



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

Fiscal Year ended June 30, 2012

January 2013

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January 18, 2013

Mr. James O'Reilly
Executive Director
Facilities Planning and Development
Los Angeles Community College District
770 Wilshire Boulevard, 3rd 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, 2012, based on our agreed upon work plan with LACCD. Our work was performed during the period of June 12, 2012 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.

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

Sincerely,

KPMG LLP

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LIST OF ACRONYMS

Acronym	Definition
AAC	Additional Anticipated Costs
AGC	American General Contractors
AIA	American Institute of Architects
AOR	Architect of Record
BOT or Board	Board of Trustees
BuildLACCD	Blended program management team consisting of URS, other consultants, and members of the District
CO	Change Order
COP	Change Order Proposal
CPM	College Project Manager
DCOC	District Citizens' Oversight Committee
DHQ	District Headquarters
DMJM	Daniel, Mann, Johnson & Mendenhall and Jenkins/Gales & Martinez (former Program Manager)
DSA	Division of State Architect (California)
EAC	Estimate at Completion (i.e. completion costs)
ELAC	East Los Angeles College
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GC	General Contractor
HFPE	Health, Fitness & Physical Education Building from LACC
IOR	Inspector of Record
KPMG	KPMG LLP
LACCD or District	Los Angeles Community College District
LACC	Los Angeles City College
LATTC	Los Angeles Trade Tech College
LAB	Liberal Arts Building from LATTC
LRC	Learning Resource Center from LATTC
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
RFP	Request for Proposal
RFQ	Request for Qualifications
ROM	Rough Order of Magnitude
T&M	Time and Materials
Touchpoints	Program Touchpoints Handbook
UII	Universal Inquiry Interface
URS	URS Corporation (current Program Manager)

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 for the year ended June 30, 2012 was performed during the period of June 12, 2012 and through the date of this report, with significant fieldwork concluded by December 21, 2012.

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, 2012 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 District bond program fund expenditures during the fiscal year ended June 30, 2012 were \$428,763,141.

Each audit period we select different campuses and projects. For the 2011-12 audit period, our selection of campuses and projects included:

- The Learning Resource Center (LRC) building at Los Angeles Trade Tech College (LATTC);
- The Liberal Arts building at LATTC;
- The Health, Fitness, and Physical Education (HFPE) building at Los Angeles City College (LACC);
- The Student Union building at LACC;
- The Parking Structure Lot 4 at East Los Angeles College (ELAC);
- The Bailey Library building at ELAC; and
- The District Educational Services Center building at the District Headquarters (DHQ) building.

Observations

The District has retained URS Corporation (URS) as its current Program Manager (PM) to manage its bond program and account for bond program expenditures. Additional bond program functions are performed by BuildLACCD, which is a blended program management team comprised of the PM staff, members of the District's staff, and other District consultants.

During the period under audit, the PM and the District implemented and has continued to improve internal controls to help ensure bond funds are spent only for purposes approved by voters. 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 the District in further increasing program performance. Of the six opportunities identified, two are

of high priority, one is of medium priority, and three are of low priority.¹ In addition to the opportunities for improvement identified, this audit also recognizes a number of key leading practices already in place by the District to manage the program.

Summary of Observations

The 2010-11 Performance Audit found that the District's bond program does not maintain comprehensive policies and procedures for construction management processes and was identified as the root cause for many of the observations identified in our 2010-11 report.

Our observations relevant to the current 2011-12 audit period are also symptomatic of this lack of policies and procedures, including a number of repeat observations as follows:

1. Project budgets and budget transfers are not consistently supported by fully documented assumptions. (High Priority; repeat observation)
2. Project change orders and field orders do not consistently contain adequate supporting documentation and/or are not executed in accordance with District requirements. (High Priority; repeat observation)
3. The project closeout process was not adequately completed; required project closeout documentation is inconsistently filed or missing. (Medium Priority; repeat observation)
4. Procurement for professional services documentation is not consistently retained. (Low Priority)
5. The schedule variance reports issued by individual campuses are not standardized and do not always contain the components required by leading practices. (Low Priority; partially repeat observation)
6. Some invoiced amounts do not comply with the contractual terms and conditions or do not contain adequate documentation to support the charges. (Low Priority; repeat observation)

Summary of Leading Practices Implemented

- A program level scheduler position was created to provide additional review of CPM submitted project schedules and variances.
- The PM provided training to CPM's pertaining to the invoicing and processing of professional services agreements.
- The District is responding to prior audit recommendations and is progressing with improvements to its processes, policies and procedures.
- The PM developed and implemented a "Project Overview Status Report" to provide a high-level review of current construction projects. The report gives management the ability to have all project related vendor and financial information in a single report.
- Project closeout procedures were strengthened including revision of the requirements in the construction contract final payment checklist and the request for notice of completion.
- Construction contracts general conditions sections were updated based on lessons learned and included development of new and updated general requirement specifications for both design-bid-build and design-build contracts.

¹ The order of priority is a subjective ranking of relative importance among the observations.

- Schedule conversion and migration from Oracle Primavera P3 to P6 and consolidation of all college projects and district initiatives schedules into a single Master Program Schedule.
- The BuildLACCD Program Compliance function performs annual training sessions to communicate new policies as well as reinforce existing polices. Topics discussed include cost principles, labor logs, and allowability of bond funds.
- BuildLACCD issued the *Touchpoints Handbook* final version in March 2012 with improvements and clarifications to several processes.
- BuildLACCD performed a program-wide risk assessment to identify potential contingent liability issues that may arise as part of the bond funded construction process, which will assist in establishing a District-wide reserve fund for future liabilities.

Conclusion

Based on our audit, we did not identify any significant² charges to the bond program that did not conform to the requirements of Proposition A, Proposition AA, and Measure J. We identified six program areas with opportunities for improvement for the District. As a result, we recommend making significant improvements related to policies and procedures and the budgeting process. We also recommend other critical improvements to processes and internal controls related to scheduling, change orders, contracting, invoice review and approval, and project closeout.

² 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.

BACKGROUND

The Los Angeles Community College District's (LACCD or District) bond program has operated under a decentralized model since 2007 with significant level of autonomy resting with the individual colleges, including project management decisions, documentation requirements, and methodologies.

The District's program management practices and internal control of bond expenditures have evolved over time and continue to improve. The District is addressing deficiencies 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, including self identified deficiencies and corrective actions by the PM and the District.

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, the District must conduct an annual, independent performance audit of its construction bond program to ensure that funds have been expended only on the specific projects listed.

The District bond program is funded by Proposition A, Proposition AA, and Measure J, which were approved by voters in 2001, 2003, and 2008, respectively. The total authorized bond fund dollars are \$5.725 billion of which the District has issued \$3.850 billion as of June 30, 2012. The bond funds are designated for capital improvements for the renovation 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 and includes several consultants and members of District staff. The largest function of BuildLACCD is the program management function, provided by URS Corporation (URS or PM).

Program Manager

URS and its team of professionals are responsible for managing a major portion of the program-related activities, including maintenance of the master schedule and the master program budget. URS, however, does not oversee other functional areas within BuildLACCD, such as IT projects, financial management of bond proceeds and construction inspections. The Executive Director of Facilities Planning and Development oversees the PM team. The current program management services contract between the District and URS expired on April 12, 2012 and has subsequently been extended through January 2013.

College Project Management

The College Project Manager (CPM) for each college reports 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. The CPMs are also responsible for

overseeing design consultants, contractors, and vendors. The District has a separate contract directly with each one of the CPM firms for these services.

District Expenditures

As of June 30, 2012, LACCD had spent **\$3.548 billion** of the bond funds in total on its active and completed projects under the bond program. Total bond program expenditures for the fiscal year ended June 30, 2012 were **\$428,763,141** of which \$31,500,410 were related to Proposition A, \$41,205,462 were related to Proposition AA, and \$356,057,269 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 District construction bond program and does not include the District's business operations, administration or management of any projects outside of the bond program. In addition, KPMG's work under this engagement did not include providing technical opinions related to engineering, design, and facility operations and maintenance.

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 comments and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our comments and conclusions based on the audit objectives. As such, we followed the requirements of GAGAS and the District with respect to our methodology, which included the following elements:

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

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

Project Sample Selection

Based on the agreed upon work plan, a sample of seven projects from three colleges (two projects at each college) and the District Headquarters office (one project) 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, 2012. Our selection of projects included:

- The Learning Resource Center (LRC) building at Los Angeles Trade Tech College (LATTTC);
- The Liberal Arts Building (LAB) at LATTTC;
- The Health, Fitness, and Physical Education (HFPE) building at Los Angeles City College (LACC);
- The Student Union building at LACC;
- The Parking Structure Lot 4 at East Los Angeles College (ELAC);
- The Bailey Library building at ELAC; and
- The District Educational Services Center building at the District Headquarters (DHQ) building.

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 appropriate.

Additionally, 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 Program Touchpoints Handbook*, and executed contract documents as well as other performance audit criteria, as developed during the course of the audit. We performed the following procedures related to bond oversight, reporting, and management:

- 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 related to bond expenditure compliance:

- Reconciled college capital expenditures with the District's 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 college level procurement controls for competitive bidding and compliance with procurement procedures. 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.

We also evaluated compliance with District project closeout requirements.

Program Touchpoints Handbook and Program Management Plan

Our testing included review of BuildLACCD's and the CPM's compliance with applicable sections of the *Program Management Plan (PMP)*. The former PM for the District issued the *PMP* in January 2002, with the last revised version issued in September 2004 and July 2006. The *PMP* contains descriptive processes, roles, responsibilities, and procedures. The current PM was not contractually required to maintain the *PMP*, however, the PM saw the need for a bridge document to clarify changes that occurred from the decentralization program transition. In early 2009, the PM began to outline the policy changes due the transition. This led to the creation of the *Program Touchpoints Handbook (Touchpoints)* in October 2010.

Our testing also included review of BuildLACCD's and the CPM's compliance with the *Touchpoints* that was in effect during the audit period. 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.

A draft *Touchpoints*, dated October 22, 2010, was in effect for most of the audit period and was superseded by the final *Touchpoints* dated March 6, 2012. Although not in effect during this audit period, BuildLACCD has since issued a revised version of *Touchpoints* dated December 5, 2012.

The PM is currently developing an updated and comprehensive policies and procedures based on *Touchpoints* and the *PMP*.

AUDIT RESULTS AND RECOMMENDATIONS

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

The Performance Audit for the 2010-11 audit period found that there was limited documentation of underlying assumptions to justify how the current project budgets were established for the construction projects selected. This remains an observation for the 2011-12 audit period where the audit identified limited documentation of: (a) original project budgets; (b) the project budget re-baseline (October 2011); (c) (Cost) Estimate at Completion (EAC); and (d) budget transfers.³

1.1 Original Project Budget Establishment

Criteria: Under *Touchpoints Section 0300.3 (Budget Management)*, project budgets are prepared by the CPMs using the *Project Budget Establishment Form (PMA-0040 or 0041)*⁴. The CPMs are required to determine the project budgets by estimating, evaluating, and preparing sufficient supporting documentation. According to BuildLACCD, the *Project Budget Establishment Form* was used to establish Proposition A and AA budgets, but is no longer used. Measure J project budgets were established using the 'Project Budget Establishment Worksheet(s)' with a listing of project estimated costs approved by the CPMs and college presidents.

Condition: There is limited supporting documentation of underlying assumptions to justify how the original and current project budgets were established for Proposition A, Proposition AA, and Measure J. At times, documentation was available, but this documentation did not always reconcile to the budget numbers under audit. As a result, it cannot be determined how the final agreed to budget amounts were established.

- Six of the seven projects sampled did not use the required *Project Budget Establishment Form PMA-0040*.
- None of the six Proposition A/AA project budgets contained supporting documentation that reconciled to the original budget establishment.
- Four of six Measure J project budgets did not contain supporting documentation that reconciled to the original budget establishment.

Cause: *Touchpoints* did not exist when budgets for the projects sampled were established. Furthermore, at the time the budgets were prepared, the District emphasized a decentralized program management model and the CPMs were expected to document the budget development process at the college level without District input. The budgeting process remains decentralized under the CPMs' control and the current *Touchpoints* does not provide step-by-step instructions to the CPMs. Since the initial project budgeting was left to the individual CPMs, there are differing approaches and varying levels of documentation of the budgets. These methods and assumptions were not required to be maintained by the PM. As a result of limited policies and procedures, and a decentralized budgeting process, the documented support for the original budget contains limitations.

³ The 2011-12 audit included testing of different campuses and projects than the 2010-11 audit period.

