



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

Fiscal Year ended June 30, 2013

December 2013

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December 11, 2013

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

Dear Mr. O'Reilly:

This 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, 2013, based on our agreed upon work plan with LACCD. Our work was performed during the period of March 25, 2013 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 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 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 having the opportunity to serve LACCD in the coming years.

Sincerely,

KPMG LLP

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EXECUTIVE SUMMARY

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and as a requirement for construction bond programs under California Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act* (Proposition 39). Our work for the year ended June 30, 2013, was performed during the period of March 25, 2013 through the date of this report, with significant fieldwork concluded by September 30, 2013.

Objective

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

Scope

The scope of this performance audit comprised the expenditures on selected projects and campuses incurred by the Los Angeles Community College District's (LACCD or District) during the fiscal year ended June 30, 2013, from the proceeds of the District's Proposition A, Proposition AA, and Measure J bond funds. The District's bond program fund expenditures for the fiscal year ended June 30, 2013 totaled \$306,986,863.

For this performance audit, we performed procedures related to the following projects and campuses:

- The Theater/Performing Arts Building (PAB) at Pierce College (Pierce);
- The New Library/Learning Crossroads Building (NLLC) at Pierce;
- The Library and Learning Resource Center (LLRC) at Los Angeles Valley College (LAVC); and
- The Monarch Center - Student Union (Monarch) at LAVC.

Additionally, this year's audit included expanded testing of College Program Manager (CPM) and campus compliance with project close-out requirements. We selected 10 projects where close-out was taking place or had recently been completed, representing all nine LACCD campus locations.

Background

On April 4, 2013, the District Board of Trustees (BOT) authorized a new long-term program management agreement with AECOM Technical Services, Inc. (AECOM). AECOM replaced URS Corporation (URS) as its Program Manager (PM) to manage the 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 PM staff, District staff, and other District consultants.

During the audit period, the PM and the District continued to enhance processes to help ensure bond funds are spent only for purposes approved by voters, and have implemented or designed plans for additional improvement. Please refer to Appendix A for management's recent activities and plans. While many improvements have been made, our audit identified five areas with opportunities for additional improvement, and which are presented throughout this report along with recommendations to aid the District in further increasing Program performance. We have identified the improvement opportunities as high, medium or low priority, as described in the Summary of Observations that follows.

Summary of Observations

The performance audits we performed for the District in 2011 and 2012 identified a lack of documented comprehensive procedures for construction management processes, including, budgeting, budget transfers, change orders, filed orders, project close-out, scheduling and billing. This lack of procedures was identified as the root cause for many of the observations we noted in our reports for 2011 and 2012.

Our observations relevant to the current year audit are also symptomatic of a lack of comprehensive policies and procedures and inadequate documentation of existing processes, and include the following observations:

High Priority¹

1. Project budgets and budget transfers are not consistently supported by fully documented assumptions and justifications. (partial repeat observation)
2. The Project close-out process needs improvement: (a) Closed project reports are incomplete and contain outdated project data; (b) required project close-out documentation is incomplete or incorrectly filed; and (c) there are delays in obtaining Division of the State Architect (DSA) certification for closed projects. (partial repeat observation)
3. Project schedule delays are not consistently supported by underlying documentation or evaluated on a contemporaneous basis by the Program Manager. (repeat observation)

Medium Priority

4. Project change order mark-ups and field orders do not consistently contain adequate supporting documentation and/or are not always executed in accordance with District requirements. (repeat observation)

Low Priority

5. Certain invoiced amounts do not comply with the contractual terms and conditions, or do not contain adequate documentation to support the charges. (partial repeat observation)

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 five 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, close-out, and scheduling processes. We also recommend improvements to processes related to change orders, procurement, contracting, and invoice review and approval. We recognize that the District has initiated several process improvements during and after our period of audit, including addressing past audit recommendations, as outlined in Appendix A and management responses to our observations herein.

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

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

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 and are designated for capital improvements for the renovation and replacement of aging facilities, and for the construction of new facilities.

BuildLACCD

BuildLACCD's function is to facilitate the delivery of projects under the bond program. It consists of over 200 positions in a number of functional areas and includes several consultants and members of District staff. The largest function of BuildLACCD is the program management function provided by AECOM Technical Services, Inc. (AECOM or PM) as of April 4, 2013. The URS Corporation (URS) provided program management services through April 3, 2013.

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

In April 2013, as a result of a competitive bidding process, AECOM was selected as the new Program Manager for the LACCD bond program. The new program management agreement creates a centralized structure for which the PM and College Project Managers (CPM) will be held accountable.

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.

Program Manager

In August 2001, the District Board of Trustees (BOT) approved an award of the contract for Program Management services to Daniel, Mann, Johnson & Mendenhall/Jenkins/Gales & Martinez, Inc. (DMJM/JGM or the Program Manager). At the end of the DMJM/JGM contract, the program management services were re-competed.

In March 2007, the District BOT approved an award of a five-year contract to URS. The URS contract expired in April 2012. In April 2012, the District issued a one-year, short-term program management contract to URS, with subsequent amendments for an extension of time through May 31, 2013. This provided the District the time to revise the program management agreement into a centralized structure and to conduct a competitive bid and selection process.

In April 2013, the District BOT authorized a five-year agreement with AECOM to provide program management services for the Proposition A/AA and Measure J bond program.

AECOM 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. AECOM, however, does not oversee other functional areas within BuildLACCD such as IT projects, financial management of bond proceeds, and construction inspections. The Chief Facilities Executive (formerly Executive Director of Facilities Planning and Development) oversees the PM team. The current program management services contract between the District and AECOM began on April 4, 2013 and expires on April 3, 2018.

