2005 with project substantial completion in 2007. As best practices in project management dictate, closeout begins at the start of a project, and attempts to forensically compile project documentation well after the completion of a project for archiving purposes is difficult and not ideal. Program level resources have been added to buttress CPM Project Management activities including warranty and whole building commissioning, generation, compilation and proper document to comply with the current closeout requirements.</p>
<p><b>7 (2011 KPMG 07):</b> Certain invoiced amounts did not comply with the contractual terms and conditions or did not contain adequate</p>	<p>Low</p>	<p>Calculating the progress payments for design-build preconstruction and design services fees is left to the interpretation and discretion of the CPM. As a result, LACCD</p>	<p><b>7-A:</b> On future design-build contracts, LACCD should clarify <i>Design-Build Contract Section 9.4.1 (Progress Payments)</i> and prepare a meaningful payment milestone schedule that is not subject to</p>	<p><b>7-A:</b> Management agrees in principal that the Design-Build contracts reviewed under audit were not clear on whether the contract application for payment could be invoiced on a percentage of completion or milestone basis. However, the contracts under audit have informal</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response
documentation to support the charges.		<p>may not be able to enforce timely progression of deliverables and may be at risk of paying for work not completed in a timely fashion. LACCD is at risk of overpaying for reimbursable expenses.</p> <p>LACCD is at risk of overpaying for reimbursable expenses.</p> <p>Discrepancies between <i>Touchpoints</i> requirements and required forms may cause approval of potentially non-compliant invoices and result in potential overpayment. Non-receipt of <i>Unconditional Waivers</i> does not provide LACCD with release from potential claims brought by contractors, which is the intent of this form.</p> <p>CPMs are using outdated forms that may not be compliant with current program requirements. A current version of a form may reflect new policies and procedures and require information that was not previously requested on an older version.</p>	<p>interpretation.</p> <p><b>7-B:</b> LACCD should reinforce documentation and retention of documentation of written pre-approvals for reimbursable CPM expenses, as required by the contract.</p> <p><b>7-C:</b> LACCD should start tracking <i>Unconditional Waivers</i> both at CPM and PM level and enforce submission upon payment to contractor.</p> <p><b>7-D:</b> LACCD should enforce the invoice review process requirements, including inclusion and tracking of unconditional waivers, and use of correct forms.</p>	<p>arrangements between the CPM's and vendors that are documented. To clarify the progress payment section of the design build contracts, the PM proactively worked with outside counsel to better define the payment schedule and this section was revised for contract documents effective January 2011.</p> <p><b>7-B:</b> Management agrees with the observations regarding coding errors, pre-approval of reimbursable expenses over \$500 and retention of approval documents for audit purposes. Management will take corrective action to avoid recurrence of such issues. However, it should be noted that most of the \$12,008 were reimbursements for valid expenses including \$4,124 for permit fees, which was part of the vendor's contract deliverable.</p> <p><b>7-C:</b> Management agrees with the observation that the CPM did not submit several <i>Unconditional Waivers</i> to Program Management as part of the invoicing process. The CPM was able to obtain <i>Unconditional Waivers</i> subsequent to KPMG fieldwork. The Program Manager has a system for tracking both conditional and unconditional waivers. This process has been in place since January 2011.</p> <p><b>7-D:</b> Management agrees with the observation and the PM will work with the CPM staff to provide training to ensure CPMs consistently utilize the latest forms available on the BuildLACCD website. PM will provide timely notifications to the CPM staff regarding any revisions to the forms.</p>