⁴ The *Project Budget Establishment Form PMA-0040* is an outdated form and was replaced by *Project Budget Establishment Form PMA-0041* on BuildLACCD's website, effective March 6, 2012.

Effect: Without adequate support of the budgeting processes and assumptions justifying underlying budget amounts, the reasonableness of current project budgets cannot be substantiated.

1.2 Project Re-Baseline

In October 2011, 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, the District, the colleges, and the CPMs. We understand that the new budgets were prepared largely based on estimated costs to complete.

As part of a major effort to provide better public reporting, all of the campuses were asked to realign their project budgets at a line item level to better represent current conditions. This effort involved eliminating negative variances between budget and cost plus commitments for individual budget line items and, in some cases, mapping sub-projects to different roll-up projects. (Phase 1)

The re-baseline process also included creating an Additional Anticipated Cost (AAC) for each project, which provided a final projected completion cost of each project or Estimate at Completion (EAC). The EAC is utilized to adjust the individual budget line items so that overruns are covered by underruns and that an aggregate budget overrun is avoided. This effort was completed by August 2011. A final review, by the PM program controls team, of the campuses budgets and AACs were performed and, as a final result, the Master Budget of October 2011 was then adopted by the Board of Trustees (BOT). (Phase 2, which occurred concurrently with Phase 1)

Criteria: The re-baseline effort is not detailed in *Touchpoints*; however, *Section 0300 (Budgeting)* requires all budget transfers to contain sufficient backup to provide the ability to validate the budget transfers.

Condition: There is limited documentation of underlying assumptions to justify how the re-baselined budgets were established.

- Six of the seven project budget re-baseline packages provided by the CPMs for sampled projects did not provide adequate supporting documentation. Some documents provide limited support for the adjustments; however, assumptions were not always included and not all amounts could be reconciled to the re-baseline budget. We noted that the LACC-HFPE project is funded by Proposition A/AA, and the CPM provided a re-baseline package with supporting documents.
 - CPMs did not separate the budget re-baseline efforts (budget transfers) between Phase I and Phase II.
 - The project budget re-baseline Phase I effort involved adjusting negative variance amounts to zero, with limited or no justification.
 - CPMs did not provide the *Budget Transfer Form PMA-0043* for two of the seven sampled projects.
 - Four of the seven sampled project *Budget Transfer Forms PMA-0043* for re-baseline budgets were not signed.
 - Two of the four unsigned *Budget Transfer Forms PMA-0043* above were not retained by the PM in Docview⁵.

⁵ Docview is the District's electronic document management system.

- The EAC and AAC information (cost projections) as reported in historical *Dashboard Reports* cannot be provided due to database and system limitations and the amounts are not sufficiently substantiated.

Cause: We understand from our conversations with BuildLACCD that historical documentation to support each AAC for each project is not maintained and filed due to the volume and effort required. The District's Universal Inquiry Interface (UII)⁶ program, utilized to capture AAC amounts, is dynamic and information is only available at the most current point in time; thus, the UII system does not preserve the support for, and prohibits analysis of, historical cost projections. However, the system was improved to generate reports for variances between the re-baseline budget and current budget along with each and every budget transfer.⁷

During our conversations with the individual CPM's to gain an understanding how the AAC process works, we became aware that documentation supporting each item is not always created and at times the assumptions for current AAC amounts could not be explained. The CPMs explained that the most current AAC amounts were based on the experience of the CPM staff, but without any other support or explanations of how numbers were derived. Furthermore, we understand that the PM is not required to conduct any audits of the adequacy of the CPM's documented support, assumptions and methodology for AAC amounts.

Additionally, the lack of a standardized, documented and monitored budgeting process and limited historical variance analysis contributed to necessitating the budget re-baselining effort. Although the PM disagrees with this statement and explained that the re-baselining was done to account for current status, needs, trends, and future projections, we believe a better practice is to make these types of adjustments contemporaneously as they occur rather than after the fact as a single event. A budget needs to be up to date and reflect current conditions. We agree that a baseline budget may be re-established periodically, but should be based on the most current and already up-to-date budget.

The budgeting process still remains decentralized under the control of the CPMs, and the current *Touchpoints* does not provide step-by-step instructions to the CPMs. As a result of limited policies and procedures and a decentralized budgeting process, the documented support maintained by the CPMs for the baseline budget and cost projections is limited.

Effect: Without adequate support of the budgeting processes and assumptions justifying underlying budget and cost amounts, the reasonableness of current project budgets and estimated costs at completion cannot be substantiated and cost overruns may occur. Without a meaningful budget baseline, there cannot be any meaningful variance analysis conducted. Additionally, recalibrating a budget to fit historical costs, without the ability to track and justify historical changes, may conceal excessive spending and areas where best value was not obtained prior to the re-baselining effort taking place.

1.3 Project Budget Transfers and Authorizations

Criteria: *Touchpoints Section 0300.4 (Budget Transfers)* outlines a process for amending budgets through the use of BuildLACCD's UII program and the *Budget Transfer Form PMA-0043*⁸. *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.

⁶ UII is a cost management system utilized by BuildLACCD.

⁷ The Dashboard reports were improved to show Re-baseline to Current Budget and also includes a monthly budget transfer log.

⁸ *The Project Budget Transfer Form (PMA-0043)* is not included on the BuildLACCD website, but generated out of UII.

Condition: We reviewed 14 budget transfers with a total value of \$12,896,981 covering each of the seven projects to assess compliance with *Touchpoints* requirements. The level of detail provided in the description field of the budget transfer is entered by the CPM and then reviewed by the Program Controls. The level of detail vary and as a result, Program Controls may request additional clarification from the CPM. The PM acknowledges that these controls were not fully implemented until December 2011. Monthly budget transfers occur when there is a need based on projections, trends, or negative budget variance from UII reports, and may not always be supported by a reasonable and justifiable construction cost adjustment.

- Seven of 14 *Project Budget Transfer Form* justification sections are blank or the budget transfer documentation provided for each transfer does not contain an explanation from the CPM for the budget transfer.
- Six of 14 budget transfer requests were submitted and approved by the PM without sufficient information to validate the budget transfers. Two of the six contained supporting documents, but lacked a summary sheet that reconciled the final budget transfer amount to the supporting documents.
- Three of seven CPM-prepared Budget Transfer Log worksheets⁹ do not reconcile to *June 2012 Dashboard, "Project/Building Level Budget Transfer Log - Current Budget"* amounts.
- Three of 14 *Project Budget Transfer Forms PMA-0043* did not contain all required signature approvals.
- For two of the six *Project Budget Transfer Forms PMA-0043* noted above, the final form containing all required signatures, was not retained by PM in Docview.
- In one instance, the CPM did not use the required *Project Budget Transfer Form PMA-0043*.

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 is responsible for determining the sufficiency of the support.

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 to support how the original or current budget values were established. Therefore, the current project budgets may not be reliable for measuring the performance of the bond program’s performance.

1-A Recommendation: 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 may also 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.

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

⁹ The CPM Budget Transfer Log Worksheet is a comprehensive list of all project budget transfers from project inception and reports total current budget. The CPM Budget Transfer Log Worksheet total current budget should reconcile with the PM’s monthly Dashboard Project Cost Summary and Project/Building Level Budget Transfer Log total current budget amount.

- 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 when the current budget is no longer applicable due to significant changes on the project. This process should be performed on an as-needed basis.¹⁰
- c. Budget Transfer Requests and Approvals – Develop a standard requirement for the PM to retain all supporting documentation submitted in support of the methods and assumptions used by the CPMs.
- d. Estimate At Completion – Consider developing a procedure for the CPM to document and retain adequate support for assumptions used to develop AAC's. Support should also include a brief narrative of events that caused the proposed changes. Support should be sufficient to justify the narrative and to allow the process and calculations to be re-performed by a third party.
- e. *Touchpoints* requirement language and forms – Strengthen *Touchpoints* Project Budget Transfers signature requirement language to reconcile to the *Project Budget Transfer Form PMA-0043* signature page, including defining administrative changes.

Management Response 1-A:

Management agrees with this recommendation. In October 2011, the budget procedures were fortified to require a detail review and approval process. These procedures were not documented in Touchpoints until the December 2012 update. As of December 2012 revision of Touchpoints Section 300 Cost Management, Budget Transfer Procedures provides a comprehensive procedure to require a robust documentation and justification for the budget development and transfer requests. Management believes this revision to the Touchpoints fulfills this recommendation and we are in the process of developing a complete and comprehensive Policies and Procedures Manual that will combine the PMP and the Touchpoints handbook. A full time resource has been added to accomplish this task. A comprehensive Touchpoint / PMP is also a requirement of the new PM contract with the District.

Management Response 1-B:

Management agrees with this recommendation. As stated above (1-A) the PM issued in December of 2012 revisions to Section 300, Cost Management which addresses recommendation 1-B. Management will further review Section 300 for the development of re-baseline budget procedures and this will be incorporated in the comprehensive Policies and Procedures Manual.

¹⁰ This may be accomplished at key milestones throughout the project lifecycle as scope and circumstances become better defined (i.e. planning, design development, DSA approval, bid, construction etc.).

2. Project change orders and field orders do not consistently contain adequate supporting documentation and/or are not executed in accordance with District requirements. (High Priority)

The 2010-11 Performance Audit found that there was limited documentation of underlying assumptions to justify some change orders for the construction projects selected. This remains an observation during the 2011-12 fiscal year where the audit identified: (a) the District’s field order process was not followed¹¹; (b) change order (CO) supporting documentation was insufficient; (c) mark-up was calculated incorrectly; (d) change orders were not ratified within the timeframe required; and (e) required change order forms and signatures were missing.

During the audit period, there were 27 change orders totaling \$13,193,975 for the sampled projects. A summary of the audit results of the change orders sampled are included in the table below¹²:

No.	Observations	LATTC	LACC	ELAC	DHQ	Total
2.1	CPM staff allowed Work to be completed prior to field order and change order execution.	7 of 21 COPs ¹³	4 of 24 COPs	31 of 52 COPs	0 of 84 COPs	42 of 181 COPs (23%)
2.2	Supporting documentation from CPM was insufficient in detail to support the final agreed change order proposal price.	3 of 21 COPs	11 of 24 COPs	6 of 52 COPs	1 of 84 COPs and 2 of 4 COs	21 of 181 COPs and 2 of 27 COs
2.3.a	Contractor/Design-Builder did not correctly calculate the allowable markup.	1 of 21 COPs	2 of 24 COPs	6 of 52 COPs	1 of 84 COPs	10 of 181 COPs (6%)
2.3.b	Contractor/Design-Builder did not correctly calculate the Bond and Builder’s Risk Insurance.	0 of 21 COPs	0 of 24 COPs	27 of 52 COPs	0 of 84 COPs	27 of 181 COPs (15%)
2.4	CPM staff did not initiate documents to ratify Design-bid-build change order within 60 days of change order execution.	1 of 7 COs	0 of 2 COs	1 of 10 COs	n/a	2 of 19 Design-Bid-Build COs (11%)
2.5	Missing required change order forms and/or signatures by CPM and PM.	7 of 7 COs	6 of 6 COs	10 of 10 COs	3 of 4 COs	26 of 27 COs (96%) ¹⁴

2.1 District Field Order Process Not Followed

The design-build and construction contracts and *Touchpoints* specify that a field order should be processed for work that has to be completed in advance of substantiation and evaluation of a corresponding contract adjustment when time is of the essence so as to not delay the schedule. Therefore, in order for authorized work to be performed prior to execution of a change order, an executed field order

¹¹ A Field Order should be processed for work that has to be completed in advance of substantiation and evaluation of a corresponding contract adjustment.

¹² KPMG tested 181 change order proposals totaling \$12,177,468 for the sampled projects.

¹³ COP = Change Order Proposal.

¹⁴ Total represents change orders that were missing at least one or more change order submittal requirement stipulated by *Touchpoints*.

is required. However, KPMG acknowledges that exceptions apply when work is performed on an emergency basis.

Criteria: *Design-Build Contract and Construction Contract 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.”

According to the *CPM Contract Section 2.5.11 (Change Orders, Unilateral Change Orders, Field Orders)*, “When additions, changes or deletions in the Work of a Contractor become necessary, College Project Manager shall Manage the process of submittal, review, approval and performance thereof as set forth in the Contract Documents.” *Section 2.5.11* further states that if proposed changes in work involve a construction contract price adjustment that would cause the “gross aggregate total” of all price adjustment under the construction contract to exceed 3% of the original contract price, “the CPM shall not approve or recommend such change for approval or allow such change in work to be performed by the Contractor without first obtaining the requisite written authorization(s) required by the terms of the construction contract .”¹⁵

Touchpoints and Design-Build Contract and Construction Contract General Conditions Section 7.5.2 (Authorization) specify required written authorizations based on the rough order of magnitude (ROM), or proposed cost adjustment. *Touchpoints Section 1800.3 (Field Construction Order Process)* provides a list of submittal requirements in a typical field order package.

Design-Build Contract and General Conditions of the Construction Contract, 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.” Therefore, contract adjustments involving a compensable change, or extra work, must be authorized prior to the performance of work.

Condition: The CPM allowed work to be performed prior to the execution of a field order, when a field order was required, for 42 of 181, or 23%, of the Change Order Proposals (COP) sampled.¹⁶ These COPs constitute a total cost of \$1,017,199, or 8%, of the total change order cost sampled during the audit period. Although work performed by the contractor or design-builder 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 by contract terms. Based upon review of email correspondence, formal letters, meeting notes, and the *Record of Negotiation Form*, it does not appear that the contractor or design-builder and the CPM agreed upon a scope and a ROM of the proposed work for 36 of the 42, or 86%, of sampled COPs where work was performed prior to the execution of a field order. Thus, the contractor or design-builder and the CPM agreed upon the price of the 36 COPs after the work was performed. The

¹⁵ The CPM Contract defines “Gross Aggregate Total” as meaning the total amount derived by adding, and not netting, all additive and deductive price adjustments.

¹⁶ Change Order Proposals contain the details of a proposed change. Multiple Change Order Proposals are sometimes combined into a Change Order to execute a change to the contract.

remaining 6 of 42 COPs included supporting documentation that indicated that the contractor or design-builder and the CPM had agreed upon the scope and ROM prior to commencing work.

Cause: The CPMs, contractors, and design-builders did not comply with field order requirements. The CPM did not administer the required change management process and did not obtain the required signatures based on the ROM of the proposed field order cost. The contractors and design-builders did not obtain advanced authorization in writing for cost adjustments via an executed field order or change order prior to commencement of work. The CPMs, contractors, and design-builders did not comply with field order requirements because the District has not delegated authority to the PM and there is no process in place to enforce the field order process. As a result, the CPMs bundled a significant number of COPs into one change order for work that was completed one to 21 months prior to the date that the applicable change order was executed.

Due to the lengthy duration required to execute a change order, the CPMs indicated during interviews with KPMG that the contractors assumed the risk to proceed with work in order to complete the project as scheduled and to prevent delays. However, under circumstances where the compensable change needs to proceed in advance of complete substantiation and evaluation of a change order, the CPMs are consistently not using the field order process to establish a mutually agreed basis for the contract adjustment before work proceeds. Although the contractor or design-builder performed the work at their own expense, the CPM allowed the contractor or design-builder to proceed with work without having obtained the required advanced approvals and District notification through the field order process.

In addition to performing work prior to the execution of the field order or change order, it appears that work proceeded prior to the CPM and the contractor or design-builder informally agreeing to a scope and a ROM before commencing work. Therefore, as evidenced in the change order packages, negotiations regarding the COP price took place after subcontractors had already invoiced the contractor for the work performed.

The version of *Touchpoints* effective during the audit period also lacked a detailed description and process flow outlining the steps, review timeframes, and approvals required to process and execute a change order or field order. The lack of a detailed description and process flow outlining the steps and approvals to execute a change order or field order contributed to the confusion by the CPM on requirements for authorizing work performed prior to the issuance of a change order. However, KPMG recognizes that the PM continues to make improvements to the change order process. The revised *Touchpoints*, effective as of December 2012, was modified to include detailed contract change order procedures and responsibilities of the PM, CPM, and contractor or design-builder. The revised *Touchpoints* also includes change order process flow charts that start from an owner initiated event or from a construction initiated event involving the issuance of a field order.

Effect: Without obtaining appropriate District approval to authorize additional work, as required through the field order process, the CPMs are committing the District without the District's knowledge or consent. Lack of a defined timeframe for the PM's and District's review of the field order deters the CPMs from submitting field orders if the timeframe to process field orders is not significantly expeditious as compared to the timeframe required to execute a change order.

<p>2-A Recommendation: The District should require CPMs and colleges to follow the field order process and enforce this requirement. In addition, the District should require the PM to institute a process that enforces the field order process. The enforcement of these requirements could be assisted by increasing the onsite presence and oversight by the PM.</p>
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Management Response 2-A:

Management agrees with the observation that the CPMs should ensure that work is not allowed to commence prior to a properly executed field order. We agree that there is a control deficiency at the CPM level resulting in work performed without proper field order approval.

For purposes of the review and approval of the change order, the execution of the field orders was not material as the request for execution of the field order was superseded by the request for execution of the change order. Based on the movement to a centralized approach the PM will increase enforcement of the field order process with the CPM by increasing onsite presence and oversight.

2.2 Insufficient Change Order Supporting Documentation

Criteria: *Touchpoints*, the *Design-Build Contract* and the *Construction Contract* specify requirements for backup documentation and information to be submitted with the change order package in order to support and justify the potential costs associated with the change request. Per *Touchpoints Section 1800.3 (Change Order Process)*, “*Change Orders which add scope and/or cost must clearly identify the added scope and the negotiated cost of the work and should include a change order schedule of values for the work.*”

In addition, *Design-Build Contract* and *Construction Contract General Conditions, Section 7.6.2.3 (Change Order Request – Content)*, states, “*Each Change Order Request in order to be considered complete shall include: (1) a detailed description of the circumstances for the Compensable Change, Deleted Work or Compensable Delay; (2) a complete, itemized cost breakdown (additive and deductive) of the Allowable Costs that form the basis for the Contractor’s request for Contract Adjustment of the Contract Sum Payable, including: (a) all of Contractor’s and each Subcontractor’s costs, quantities, hours, unit prices, rates and Allowable Markups and (b) if the Subcontractor’s pricing is in the form of a lump sum price a detailed breakdown of the lump sum price into its component and individual items of Allowable Costs and Allowable Markup...*”

Condition: Twenty-one COPs and two change orders totaling \$3,343,023 were submitted with limited documentation that was insufficient to support the final agreed upon cost. These 21 COPs and 2 change orders constitute 27% of the total change order cost sampled during the audit period. These COPs and change orders included the following characteristics:

- For seven COPs, the contractor provided an itemized breakdown of costs to support the original amount proposed, but did not include an itemized breakdown of costs to support the final agreed price.
- For six COPs, although documentation submitted in the original change order package by the CPM to the PM was not sufficient to support the change order cost, the CPM was able to provide additional documentation to support the change order cost upon KPMG’s request during the audit.
- For eight COPs and two change orders, the limited documentation provided did not identify how the final agreed price was derived.

Therefore, these 21 COPs and 2 change orders were approved without sufficient documentation in the form of an itemized cost breakdown of the allowable costs that formed the basis of the change request, as required by the construction and design-build contract terms.

Cause: The contractors and design-builders did not submit sufficient supporting documentation, as required by their contract, and the CPMs did not confirm that the change order documentation was sufficient and complete, as required by their CPM Agreement. In addition, once the CPM submitted the change orders to the PM, the PM did not adequately review the change order packages to confirm that the documentation supported each COP. Although required by the design-build and construction contracts, KPMG recognizes that once COP negotiations between the CPM and the contractor or design-builder conclude, it may not be cost nor time effective for the contractor or design-builder to prepare a new itemized breakdown of allowable costs based on a revised and agreed upon change order amount. However, sufficient supporting documentation provided by the contractor or design-builder must identify how the final agreed price was derived while including the level of detail necessary to give the District and taxpayers confidence that the agreed to COP amounts are justified.

Effect: Lack of or insufficient documentation to support the proposed cost adjustment can lead to overpayment or payment of unjustified costs.

2-B Recommendation: *Touchpoints* should be revised to require that the *COP Form CP-0270* reflect the final agreed upon price. The *COP Form CP-0270* summarizes each subcontractor's cost, contractor's cost, markups, and builder's risk insurance. Preparing a *COP Form CP-0270* that reflects the final agreed upon price will help to ensure that the formula used to calculate the markups and the bond and builder's risk insurance are applied correctly.

2-C Recommendation: In order to ensure that the change order proposal process is adequately documented in a standardized manner, the District's *Record of Negotiation Form CP-0320* should be utilized and include additional instructions to provide the following information: (a) specify dates of when the original and subsequent change order proposals are submitted and the amounts; (b) identify concerns or discrepancies regarding contractor's proposals and how they were addressed; (c) discuss the merit of the proposal as compared with the CPM or independent estimate; and (d) identify the final agreed upon price and how it was derived and justified.

Management Response 2-B and 2-C:

Management agrees with the observation that COP final agreed prices were insufficiently documented for the sample tested. There should be documentation to allow a sufficient level of clarity to the cost negotiation process. The PM will revise the *Touchpoints* handbook to further strengthen the documentation requirements of the COP negotiation process as well as how the final agreed upon price is derived.

2.3 Incorrectly Calculated Mark-Up, Bond and Builder's Risk Insurance

Criteria: The *Design-Build Contract* and *Construction Contract General Conditions* defines 'Installation Subcontractor' and identifies the allowable markup entitled to the 'Installation Subcontractor' performing substantial services as well as the allowable markup entitled to the Contractor. Per the *Construction Contract General Conditions, Section 1.1.10, "An Installation Subcontractor means a Subcontractor who performs a portion of the Work that includes providing substantial, rather than minor and incidental, services for the installation of temporary or permanent materials, equipment or facilities at the Site."* According to the *Design-Build Contract* and *Construction Contract General Conditions, Section 7.7.5.2 (Installation Subcontractors (First-Tier)), (1) Compensable Change: "With respect to all or that portion of a Compensable Change that is performed by a first-Tier Installation Subcontractor, the Allowable Markups to the first-Tier Installation Subcontractor and the [Contractor or Design-Builder] shall be as follows: (a) The Allowable Markup to the first-Tier Installation Subcontractor shall be not more than*

fifteen percent (15%), which percentage shall for purposes of calculating the Contract Adjustment be multiplied times the Allowable Costs that are incurred by such first-Tier Installation Subcontractor in the performance of such Compensable Change. (b) The Allowable Markup to [Contractor or Design-Builder] shall be five percent (5%), which percentage shall for purposes of calculating the Contract Adjustment be multiplied times the sum of (i) the Allowable Costs incurred by such first-Tier Installation Subcontractor and (ii) the amount which results when the Allowable Markup thereon pursuant to preceding Clause (a) of this Subparagraph 7.7.5.2 (1) is multiplied times such Allowable Costs.

Touchpoints Section 1800.3 (Change Order Process) states, "The typical change order package includes, but is not limited to the following: Change order proposal (COP) Form CP-0270 or contractor/design-builder equivalent." The COP Form CP-0270 assists the contractor or design-builder with applying the correct markup to the subcontractor's and contractor's or design-builder's direct costs, as well as with calculating the Bond and Builder's Risk insurance. Per the instructions on Form CP-0270, the allowable COP cost is calculated as follows: (1) the General Contractors' Overhead and Profit (Subtotal D) is derived by multiplying the subcontractor's cost (Subtotal A) by Overhead & Profit 5%; (2) the Bond and Builder's Risk Insurance (Subtotal E) is derived by multiplying the Bond and Builder's Risk Insurance percentage by the sum of Subtotal A and Subtotal D, and (3) the total COP cost is the sum of Subtotal A + D + E.

Condition: The contractor or design-builder incorrectly calculated the markup against the first-tier installation subcontractor's cost for 10 of 181, or 6%, of COPs sampled, resulting in an overpayment by the District in the amount of \$4,295. For these 10 COPs, the contractor or design-builder either incorrectly calculated the markup by multiplying the installation subcontractor's cost by 15%, or by multiplying the installation subcontractor's cost by 15% and then by an additional 5%, or by not including the installation subcontractor's allowable 15% markup stated on the subcontractor's proposal. Based on supporting documentation including subcontractor's invoices, proposals, and time and material (T&M) records, the scope of work performed by the installation subcontractor was substantial in nature. Therefore, the contractor or design-builder should have calculated the allowable markup by multiplying the installation subcontractor's cost by 5%.

In addition, 27 of 181, or 15%, of COPs sampled included incorrectly calculated bond and builder's risk insurance fees resulting in underpayment by the District in the amount of \$302. The bond and builder's risk insurance was calculated by multiplying the bond and builder's risk insurance rate by the contractor's and subcontractor's direct costs (without overhead and profit) instead of against the contractor's and subcontractor's direct costs with overhead and profit.

Although the magnitude of these amounts is insignificant, it is an indication of certain control weaknesses related to the calculation of mark-up, bond and builder's risk insurance.

Cause: The contractor or design-builder submitted COPs with markups that were not in compliance with the allowable markups defined in their design-build and construction contracts. Furthermore, the contractor did not follow the instructions specified by the *COP Form CP-0270* to calculate the bond and builder's risk insurance. As part of validating the contractor's or design-builder's proposed cost and prior to signing the *Change Order Form CP-0260*, the CPM and the PM should notify the appropriate party of any miscalculated costs that would result in overpayment or underpayment in order to ensure that the contractor or design-builder receives fair and accurate payment. Thus, the CPM as well as the PM did not review the COPs at the level of detail required to ensure that all markups and insurance fees were correctly calculated prior to approving the change order.

Effect: Ineffective implementation of change management controls by the CPM and PM resulted in inaccurate payments by the District.

2-D Recommendation: The District should make it a contractual requirement for the PM to perform periodic audits of contractor and design-builder change orders to review for contract compliance.

Management Response 2-D:

Management agrees with the observation noting incorrectly calculated mark-up and builder's risk premiums. Although the errors noted by KPMG were immaterial, the PM feels that the bond program would benefit from a process of secondary review on a sample basis to ensure that rates and mark-ups are accurately calculated. The new PM contract to be implemented will include increase PM presence at the colleges' as well as a CPM performance matrix currently under development will be used to track compliance with this observation.

2.4 Change Orders were not BOT Ratified as Required

Criteria: *Board Rule 7100* requires that all design-bid-build change orders be ratified via Board Action within 60 days of execution. For design-bid-build contracts, *Touchpoints Section 1800.3 (Change Order Process)*, states: "Pursuant to Board Rule 7100, all Change Orders must be ratified via Board Action within sixty (60) days of the Change Order execution. PBA's for subject Change Orders are to be submitted to the program office accordingly, to comply with this requirement."

Observation: Two of 19, or 11%, of design-bid-build changes orders sampled were not ratified within 60 days of change order execution. Both change orders resulted in a zero cost adjustment. One change order increased the contract time while the other resulted from corrective action required by the Inspector of Record (IOR). Evidence of BOT ratification could not be located on Docview for one change order while the other change order was ratified 75 days after change order execution.

Cause: The CPM did not comply with *Touchpoints* or *Board Rule 7100* requirements and the PM did not have the controls in place to track Board ratification for design-bid-build change orders under 3% or \$100,000. The CPM did not submit a PBA to the PM for the design-bid build change order to be ratified by the Board within the required timeframe. However, the 60-day requirement may not be a practical amount of time to obtain Board ratification. Board meetings occur once per month in accordance with a published schedule developed by the District. *Touchpoints Section 200 (Board of Trustees)* requires that CPMs submit PBAs to the PM approximately six weeks in advance of the Board meeting in order to allow time to prepare the necessary reports for the meeting agenda. Thus, the CPMs have a limited window of time to prepare and submit the PBA to the PM for the next Board meeting occurring six weeks thereafter.

In addition to the CPM not submitting documentation to ratify the design-bid-build change order within the require timeframe, the PM also does not have controls in place to track Board ratifications for design-bid-build change orders that are under 3% or \$100,000. Design-bid-build changes orders under 3% or \$100,000 are not required to be approved by the PM. As a result, the PM was unable to enforce the CPM's compliance with the 60-day ratification requirements for the two design-bid-build change orders with a zero cost adjustment.

Effect: Failure to ratify change orders in a timely manner may lead to under reporting of project commitments, remaining budgets, and time extensions, which increases the risk of budget over runs and schedule impacts.

2-E Recommendation: The District should consider increasing the 60-day ratification requirement stipulated by *Board Rule 7100* in order to allow the CPM a practical amount of time to submit the PBA to the PM once the design-build change order has been executed.

2-F Recommendation: While the CPM is responsible for monitoring, tracking, and reporting design-bid-build ratifications, the PM should implement a change order tracking system for all change order ratifications, including change orders under 3% or \$100,000. The PM should also be required to monitor and confirm the CPM's compliance with ratification requirements.

Management Response 2-E and 2-F:

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. Subsequent to fiscal year-end, the PM implemented a new control process for tracking change orders and to ensure compliance with the 60-day ratification requirement.

2.5 Missing Required Change Order Forms and Signatures

Criteria: *Touchpoints Section 1800.3 (Change Order Process)* identifies a list of forms and signature approvals that are required to be submitted to BuildLACCD by the CPM. Per *Touchpoints Section 1800.3*, "The typical change order package includes, but is not limited to the following:

- *Change order processing checklist CP-0325: Signed by the CPM director.*
- *Change order reconciliation form. Form CP-0265.*
- *Record of negotiation (includes dates, locations, attendees at negotiations) Form CP-0320.*
- *Independent or the CPM estimate summary forms CP-0280 & CP-0290 or equivalent.*
- *COP Log.*
- *Copy of authorizing board action for contract award.*

Condition: We observed that 26 of 27, or 96%, of change order samples were missing at least one or more change order submittal requirement stipulated by *Touchpoints*, as follows:

- 23 of 27, or 85%, of change orders sampled included a *Change Order Process Checklist CP-0325* that was not signed by the CPM Director or a person having authority to sign for the CPM Director. All 23 checklists were signed by the CPM project manager or project controls manager, who have significant oversight or knowledge of the projects.
- 2 of 27, or 7%, of change orders sampled did not include a *Change Order Reconciliation Form CP-0265*.
- 20 of 181, or 15%, of COPs sampled did not include a *Record of Negotiation Form CP-0320*. Although not included in the original change order package, the PM was able to provide a copy of all missing *Record of Negotiation Forms* upon KPMG's request during the audit.
- 69 of 181, or 38%, of COPs did not include an *Independent Estimate or CPM Estimate Form CP-0280 & CP-0290*.
- 2 of 27, or 7%, of change orders did not include a *Change Order Proposal Log*.

- 17 of 27, or 63%, of change orders sampled did not contain a *copy of the authorizing board action for the contract award*.¹⁷ However, in all cases the authorizing board action was confirmed, although it was not included with the change order package, as required.

Of the 69 COPs that were submitted without a CPM or independent estimate, 4 COPs were submitted with T&M records approved by the IOR, 20 COPs were under \$5,000, and 1 COP was submitted with T&M records approved by the IOR and was under \$5,000. The remaining 44 change orders submitted without a CPM or independent estimate did not include T&M records approved by the IOR and were greater than \$5,000.

Cause: The controls in place to ensure that change order packages are approved with the required supporting documents and approval signatures were not operating effectively. The CPMs did not comply with their CPM Agreement terms to adhere to *Touchpoints* requirements and the PM did not consistently enforce *Touchpoints* requirements. A majority of the change orders sampled were consistently missing the following three submittal requirements: *Change Order Process Checklist CP-0325* signed by the CPM Director or a person having authority to sign for the CPM Director; a *copy of the authorizing board action for the contract award*; and the *Independent or CPM Estimate Forms CP-0280 & CP-0290*.

The *Change Order Process Checklist CP-0325* is in conflict with *Touchpoints* requirements effective during the audit period since the signature block states “Completed by” and does not specify the title of the signatory required. The CPMs were not aware of *Touchpoints*’ signature requirement for the checklist. Therefore, the checklist was signed by the CPM team member who prepared the checklist. Revised *Touchpoints*, effective as of December 2012, was modified to require that the CPM Project Manager, Deputy Director, or Director sign the *Change Order Processing Checklist*.

An independent or CPM estimate was not always performed if the cost to perform the estimate was not cost effective or if time and material services were to be verified and approved by the IOR. *Touchpoints* effective during the audit period also did not identify when an estimate should be prepared based on the proposed cost adjustment. The revised *Touchpoints*, effective as of December 2012, identifies criteria regarding cost estimates. According to the revised *Touchpoints*, the CPM can determine the reasonableness without a written cost estimate for changes less than or equal to \$5,000. For changes greater than \$5,000 but less than \$100,000, the CPM shall prepare a detailed cost estimate. For changes greater than \$100,000, the CPM shall obtain an independent third-party cost estimate. In addition, the revised *Touchpoints* requires that the CPM use the *Change Order Estimate Summary Sheet CP-0290* and *Change Order Estimate Pricing Sheet CP-0300*, which will help to ensure that the cost estimates prepared by the CPMs are consistent across the program and include the required estimate information.

A copy of the authorizing board action for the contract award was consistently not included in the change order packages on Docview. It appears that the CPMs inadvertently left this documentation out of the change order packages.

Effect: Execution of change orders without an independent estimate or CPM estimate results in change orders potentially being approved for amounts above fair market price and with unjustified and unverified change order terms and conditions. In addition, inconsistent or unclear *Touchpoints* requirements may lead to the execution of change orders that do not comply with program requirements.

¹⁷ Per the PM, a signed *Proposed Board Action (PBA)* serves the purpose of a board authorization.

2-G Recommendation: The PM should review and modify *Touchpoints*, as appropriate, to ensure that the forms and signatures required in a typical invoice package are meaningful and necessary to support the change order. For example, *Touchpoints* should only require a copy of the authorizing board action for contract award with the first change order package and when amendments to the contract are approved in order to reduce the amount of paperwork generated for the change order package.

2-H Recommendation: *Touchpoints*' should be revised to allow the submittal of T&M records approved by the IOR in lieu of an independent or CPM estimate based on a dollar amount threshold.

Management Response 2-G and 2-H:

Management agrees with KPMG's recommendation that the requirements for change order packages be more specifically articulated in the Touchpoints handbook. The Touchpoints handbook issued in December 2012 has been revised to include more appropriate change order checklist, approvals and required documentation.

Management also agrees with the recommendation regarding cost estimates. The use of third party versus in house cost estimates currently depends on the size, nature and urgency of a project or scope change. The Touchpoints handbook issued in December 2012 was updated to implement a dollar amount threshold for the specific requirements of cost estimates. Touchpoints will be further reviewed and updated to apply to current requirement for T&M change orders.

3. The project closeout process was not adequately completed; required project closeout documentation is inconsistently filed or missing. (Medium Priority)

The 2010-11 Performance Audit found that the closeout process was not adequately completed and that required project closeout documentation was inconsistently filed or missing. This remains an observation during the 2011-12 audit period.

For purposes of auditing the closeout process, we selected projects where closeout was taking place or had recently been completed: ELAC Baum Center Project, LACC Franklin Hall Project, and the LATTC Auto Metal Building Project.¹⁸

Criteria: The CPM agreements require the CPM to review and confirm the completeness and accuracy of the as-built documents and other closeout documents. In addition, the CPM agreement requires the CPM to archive all documents related to the college projects in accordance with the program management documents and document control system.¹⁹

Per *Touchpoints Section 1900 (Warranty/Archive)*, the closeout process occurs in two Phases. Phase 1 occurs at substantial completion and Phase 2 occurs at final completion.

The PM is responsible for coordinating archiving with the CPM at substantial completion (*Archive Checklist CP-0132*) and at final completion with the balance of completed project closeout documents (*Project Closeout Checklist CP-0135*). The PM warranty/archive team, when advised by the CPM of a project's closeout files being prepared and complete, will meet with the CPM to review final archive documentation based on the *Closeout Doc Box Inventory List CC-0135A* and *LACCD's Master File Index CC-0140 form*. The PM will collect completed project document packages from the CPM; scan the entire package, reproduce, confirms, and distributes the essential elements to campus facilities by the CPM (Phase 1 only); and deliver the complete project archive package into the District's permanent record.

Condition: *Touchpoints* specifies closeout requirements for Phase 1 archiving at substantial completion. However, for the three Projects sampled for closeout testing (ELAC Baum Center Project, the LACC Franklin Hall Project, and the LATTC Auto Metal Building Project), substantial completion occurred before the *Touchpoints* was formally issued in October 2010. The District did not require retroactive adherence to the requirements once they were issued. As a result, none of the three Projects have any Phase 1 closeout documentation filed to date.

Touchpoints also specifies closeout requirements for Phase 2 archiving at final completion. The only Project in Phase 2 archive process was the LATTC Auto Metal Building Project. We noted the following related to Phase 2:

First, the Phase 2 *Project Closeout Checklist* for LATTC Auto Metal Building Project was incomplete and not filled out correctly by the CPM, and was not signed by the contractor, Architect or PM. The *Project Closeout Checklist* is an important control to memorialize that the Phase 2 closeout process was executed in accordance with the *Touchpoints* requirements. It also assigns accountability to those individuals responsible for verifying completeness of the closeout process and documentation, as evidenced by their signature.

¹⁸ The LATTC Auto Metal Building project was audited only for closeout in order to capture Phase 2 of the closeout process.

¹⁹ 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*).

- Three related projects having different contracts, contractors, and start dates (2003, 2005 and 2007) were grouped together on one *Project Closeout Checklist* as one closeout process with completion in 2012. This approach is not practical as several dates and key documentation will differ. Additionally, waiting nine years to closeout a project started in 2003 is not advisable, since it requires the contractor's cooperation, and signature and documentation may be difficult to retrieve if closeout is not completed in a timely manner.
- The three projects related to LATTC Auto Metal Building stated on the *Project Closeout Checklist* (07T.6708.03.03, 17T.7708.03.05 and 07T-6708.03.06) differ from the projects related to the LATTC Auto Metal Building we actually found in the closeout documentation (07T.6708.03.03 (also filed as 07T.6708); 17T.7708.03.05 (also filed as 17T.7708.05); 17T.9708.03.06 (also filed as 17T.9708.06)). Additionally, we located misfiled documents (Notice of Completion) for Liberal Arts Building – Renovation of Cosmetology Studios.
- The contractors' and architects' approval signatures were missing from the *Project Closeout Checklist* form.
- There were no dates for receipt of documentation by the PM or District.
- The *Project Closeout Checklist* states that project 07T-6708.03.06 should be included, which does not correspond to the *Closeout Box Inventory List*, where 07T-6708.03.06 is not listed. It is not clear if this is a separate project or if it was erroneously added.
- The CPM "received date" indicated on the *Project Closeout Checklist* form applies to one of the three Projects only, although a unique date is applicable for each of the projects and therefore should be stated. One of the Projects, 17T.7708.05, also had two contracts issued for the work, where additional variations in closeout dates within that unique project code existed.
- There is no information noted on several items in the *Project Closeout Checklist* including: PM confirmation that No Liens or Stop Notices have been filed; CPM submittal of Final Contract Report to PM, the District and College President; Labor Compliance Closeout Report; GC/CPM working files turned over to District after review of PM; PM review and acceptance of close out package; and Notification to the California Community Colleges (CCC) after DSA certification.

Second, a number of documents for Phase 2 closeout of the LATTC Auto Metal Building projects could not be located in Docview. Additionally, some documents for projects not listed on the *Project Closeout Checklist* were included.

- No closeout documentation of any kind could be located for project 07T-6708.03.06, which is a Project listed on the *Project Closeout Checklist*.
- As-builts drawings were located for two projects: 07T.6708.03.03 and 17T.9708.03.06 (of which the latter was not mentioned on the *Project Closeout Checklist*). No as-built drawings were located for project 17T.7708.03.05.
- Warranties and Operations & Maintenance Manuals were located for only one Project, 07T.6708.03.03. No as-built drawings were located for project 17T.7708.03.05 or 17T.9708.03.06.
- Punch-lists were located for two projects, 07T.6708.03.03 and 17T.9708.03.06 (of which the latter was not mentioned on the *Project Closeout Checklist*). No punch lists were located for project 17T.7708.03.05. An approval of final closeout and inspection acceptance signed by the Architect was located for only one project, 07T.6708.03.03.
- IOR reports, logs and notices appear to be related to project 07T.6708.03.03 only. No IOR reports, logs and notices were located for project 17T.7708.03.05 or 17T.9708.03.06.

- Demonstration for Release Of Claims was not located for any of the Projects. According to the *Project Closeout Checklist*, this should have been filed in Master File Index location 7.12.; however, this section is labeled “Materials Receiving Report” and the actual document does not demonstrate Release of Claims. The District has a Release of Claims form that we had expected to find signed and executed, similar to the *Form CP-0190* that we located for the ELAC Baum Center Project.
- The only General Contractor Agreement located in Docview was for project 17T.9708.03.06. No contracts or agreements were located for project 17T.7708.03.05 or 07T.6708.03.03.
- DSA information was located only for projects 07T.6708.03.03 and 17T.9708.03.06.

Cause: During the audit period, the closeout process in *Touchpoints* was lacking. As a result, the intended requirements of the *Project Closeout Checklist* were not clearly understood by all CPMs and as a result, the completeness of the documentation was lacking. Additionally, the CPM is primarily responsible for the closeout process, but it does not appear that this requirement is followed, resulting in closeout being managed by individuals with many other responsibilities.

The *Project Closeout Checklist CC-0135* is recommended to be revised in the following areas:

- Does not provide instructions for how to complete the form.
- Does not differentiate between process and document items.
- Does not instruct the CPM to provide a Master File Index Number Location for documents associated with a process.
- Does not instruct the CPM to provide a date or confirmation that a process has been completed.
- CPM is responsible for items assigned to other parties.

The warranty/archive team is in the process of revising the *Project Closeout Checklist*.

The PM warranty/archive team explained to KPMG that the approval signature on the checklist implies a “cursory” or “high-level review.” Due to the large magnitude of the closeout package, the PM warranty/archive team checks for key deliverables such as DSA certification, warranties, as-builts, reports etc., but does not assess the content nor validity of these documents. The PM warranty/archive team performs a cursory review for final archive collection and relies on the CPM contractual obligation for full and complete project documentation recordation. Therefore, processes and controls in place to confirm that all documents referenced on the *Project Closeout Checklist* are located on Docview are ineffective, as items were not located in the closeout package even though the *Project Closeout Checklist* provided a file location reference.

We recognize that closeout is a CPM requirement and that it takes a great effort to properly closeout a project. However, enforcement and oversight to ensure compliance needs to be provided at the PM level.

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

3-A Recommendation: The closeout process should identify BuildLACCD as being responsible to monitor, track and ensure complete and timely closeout by the CPMs. BuildLACCD should consider adding the following to the closeout process in *Touchpoints*:

- Use a separate project *Closeout Checklist* for each Project
- Develop a single closeout checklist that includes instructions for its use by only the CPM and PM. Consider including the following:
 - Identification of the party responsible for each item
 - Identification of the process involved and document required /created with each item
 - Columns for the following information:
 - Date process/ document initiated and completed
 - Initials of person responsible for completing process
 - Initials of person accepting/ approving the process and documentation
 - Document name and location

It appears that the December 2012 *Touchpoints* was revised to include more detail regarding the closeout process; the one-page process was expanded to four pages. It also now includes a description of the responsible parties and required forms. The *Closeout Checklist* still needs to be revised to follow suit.

3-B Recommendation: BuildLACCD should consider conducting periodic audits of project closeout documentation to ensure compliance with *Touchpoints*.

3-C Recommendation: BuildLACCD should consider closeout status report updates from the CPMs for applicable projects.

Management Response 3-A, 3-B and 3-C:

Management agrees with observation regarding phase 2 project closeout checklist. The PM noted this as a project prior to current PM. The three (3) sub-projects were started, managed and closed out by CPM as a single project prior to the current implementation of the phase 1 & phase 2 warranty/archive process. We also agree that Closeout process should be strengthened and the *Project Closeout Checklist CC-0135* should be revised to provide better instructions for the CPMs regarding document collection and proper completion of the checklist.

As KPMG noted, the PM revised and strengthened the closeout process of *Touchpoints* in the December 2012 revision. The new PM contract to be implemented will include increase PM presence at the various levels as well as a CPM performance matrix will be used to track the closeout process and status. Part of the process will include conducting internal audits.

4. Procurement of professional services documentation is not consistently retained. (Low Priority)

The prior 2010-11 Performance Audit did not include the same detail testing for procurement as the 2011-12 audit period. As a result, this is a new observation for the 2011-12 audit period.

Criteria: The District is governed by the public contract code and its procurement policies and procedures articulated in *Touchpoints* and in the following:

- *Program Touchpoints Handbook, Section 1400 (Construction Contracts i.e. Design-Bid-Build) and Section 1500 (Design-Build Contracts);*
- *Request for Proposals from Pre-Qualified for the Design and Construction of Design-Bid-Build Program 2 (DBB2 RFP);* and
- *Program Management Plan (PMP), Volume II, Section 2 (Professional Service Consultants Selection), and Volume III, Section 2 (Construction Bidding & Packaging).*

BuildLACCD and the CPMs have implemented the procurement processes outlined in *Touchpoints*, *DBB2 RFP* and the *PMP*. Although *Touchpoints* contains the most current project guidelines, we have referenced the *PMP* since some campuses use it for guidance and some of the projects we reviewed began when the *PMP* was initially implemented.

Additionally, the District's document retention policy specifies when documents may be disposed. It states that the documentation related to the procurement of contractors, architects and consultants for the bond program should be retained until the program or project subject to an audit is complete.

Condition: Although the majority of required procurement documentation tested was adequately retained, we noted that this was not a consistent practice for all projects. If required procurement documentation is not consistently retained, it cannot be determined whether the procurement process occurred in accordance with District requirements. The District was not able to provide any evidence that the missing records were not required to be retained or were permitted to be disposed of.

Specifically we noted:

- There was no record of formal solicitation packages sent out for selection of architect for one of five design-bid-build projects.
- There was no Request for Qualification (RFQ) evaluation documentation for two of five design-bid-build projects.
- One of five Contractor's Qualification Statement was not signed by the Contractor. The District has corrected an administrative abnormality in the signature block. When the form was released by the District's Office of General Counsel, it did not make it clear where the Contractor should sign. BuildLACCD's subsequent review of several bids, as a result of this audit, revealed this was a common mistake.

Cause: Based on conversations with the CPMs and BuildLACCD, it appears that some procurement documentation was misplaced and/or was not transferred during the transition to the new PM for the District (i.e., from DMJM to URS). Additionally, there are no Program specific documentation and archiving requirements for procurement documentation or other document retention policy.

Effect: Without specific documentation, archiving and retention requirements for the required procurement documents in the District procurement process, it is not clear who is responsible for filing different documents, where the documents are filed, and for how long they stay archived. In the event that documents are misplaced, the integrity of the procurement process cannot be verified. This includes: (a) whether the proposal evaluation reflected impartiality and/or professional judgment in the review of the proposals; (b) whether a formal solicitation package was distributed to all qualified bidders/proposers; and (c) whether a Contractor/Consultant was appropriately deemed responsible and responsive.

4-A Recommendation: BuildLACCD should consistently enforce the requirements set forth in *Touchpoints Section 1400* and should consider further developing the *Touchpoints* requirements to include a process descriptions for each step in the design-bid-build procurement processes, including:

- Clearly defined roles and responsibilities for key participants in each process,
- Clearly identify what resources (templates, forms, or other documents) are required at each stage in the process.
- Set forth requirements for documenting significant decisions made with respect to bid evaluations and vendor selections.
- Include a program-wide document retention policy.

4-B Recommendation: BuildLACCD should provide training to all program-level and CPM staff responsible for executing the procurement process, in particular as it pertains to document management.

Management Response 4-A and 4-B:

Management agrees with the observation that documents were not properly retained for some of the projects reviewed by KPMG. It should be noted that these projects and related documents were procured by the former Program Manager and were not properly transferred during the transition to the current Program Manager. Management also notes that the signature block was absent on the *Contractor's Qualification Statement* and has been corrected. To ensure on-going improvements, the PM contracts department currently performs regularly scheduled onsite training with each CPM to review contract procurement procedures. In addition, the PM will work with the District to develop a document retention policy.

5. The schedule variance reports issued by individual campuses are not standardized and do not always contain the components required by leading practices. (Low Priority)

The 2010-11 Performance Audit found that the scheduling process was not performed with adequate District oversight and that schedule variance reporting was not adequately performed. This, in part, remains an observation for the 2011-12 audit period where the audit found that: (a) schedule variance reporting between campuses is not standardized and do not always contain the components required by the District, and (b) there is a lack of documentation to connect the original project schedule to the 2011 re-baseline schedule.

Schedule management and standardized project reporting are practices promulgated by leading industry organizations.

Criteria: Per the original *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. There is not further detail in this version of *Touchpoints* related to schedule variance reporting. In the *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 the District 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, the District renegotiated with all nine CPMs to execute new PSAs, 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: The District’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. Until March 2012, the BuildLACCD Program Schedule Manager did not provide any analysis or review of the underlying assumptions to the schedule information provided by the individual CPMs, nor did the BuildLACCD Program Schedule Manager conduct any schedule variance validation.²⁰

²⁰ Subsequent to March 2012, the BuildLACCD Program Schedule Manager reviews the summary schedule delays of more than 30 days and validates the magnitude, causes and driver of the reported variance. The data is also validated for correctly presented milestones and for public reporting purposes. The BuildLACCD schedule team does not conduct an in-depth reviewed each project schedule.

A review of the original baseline schedule against the project schedules that were re-baselined in 2011 yielded several variances between the original and current milestone dates. After subsequent discussions with the CPMs, we were able to understand the reasoning behind the project delays; however, sufficient documentation to substantiate the delays, including complete variance reports from project inception to present, was unavailable. Until the current CPM PSAs became effective in February 2011, the CPMs were not required to prepare variance reports.

A review of compliance with the monthly CPM variance reporting requirements, effective in September 2011, revealed that although each college has included a variance report, the content and presentation of the data in these reports is often inconsistent and do not always include a narrative description. Although each variance report reviewed contained an acknowledgement of “days behind baseline schedule,” only one of the campus monthly schedule variance reports included specific project variance drivers, recommended corrective actions and additional risks that may lead to project delays. One campus did not submit the required narrative with its variance reports.

Cause: In accordance with the District’s previous emphasis on a decentralized project management model, BuildLACCD has historically relied on the individual CPMs to set and manage project schedules and evaluate schedule impacts. The central BuildLACCD scheduling function in place during the majority of the audit period did not provide analytical reviews or validation of project schedules (this changed in March 2012 as a result of last year’s audit findings). As a result, variance reporting and documentation of schedule changes have historically been incomplete.

Previous schedule variance reporting requirements were limited and did not include instructions on the level of detail or how to formally document critical schedule variance components. This contributed to a lack of documentation and project schedule history providing a clear progression of events. Without the project schedule history, analysis cannot be performed over schedule delays or impacts. However, since the 2011 re-baseline effort, BuildLACCD has communicated variance reporting requirements to the campuses, although *Touchpoints* still does not incorporate them and the resulting variance reports are inconsistent and at times do not contain all required components.

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 District’s bond program may experience unexplained schedule delays or changes, which in turn may result in additional costs.

KPMG recognizes that subsequent to fiscal year-end, the review process was strengthened by adding an additional resource and allowing for a more through analytical schedule variance review.

5-A Recommendation: The District should standardize the CPM schedule variance reporting requirements and format in *Touchpoints*. The requirements should be enforced so that each report contains descriptions of specific project variance drivers, recommended corrective actions and additional risks that may lead to project delays.

5-B Recommendation: BuildLACCD should provide procedural guidance to CPM staff responsible for the schedule management process in order to increase the consistency in which processes and controls are executed across the program. Additionally, BuildLACCD’s newly instituted scheduling function should provide input and oversight of the campus scheduling management process.

Management Response 5-A and 5-B:

Management agrees with this recommendation. Subsequent to fiscal year-end, the PM added an additional resource to assist in strengthening the schedule oversight process. The scheduling team has drafted the specific criteria for the content and formatting of the CPM schedule variance reports and is ready to be formalized and incorporated into Touchpoints. The report will include narratives, corrective action plans, schedule project risks, and other schedule analytics on a summary level. A training program will be implemented in conjunction with the increased schedule oversight process. As of October of 2012 the PM schedule management team has been meeting monthly with CPM's to review and validate project schedule data.

6. Some invoiced amounts do not comply with the contractual terms and conditions or do not contain adequate documentation to support the charges. (Low Priority)

The 2010-11 Performance Audit found that certain invoices did not comply with contractual terms and conditions and/or did not contain adequate supporting documentation to support the charges. This remains an observation during the 2011-12 fiscal year where: (a) invoices were missing required forms and signatures; (b) progress payments for preconstruction and design services fees for one project were not computed per the payment schedule in one design-build contract; and (c) sampled bond expenditures were not compliant with certain terms and conditions of the governing contract.

6.1 Missing Required Invoice Forms and Signatures

Criteria: The *CPM Agreement, Section 2.1.4 – Program Process Compliance*, requires that the CPM “be knowledgeable on, adhere to and perform all of its obligations under this Agreement in accordance with Program Management Documents.” “Program Management Documents” are defined in *Section 1.1.106* and *Section 1.1.108* as including, without limitation, the *Program Touchpoints Handbook* issued in the calendar year 2010, along with subsequent revisions and additions.

Per Touchpoints Section 1800.1 (Contract Invoice (Progress Payment) Process), “The typical invoice package includes, but is not limited to the following:

- *Invoice payment approval form CP-160 & CP-162. Signed by the CPM.*
- *Invoice payment checklist form CP-0165. Signed by the CPM.*
- *Copy of change order CP-0260 or CP-0261 including authorizing board action (For Design-Build Contracts) or Budget Encumbrance Form CP-0683 (For Design-Bid-Build Contracts), if billing.*
 - *NOTE: Design-Build Payment Applications, including a Change Order Billing, cannot be processed without the Authorizing Board Action for subject Change Order.*
 - *NOTE: Design-Bid-Build Payment Applications, including a Change Order Billing, cannot be processed without an executed Change Order Encumbrance Form CP-0683 for subject Change Order.*

Condition: We observed that 20 of 66, or 30%, of all design-builder and contractor invoices tested were missing at least one or more invoice form or signature required by *Touchpoints*. The invoices tested were missing the following forms and signatures:

- For 1 of 66 invoices (2%), the *Invoice Payment Approval Form* was not signed by the CPM or a person granted authority by the CPM to sign on behalf of the CPM via a signature authority letter.
- For 1 of 66 invoices (2%), a copy of the *Invoice Payment Checklist* was not included in the original invoice package as required; however, the documents were available for review upon request by KPMG during this audit.
- For 5 of 15 design-build invoices (33%), a copy of the *Authorizing Board Action(s)* for change orders that were billed were not included in the original invoice package, however the documents were available for review upon request by KPMG during this audit.
- For 15 of 51 design-bid-build invoices (29%), a copy of the executed *Change Order Encumbrance Form(s)* for change orders that were billed were not included in the original invoice package, as required. *Touchpoints* is not clear on this requirement, as the intent is to include the

Encumbrance Form with the invoice only when a Change Order has not yet been authorized or ratified by the BOT.

Additionally, we noted that the District's conditional and unconditional waiver release forms CP-0600 and CP-0610 are not used or mandated by *Touchpoints*. Instead, the design-builders and contractors in all but one case used their own version of these forms.

We noted that in our testing of 23 other invoices (not contractor or design builder):

- For 5 of 23 invoices (22%), a copy of the *Invoice Payment Checklist* was not included in the original invoice package.

Cause: The draft *Touchpoints* was distributed to the CPMs in October 2010, and was finalized in March 2012. The CPMs did not unanimously recognize *Touchpoints* as being an official program management document until it was finalized in March 2012. However, the CPM Agreement requires that the CPM be knowledgeable on, adhere to and perform all of its obligations under the Agreement in accordance with *Touchpoints* issued in 2010, along with subsequent revisions and additions.

In addition, Program level controls identified in *Touchpoints* to review the invoice package for completeness and accuracy do not appear to address invoice forms and signatures. As outlined in *Touchpoints*, invoices are reviewed and approved by the PM's Accounting Group and Program Controls Group. The Accounting Group reviews the invoice for compliance with contract terms specified by the bond language, conditions (deliverables), and billing format. The Program Controls Group reviews the invoice in accordance with the approved project budgeting and funding guidelines. Thus, it appears not all invoices, which are being reviewed and approved by the PM, are in compliance with the *Touchpoints* invoice processes related to the completeness and accuracy of invoice forms and signature requirements.

Effect: Program controls that do not consistently enforce invoice forms and signature requirements may cause approval of potentially non-compliant invoices and may result in payment of unapproved amounts.

6-A Recommendation: The PM should review and modify *Touchpoints*, as appropriate, to ensure that the forms and signatures required in a typical invoice package necessary to support the application for payment. The PM should also implement controls to review invoices for *Touchpoints* invoice form and signature requirements as part of the invoice review process.

Management Response 6-A:

Management agrees with this recommendation. *Touchpoints* will be updated to strengthen and clarify procedures regarding require forms, signatures and specific documents as well as supporting documentation to be included within each change order package.

6.2 Calculation of Design Fee Progress Payments

Criteria: The method for calculating progress payments for the design services fees is stated in the *General Conditions of the Design-Build Contract, Section 9.4.1 (Progress Payment Amount)*, which defines a payment schedule that identifies a percentage to be allocated to each phase of preconstruction and design services work.

Condition: For one of two design-build projects, the progress payments for the Preconstruction and Design Services Fee were not tracked by the CPM against the payment schedule stated in the design-build

contract. Based on the Schedule of Values (or progress billing summary) that was submitted with the invoice packages, the progress payments for the Preconstruction and Design Services Fee were calculated based on percentage completion of architectural and engineering work by discipline for all design related work. However, the payment schedule in the design-build contract identifies the percentage of the Preconstruction and Design Services Fee to be allocated for portions, or phases, of design work, including execution of Design-Build Contract, Schematic Design, Design Development, Construction Documents, etc. Since the progress payments were calculated based on percentage completion of the entire design services fee rather than according to the payment schedule, KPMG was unable to determine whether the design-builder completed each portion of the design services work within the allocated amount set by the contract.

Effect: Lack of tracking the design-builder's progress payments against the payment schedule by the CPM may result in potential overpayment for that portion of design work. In the event that the project scope changes or the project is eliminated, the District is put at risk of having paid the design-builder a larger fee than was allocated for the portion of work performed at the time that the scope was changed.

6-B Recommendation: Design-builder's should be required to submit Schedule of Values (or progress payment billing summaries) that are consistent with the payment schedule in order to ensure that design-builders are not issued progress payments for more than is allocated by the contract for that portion of design work.

6-C Recommendation: In order to avoid misinterpretation of the General Condition language pertaining to the calculation of progress payments, the payment schedule should be clarified to reflect progress payments based on percentage completion for the following design services: (a) Executed Contract; (b) Schematic Design and Validation Phase; (c) Design Development; (d) Construction Documents; (e) Submission of Construction Documents to DSA; (f) DSA approval of Final Construction Documents; (g) DSA Certification; and (h) Construction Administration.

Management Response 6-B and 6-C:

Management agrees with this recommendation. The prescribed milestone billing was not followed as prescribed by the contract and invoiced on a percentage of completion by the CPM. The PM has updated the General Conditions and contract requires for Design-Build contracts in the first quarter of 2011 to address this issue. Subsequent to the 2011 updates, the PM now rejects design-build invoices that do not follow the contractually prescribed milestones for preconstruction and design services.

6.3 Contract Non-Compliance

Criteria: Contract terms and conditions establish requirements for invoice payment timeframe, fees, supporting documents, pre-approvals and mark-ups amongst other requirements.

Condition: Six of the 50 sampled bond expenditure invoices were not compliant with the terms of the contract, summarized below:

- Two invoices totaling \$1,710,250 were not paid within the timeframe specified in the contract.
- Three invoices were not billed according to agreed upon fee arrangements of the contract. Two of these relate to invoice billing schedules that do not reconcile back to the contract while one invoice, in the amount of \$285,000, was paid in advance of services performed.

- One invoice lacked supporting documents for invoiced amount and also contained a markup on sub consultant for a staff member that was not included in contract.

Cause: Vendor did not comply with the terms of the contract, and the CPM and PM did not perform a complete review to enforce contractual requirements.

Effect: The District may incur overpayments for invoices that contain unallowable amounts and/or are not validated as allowable charges under a contract, and/or pay in advance of services performed.

6-D Recommendation: The District should reinforce compliance with contract requirements, including requiring vendors to submit supporting documentation that appropriately reconcile the billings back to billing schedules, pre-approval requirements, payment terms and allowable charges.

Management Response 6-D:

Management agrees with the above conditions. The conditions noted above which lead to contract non-compliance were mostly related to minor processing delays and timely formal documentation. In order to avoid future instances of contract non-compliance, the PM will review these observations with staff for further training and enforcement of the current invoice process controls. The District and PM will also explore the feasibility of allowing additional time to process invoices when extraordinary issues arise.

SUMMARY OF 2011-12 OBSERVATIONS

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
<p>1 (2012 KPMG 01): 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.</p> <p>Without adequate support of the budgeting processes and assumptions justifying underlying budget and cost amounts, the reasonableness of current project budgets and estimated costs at completion cannot be substantiated and cost overruns may occur. Without a meaningful budget baseline, there cannot be any meaningful variance analysis conducted. Additionally, recalibrating a budget to fit historical costs, without the ability to track and justify historical changes, may conceal excessive spending and areas where best value was not obtained prior to the re-baselining effort taking place.</p> <p>As a result of lacking documentation and requirements</p>	<p>1-A: 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 may also 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.</p> <p>1-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"> 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 when the current budget is no longer applicable due to significant changes on the project. This process should be performed on an as-needed basis.²¹ c. Budget Transfer Requests and Approvals – 	<p>1-A: Management agrees with this recommendation. In October 2011, the budget procedures were fortified to require a detail review and approval process. These procedures were not documented in Touchpoints until the December 2012 update. As of December 2012 revision of Touchpoints Section 300 Cost Management, Budget Transfer Procedures provides a comprehensive procedure to require a robust documentation and justification for the budget development and transfer requests. Management believes this revision to the Touchpoints fulfills this recommendation and we are in the process of developing a complete and comprehensive Policies and Procedures Manual that will combine the PMP and the Touchpoints handbook. A full time resource has been added to accomplish this task. A comprehensive Touchpoints / PMP is also a requirement of the new PM contract with the District.</p> <p>1-B: Management agrees with this recommendation. As stated above (1-A) the PM issued in December of 2012</p>

²¹ This may be accomplished at key milestones throughout the project lifecycle as scope and circumstances become better defined (i.e. planning, design development, DSA approval, bid, construction etc.).

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
		<p>surrounding the budgeting process, it is not possible to trace the evolution of a project budget, or to support how the original or current budget values were established. Therefore, the current project budgets may not be reliable for measuring the performance of the bond program's performance.</p>	<p>Develop a standard requirement for the PM to retain all supporting documentation submitted in support of the methods and assumptions used by the CPMs.</p> <p>d. Estimate At Completion – Consider developing a procedure for the CPM to document and retain adequate support for assumptions used to develop AAC's. Support should also include a brief narrative of events that caused the proposed changes. Support should be sufficient to justify the narrative and to allow the process and calculations to be re-performed by a third party.</p> <p>e. <i>Touchpoints</i> requirement language and forms – Strengthen <i>Touchpoints</i> Project Budget Transfers signature requirement language to reconcile to the <i>Project Budget Transfer Form PMA-0043</i> signature page, including defining administrative changes.</p>	<p>revisions to Section 300, Cost Management which addresses recommendation 1-B. Management will further review Section 300 for the development of re-baseline budget procedures and this will be incorporated in the comprehensive Policies and Procedures Manual.</p>
<p>2 (2012 KPMG 02): Project change orders and field orders do not consistently contain adequate supporting documentation and/or are not executed in accordance with District requirements.</p>	<p>High</p>	<p>Without obtaining appropriate District approval to authorize additional work, as required through the field order process, the CPMs are committing the District without the District's knowledge or consent. Lack of a defined timeframe for the PM's and District's review of the field order deters the CPMs from submitting field orders if the timeframe to process field orders is not significantly expeditious as compared to the timeframe required to execute a change</p>	<p>2-A: The District should require CPMs and colleges to follow the field order process and enforce this requirement. In addition, the District should require the PM to institute a process that enforces the field order process. The enforcement of these requirements could be assisted by increasing the onsite presence and oversight by the PM.</p> <p>2-B: <i>Touchpoints</i> should be revised to require that the <i>COP Form CP-0270</i> reflect the final agreed upon price. The <i>COP Form CP-0270</i> summarizes each subcontractor's cost, contractor's cost, markups, and builder's risk insurance. Preparing a <i>COP</i></p>	<p>2-A: Management agrees with the observation that the CPMs should ensure that work is not allowed to commence prior to a properly executed field order. We agree that there is a control deficiency at the CPM level resulting in work performed without proper field order approval.</p> <p>For purposes of the review and approval of the change order, the execution of the field orders was not material as the request for execution of the field order was superseded by the request for execution of the change</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
		<p>order.</p> <p>Lack of or insufficient documentation to support the proposed cost adjustment can lead to overpayment or payment of unjustified costs.</p> <p>Ineffective implementation of change management controls by the CPM and PM resulted in inaccurate payments by the District.</p> <p>Failure to ratify change orders in a timely manner may lead to under reporting of project commitments, remaining budgets, and time extensions, which increases the risk of budget over runs and schedule impacts.</p> <p>Execution of change orders without an independent estimate or CPM estimate results in change orders potentially being approved for amounts above fair market price and with unjustified and unverified change order terms and conditions. In addition, inconsistent or unclear <i>Touchpoints</i> requirements may lead to the execution of change orders that do not comply with program requirements.</p>	<p><i>Form CP-0270</i> that reflects the final agreed upon price will help to ensure that the formula used to calculate the markups and the bond and builder’s risk insurance are applied correctly.</p> <p>2-C: In order to ensure that the change order proposal process is adequately documented in a standardized manner, the District’s <i>Record of Negotiation Form CP-0320</i> should be utilized and include additional instructions to provide the following information: (a) specify dates of when the original and subsequent change order proposals are submitted and the amounts; (b) identify concerns or discrepancies regarding contractor’s proposals and how they were addressed; (c) discuss the merit of the proposal as compared with the CPM or independent estimate; and (d) identify the final agreed upon price and how it was derived and justified.</p> <p>2-D: The District should make it a contractual requirement for the PM to perform periodic audits of contractor and design-builder change orders to review for contract compliance.</p> <p>2-E: The District should consider increasing the 60-day ratification requirement stipulated by <i>Board Rule 7100</i> in order to allow the CPM a practical amount of time to submit the PBA to the PM once the design-build change order has been executed.</p> <p>2-F: While the CPM is responsible for monitoring, tracking, and reporting design-</p>	<p>order. Based on the movement to a centralized approach the PM will increase enforcement of the field order process with the CPM by increasing onsite presence and oversight.</p> <p>2-B and 2-C: Management agrees with the observation that COP final agreed prices were insufficiently documented for the sample tested. There should be documentation to allow a sufficient level of clarity to the cost negotiation process. The PM will revise the <i>Touchpoints</i> handbook to further strengthen the documentation requirements of the COP negotiation process as well as how the final agreed upon price is derived.</p> <p>2-D: Management agrees with the observation noting incorrectly calculated mark-up and builder’s risk premiums. Although the errors noted by KPMG were immaterial, the PM feels that the bond program would benefit from a process of secondary review on a sample basis to ensure that rates and mark-ups are accurately calculated. The new PM contract to be implemented will include increase PM presence at the colleges’ as well as a CPM performance matrix currently under development will be used to track compliance with this observation.</p> <p>2-E and 2-F: Management agrees with the observation noting that ratification of executed change orders must comply</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
			<p>bid-build ratifications, the PM should implement a change order tracking system for all change order ratifications, including change orders under 3% or \$100,000. The PM should also be required to monitor and confirm the CPM's compliance with ratification requirements.</p> <p>2-G: The PM should review and modify <i>Touchpoints</i>, as appropriate, to ensure that the forms and signatures required in a typical invoice package are meaningful and necessary to support the change order. For example, <i>Touchpoints</i> should only require a copy of the authorizing board action for contract award with the first change order package and when amendments to the contract are approved in order to reduce the amount of paperwork generated for the change order package.</p> <p>2-H: <i>Touchpoints'</i> should be revised to allow the submittal of T&M records approved by the IOR in lieu of an independent or CPM estimate based on a dollar amount threshold.</p>	<p>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. Subsequent to fiscal year-end, the PM implemented a new control process for tracking change orders and to ensure compliance with the 60-day ratification requirement.</p> <p>2-G and 2-H: Management agrees with KPMG's recommendation that the requirements for change order packages be more specifically articulated in the <i>Touchpoints</i> handbook. The <i>Touchpoints</i> handbook issued in December 2012 has been revised to include more appropriate change order checklist, approvals and required documentation.</p> <p>Management also agrees with the recommendation regarding cost estimates. The use of third party versus in house cost estimates currently depends on the size, nature and urgency of a project or scope change. The <i>Touchpoints</i> handbook issued in December 2012 was updated to implement a dollar amount threshold for the specific requirements of cost estimates. <i>Touchpoints</i> will be further reviewed and updated to apply to current requirement for T&M change orders.</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
<p>3 (2012 KPMG 03): The project closeout process was not adequately completed; required project closeout documentation is inconsistently filed or missing.</p>	<p>Medium</p>	<p>The inability to retrieve project documentation after project closeout may put the District at legal risk of non-compliance with document retention requirements, as well as decreasing the District's ability to retrieve supporting documentation in the event of a claim or other major event.</p>	<p>3-A: The closeout process should identify BuildLACCD as being responsible to monitor, track and ensure complete and timely closeout by the CPMs. BuildLACCD should consider adding the following to the closeout process in <i>Touchpoints</i>:</p> <ul style="list-style-type: none"> • Use a separate project <i>Closeout Checklist</i> for each Project • Develop a single closeout checklist that includes instructions for its use by only the CPM and PM. Consider including the following: <ul style="list-style-type: none"> ○ Identification of the party responsible for each item ○ Identification of the process involved and document required /created with each item ○ Columns for the following information: <ul style="list-style-type: none"> ▪ Date process/ document initiated and completed ▪ Initials of person responsible for completing process ▪ Initials of person accepting/ approving the process and documentation ▪ Document name and location <p>It appears that the December 2012 <i>Touchpoints</i> was revised to include more detail regarding the closeout process; the one-page process was expanded to four pages. It also now includes a description of the responsible parties and required forms. The <i>Closeout Checklist</i> still needs to be revised to follow suit.</p>	<p>3-A, 3-B and 3-C: Management agrees with observation regarding phase 2 project closeout checklist. The PM noted this as a project prior to current PM. The three (3) sub-projects were started, managed and closed out by CPM as a single project prior to the current implementation of the phase 1 & phase 2 warranty/archive process. We also agree that Closeout process should be strengthened and the <i>Project Closeout Checklist CC-0135</i> should be revised to provide better instructions for the CPMs regarding document collection and proper completion of the checklist.</p> <p>As KPMG noted, the PM revised and strengthened the closeout process of Touchpoints in the December 2012 revision. The new PM contract to be implemented will include increase PM presence at the various levels as well as a CPM performance matrix will be used to track the closeout process and status. Part of the process will include conducting internal audits.</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
			<p>3-B: BuildLACCD should consider conducting periodic audits of project closeout documentation to ensure compliance with <i>Touchpoints</i>.</p> <p>3-C: BuildLACCD should consider closeout status report updates from the CPMs for applicable projects.</p>	
<p>4 (2012 KPMG 04): Procurement of professional services documentation is not consistently retained.</p>	Low	<p>Without specific documentation, archiving and retention requirements for the required procurement documents in the District procurement process, it is not clear who is responsible for filing different documents, where the documents are filed, and for how long they stay archived. In the event that documents are misplaced, the integrity of the procurement process cannot be verified. This includes: (a) whether the proposal evaluation reflected impartiality and/or professional judgment in the review of the proposals; (b) whether a formal solicitation package was distributed to all qualified bidders/proposers; and (c) whether a Contractor/ Consultant was appropriately deemed responsible and responsive.</p>	<p>4-A: BuildLACCD should consistently enforce the requirements set forth in <i>Touchpoints Section 1400</i> and should consider further developing the <i>Touchpoints</i> requirements to include a process descriptions for each step in the design-bid-build procurement processes, including:</p> <ul style="list-style-type: none"> • Clearly defined roles and responsibilities for key participants in each process, • Clearly identify what resources (templates, forms, or other documents) are required at each stage in the process. • Set forth requirements for documenting significant decisions made with respect to bid evaluations and vendor selections. • Include a program-wide document retention policy. <p>4-B: BuildLACCD should provide training to all program-level and CPM staff responsible for executing the procurement process, in particular as it pertains to document management.</p>	<p>4-A and 4-B: Management agrees with the observation that documents were not properly retained for some of the projects reviewed by KPMG. It should be noted that these projects and related documents were procured by the former Program Manager and were not properly transferred during the transition to the current Program Manager. Management also notes that the signature block was absent on the <i>Contractor's Qualification Statement</i> and has been corrected. To ensure on-going improvements, the PM contracts department currently performs regularly scheduled onsite training with each CPM to review contract procurement procedures. In addition, the PM will work with the District to develop a document retention policy.</p>
<p>5 (2012 KPMG 05): The schedule variance reports issued by</p>	Low	<p>Limitations in schedule variance reporting and PM validation of college scheduling efforts may</p>	<p>5-A: The District should standardize the CPM schedule variance reporting requirements and format in <i>Touchpoints</i>. The</p>	<p>5-A and 5-B: Management agrees with this recommendation. Subsequent to fiscal year-end, the PM added an</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
<p>individual campuses are not standardized and do not always contain the components required by leading practices.</p>		<p>lead to difficulty in determining project schedule performance and predicting and understanding schedule delays. As a result, the District's bond program may experience unexplained schedule delays or changes, which in turn may result in additional costs.</p> <p>KPMG recognizes that subsequent to fiscal year-end, the review process was strengthened by adding an additional resource and allowing for a more through analytical schedule variance review.</p>	<p>requirements should be enforced so that each report contains descriptions of specific project variance drivers, recommended corrective actions and additional risks that may lead to project delays.</p> <p>5-B: BuildLACCD should provide procedural guidance to CPM staff responsible for the schedule management process in order to increase the consistency in which processes and controls are executed across the program. Additionally, BuildLACCD's newly instituted scheduling function should provide input and oversight of the campus scheduling management process.</p>	<p>additional resource to assist in strengthening the schedule oversight process. The scheduling team has drafted the specific criteria for the content and formatting of the CPM schedule variance reports and is ready to be formalized and incorporated into Touchpoints. The report will include narratives, corrective action plans, schedule project risks, and other schedule analytics on a summary level. A training program will be implemented in conjunction with the increased schedule oversight process. As of October of 2012 the PM schedule management team has been meeting monthly with CPM's to review and validate project schedule data.</p>
<p>6 (2012 KPMG 06): Some invoiced amounts do not comply with the contractual terms and conditions or do not contain adequate documentation to support the charges.</p>	<p>Low</p>	<p>Program controls that do not consistently enforce invoice forms and signature requirements may cause approval of potentially non-compliant invoices and may result in payment of unapproved amounts.</p> <p>Lack of tracking the design-builder's progress payments against the payment schedule by the CPM may result in potential overpayment for that portion of design work. In the event that the project scope changes or the project is eliminated, the District is put at risk of having paid the design-builder a larger fee than</p>	<p>6-A: The PM should review and modify <i>Touchpoints</i>, as appropriate, to ensure that the forms and signatures required in a typical invoice package necessary to support the application for payment. The PM should also implement controls to review invoices for <i>Touchpoints</i> invoice form and signature requirements as part of the invoice review process.</p> <p>6-B: Design-builder's should be required to submit Schedule of Values (or progress payment billing summaries) that are consistent with the payment schedule in order to ensure that design-builders are not issued progress payments for more than is allocated by the contract for that portion of design work.</p>	<p>6-A: Management agrees with this recommendation. Touchpoints will be updated to strengthen and clarify procedures regarding require forms, signatures and specific documents as well as supporting documentation to be included within each change order package</p> <p>6-B and 6-C: Management agrees with this recommendation. The prescribed milestone billing was not followed as prescribed by the contract and invoiced on a percentage of completion by the CPM. The PM has updated the General Conditions and contract requires for Design-Build contracts in the first quarter of 2011 to address this issue.</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
		<p>was allocated for the portion of work performed at the time that the scope was changed.</p> <p>The District may incur overpayments for invoices that contain unallowable amounts and/or are not validated as allowable charges under a contract, and/or pay in advance of services performed</p>	<p>6-C: In order to avoid misinterpretation of the General Condition language pertaining to the calculation of progress payments, the payment schedule should be clarified to reflect progress payments based on percentage completion for the following design services: (a) Executed Contract; (b) Schematic Design and Validation Phase; (c) Design Development; (d) Construction Documents; (e) Submission of Construction Documents to DSA; (f) DSA approval of Final Construction Documents; (g) DSA Certification; and (h) Construction Administration.</p>	<p>Subsequent to the 2011 updates, the PM now rejects design-build invoices that do not follow the contractually prescribed milestones for preconstruction and design services.</p> <p>6-D: Management agrees with the above conditions. The conditions noted above which lead to contract non-compliance were mostly related to minor processing delays and timely formal documentation. In order to avoid future instances of contract non-compliance, the PM will review these observations with staff for further training and enforcement of the current invoice process controls. The District and PM will also explore the feasibility of allowing additional time to process invoices when extraordinary issues arise.</p>

STATUS OF PRIOR YEAR 2010-11 OBSERVATIONS

(status representations made by BuildLACCD)

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
<p>1 (2011 KPMG 01): 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>1-A: 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>1-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>1-A: 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><u>January 2013 Update:</u></p> <p><u>PM has started the process of developing comprehensive policies and procedures that will combine PMP and the Touchpoints. In the meantime, Touchpoints are being maintained and an updated. The PM has issued the next revision of Touchpoints as of December for the critical sections such as Change Orders, Budget Transfers, Construction Invoices, Warranty & Archive, Safety & Misc, and Professional services.</u></p> <p><u>In progress.</u></p> <p>1-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</p>

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				<p>measure performance of all the vendors, contractors, and consultants on the bond program.</p> <p><u>January 2013 Update:</u></p> <p><u>As part of continuous improvements, the Program Team performed a comprehensive risk assessment to determine the levels of contingencies and program reserve based on the identified risks. The Risk Assessment report is projected to be published in February 2013. The Program Team completed the CPM performance evaluations and had meetings with the principals of the companies to discuss the evaluations and the PM recommendations for improvement. The CPMs prepared and submitted the corrective action plans that are being implemented. The new PM contract will contain Assurance/Quality Control (QA/QC) team requirement.</u></p> <p><u>In progress.</u></p>
<p>2 (2011 KPMG 02): 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 a result, LACCD may incur additional costs.</p> <p>As a result of lacking documentation and requirements surrounding the</p>	<p>2-A: 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 management process in order to increase the consistency in which budget management is executed across the program.</p> <p>2-B: BuildLACCD should further</p>	<p>2-A, 2-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 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</p>

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		<p>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>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"> 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. 	<p>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> <p><u>January 2013 Update:</u></p> <p><u>Management has strengthened the specific requirements for project budget development, maintaining project budgets, and budget transfers including the requirements to submit sufficient supporting documentation for all budget transfers. This is included in the Touchpoints revision release in December 2012. BuildLACCD has had meetings with each of the CPMs to provide guidelines regarding budgets, budget transfer policy, requirements for the supporting documentation for budget transfers, supporting information for anticipated cost and the estimate at completion.</u></p> <p><u>Closed</u></p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
<p>3 (2011 KPMG 03): 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>	<p>Medium</p>	<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>3-A: 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>3-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>3-C: 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>3-A, 3-B, 3-C: 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><u>January 2013 Update:</u> <u>The PM successfully transitioned from nine (9) individual P6 schedule databases at each of the colleges into one centrally hosted database maintained under the control of the PM. With this achievement, it eliminates import / export, exchange of XER files and makes the effort more efficient and automated. The PM provided the training to the CPM staff for access to the Centralized Scheduling Database and discussed the standard codes, layouts and reports.</u></p>

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				<p><u>Management has added the position of a Senior Scheduler to increase the oversight of college scheduling efforts. Selected CPM schedules are being analyzed and comments from the high-level assessment are being provided to CPM staff.</u></p> <p><u>In order to strengthen the schedule variance reporting process, the PM scheduling team has drafted the specific criteria for the content and formatting of the CPM schedule variance reports and is ready to be formalized into Touchpoints. The report will include narratives, corrective action plans, schedule project risks, and other schedule analytics on a summary level.</u></p> <p><u>In addition, the program schedulers are making site visits on regular monthly basis to observe progress and discuss schedule updates.</u></p> <p><u>3-A & C – Closed</u></p> <p><u>3-B – In Progress</u></p>
<p>4 (2011 KPMG 04): Project change orders and field orders did not consistently contain adequate supporting documentation or required approval signatures.</p>	<p>Medium</p>	<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, 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</p>	<p>4-A: 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>4-B: 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.</p> <p>4-C: LACCD and colleges should</p>	<p>4-A: 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 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</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
		<p><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>track change orders to enforce compliance with the 60-day ratification requirement through a central tracking tool at the program level.</p> <p>4-D: 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>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 <i>Touchpoints Handbook</i>, 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</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
				<p>procedures.</p> <p><u>January 2013 Update:</u></p> <p><u>Change Order and Field Order issues were cited in the CPM performance evaluations and corrective actions implemented. Comprehensive Change Orders and Field Orders procedures were prepared and were issued in the December 2012 revision.</u></p> <p><u>In addition, BuildLACCD continues to communicate these requirements to CPM staff regularly during the CPM roundtable and controls meetings.</u></p> <p><u>The District adopted a resolution for centralized accountability measures to allow the PM to directly oversee the College Project Managers This resolution will go into effect with the new PM contract.</u></p> <p><u>In Progress</u></p> <p>4-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><u>January 2013 Update:</u></p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
				<p><u>Management has taken action to place additional controls in place. The updated comprehensive change order procedures and the checklist require the Proposed Board Action (PBA to ratify the Change Order) to be included within the Change Order package prior to approval by the PM and the District. This will serve as a preventive control over all change order and allow the PM to monitor the ratification process.</u></p> <p><u>CPM staff are regularly reminded of the 60-days requirement for the ratification of the change orders at the CPM roundtable meetings. This is another performance metric that was part of the CPM performance evaluation.</u></p> <p><u>Closed</u></p> <p>4-C: 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><u>January 2013 Update</u></p> <p><u>Management has taken action to implement a tracking system (also refer to 4-B above). The updated comprehensive change order procedures reflect the 60-day ratification requirement.</u></p> <p><u>Closed</u></p> <p>4-D: Management agrees with KPMG’s recommendation that the requirements for Cost</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
				<p>Estimates be more specifically articulated in the <i>Touchpoints</i> 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 Program Manager agrees with an approach that creates dollar amount thresholds for the need for cost estimates (CPM In House or 3rd Party) provided that, at the discretion of the Program Manager/LACCD, third party estimates maybe required regardless of the dollar amount.</p> <p><u>January 2013 Update:</u></p> <p><u>The Touchpoints handbook issued in December 2012 was updated to implement a dollar amount threshold for the specific requirements of cost estimates.</u></p> <p><u>Closed</u></p>
<p>5 (2011 KPMG 05): 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</p>	<p>5-A: 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</p>	<p>5-A: Management agrees that vendors should not be allowed to start work prior to the contract effective date or contract execution.</p> <p><u>January 2013 Update:</u></p> <p><u>The PM team had a series of workshops with the CPM staff at individual colleges to provide guidelines for the procurement of professional services. The updated procedures for professional</u></p>

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		<p>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.</p>	<p>in a better position to avoid future contract performance discrepancies related to timing of the work.</p> <p>5-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>5-C Recommendation: LACCD should enforce tracking of executed contracts and make sure a valid contract is in place for all invoiced costs.</p>	<p><u>services in the December 2012 revision Touchpoints require that vendors should not be authorized to start work prior to the contract effective date or the date of execution of the contract.</u></p> <p><u>Closed</u></p> <p>5-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><u>January 2013 Update:</u></p> <p><u>This is already part of the requirements in the contract documents. No further action is required.</u></p> <p><u>Closed</u></p> <p>5-C: Management agrees with this recommendation.</p> <p><u>January 2013 Update:</u></p> <p><u>Management already has a tracking system in place for executed contract and reports are generated for use by the management. The current procedures and controls do not allow any commitments to be encumbered in the accounts payable system without board approval and execution of contract documents. Therefore, invoices without a valid contract cannot be processed for payment.</u></p> <p><u>Closed</u></p>

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<p>6 (2011 KPMG 06): 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>6-A: 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>6-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>6-A, 6-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><u>January 2013 Update:</u></p> <p><u>The PM revised and strengthen of the closeout process of Touchpoints in the December 2012 revision. The new PM contract to be implemented will include increase PM present at the various CPMs as well as a performance matrix to track the closeout process and status. Part of the process will include conducting internal audits.</u></p> <p><u>In Progress</u></p>
<p>7 (2011 KPMG 07): Certain invoiced amounts did not comply with the contractual terms and conditions or did not contain adequate documentation to support the charges.</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 may not be able to enforce timely progression of deliverables and may be at risk of paying for work not</p>	<p>7-A: 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 interpretation.</p> <p>7-B: LACCD should reinforce documentation and retention of documentation of written pre-</p>	<p>7-A: 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</p>

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		<p>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>approvals for reimbursable CPM expenses, as required by the contract.</p> <p>7-C: LACCD should start tracking <i>Unconditional Waivers</i> both at CPM and PM level and enforce submission upon payment to contractor.</p> <p>7-D: LACCD should enforce the invoice review process requirements, including inclusion and tracking of unconditional waivers, and use of correct forms.</p>	<p>payment schedule and this section was revised for contract documents effective January 2011.</p> <p><u>January 2013 Update:</u> <u>No further action required.</u> <u>Closed</u></p> <p>7-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><u>January 2013 Update:</u> <u>Management has provided training to CPM staff to ensure contract compliance regarding pre-approvals and retention of approval documents.</u> <u>Closed</u></p> <p>7-C: 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><u>January 2013 Update:</u> <u>Management provided additional training at PM and CPM level to address the requirements of</u></p>

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				<p><u>“Waiver” and the tracking system in place.</u></p> <p><u>Closed</u></p> <p>7-D: 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> <p><u>January 2013 Update:</u></p> <p><u>Management provided additional training at PM and CPM level to address the requirements of using latest forms. Whenever any forms are added or updated, PM notifies the CPM staff to ensure use of the latest forms.</u></p> <p><u>Closed</u></p>