College Project Management

The 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, close-out, 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.

Under the AECOM program management agreement, the CPMs will be required to contract directly with AECOM. This creates a centralized structure and establishes accountability by all of BuildLACCD. AECOM has developed a standard CPM agreement and will be meeting with each individual campus CPM for contract negotiations.

District Expenditures

Total bond program expenditures for the fiscal year ended June 30, 2013 were \$306,986,863 of which \$9,175,618 were related to Proposition A, \$34,532,919 were related to Proposition AA, and \$263,278,326 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 four projects from two colleges (two projects at each college) were selected for testing of the overall Program oversight, project management, and administration of construction projects under the bond program. The colleges and projects selected in our sample included expenditures from Proposition A, Proposition AA, and Measure J funds for the fiscal year ended June 30, 2013. Our selection of projects included:

- The Theater/Performing Arts Building (PAB) at Pierce College (Pierce);
- The New Library/Learning Crossroads Building (NLLC) at Pierce;
- The Library and Learning Resource Center (LLRC) at Los Angeles Valley College (LAVC); and
- The Monarch Center - Student Union (Monarch) at LAVC.

Performance Audit Plan

Bond Oversight, Management and Reporting Evaluation

Our objective of evaluating the processes surrounding bond oversight, management, and reporting is to establish whether appropriate steps are in place to help ensure efficiency and effectiveness of the bond program.

Specifically, we performed the following procedures:

We documented and evaluated the budget re-baseline as of October 2011 approved by the Board, of projects where bond funds are used. We performed the following procedures:

- Evaluated initial project planning, scope development, and project approval processes.
- Documented how project budgets are refined from the re-baselined project budget.
- Documented how current project baseline schedules are set and updated.
- Evaluated information and criteria available for prioritizing projects, including project costs.
- Evaluated compliance with bond oversight and management requirements.
- Evaluated the types of formal reports, internal and external, available for the bond program under Proposition 39 reporting requirements.

Bond Expenditure Cycle Testing

Our objective of testing bond expenditures is to establish whether costs incurred, for which bond funds were used, have been spent on projects and costs approved by the voters for allowable purposes and are accounted for properly.

Specifically, we performed the following procedures:

We documented the process for use of A, AA, and J bond program funds by LACCD from procurement to payment of expenditure.

We selected a sample of bond expenditures and reviewed supporting documentation to validate the performance of bond program funds expended and measure against bond program criteria. Such criteria include the requirements of Proposition 39, LACCD *Cost Principles*, and other performance audit criteria, such as those set forth in and by Proposition 39, *Cost Principles*, the Project Management Manual, LACCD Program *Touchpoints Handbook*, California Public Contract Code, contract language, and published industry practices.

- Performed a walkthrough of the bond funds expenditure cycle and documented instances of internal control weaknesses or non-compliance with audit criteria.
- Traced bond funds received by LACCD and reconciled amounts received with project expenditures.
- Assessed whether costs incurred were compliant with bond program criteria stated above.
- Evaluated expenditure reporting practices to the BOT and DCOC, which include *Dashboard* and audit reports.
- Documented instances where processes can be improved.

Campus Construction Bond Fund and Project Management Evaluation

Our objective of testing the campus project management of construction projects, once approved and bond funds have been authorized for construction, is to evaluate the efficiency and effectiveness of the construction program at the Campus level. Specifically, we performed the following procedures:

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

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

- Compared Campus capital expenditures with LACCD expenditures accounting and funding source, if a separate system or file exists, to identify discrepancies, if any.
- Compared project budget and scope to current authorized budget and scope and allowable purposes under Proposition 39.
- Evaluated expenditure processes.
- 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 audited (on a sample basis) to *Touchpoints* procurement processes for competitive bidding. Specific areas targeted included:

- Procurement planning, solicitation planning, and solicitation, including compliance with Public Contract Code and LACCD requirements for outreach efforts.
- Source selection and contract negotiation and execution, including prequalification, bid, and proposal evaluation.

We performed the following procedures related to project close-out:

- Reviewed filing of documentation on active projects and compared to BuildLACCD documentation and filing requirements.
- Assessed Architect's role in close-out process.
- Compared BuildLACCD close-out process to processes of other educational institutions and leading practices.
- For closed-out projects, confirmed that tests and inspections were conducted by authorized parties, and all punch list items were completed.
- For closed-out projects, confirmed that close-out documents are complete (on a sample basis), such as warranties, operation and maintenance manuals, as-built drawings, maintenance agreements, certificates of completion, lien releases, etc.
- For closed-out projects, confirmed financial close-out of the project occurred including final payment and transfer of project to fixed asset, as necessary.
- Selected 10 recently closed-out projects to analyze close-out timeline.

We evaluated the control/budgeting systems. We performed the following procedures related to budgeting systems and processes:

- Determined if project baseline budgets as of October 2011 have been established and updated throughout the design and construction process.
- Determined if independent cost estimating was performed in accordance with *Touchpoints*. Assessed cost estimating and cost control practices based on scope/design development and through the construction phase.

We performed change order verification. We performed the following procedures related to change orders:

- Determined if selected change orders were appropriately authorized and supported by proper documentation from the contractor and subcontractor.
- Assessed projects with a change order(s) and documented reasons for change order and, if possible, identified how change orders could have been minimized.
- Confirmed that changes were allowable under Proposition 39.

Standard Operating Procedures Manual, 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 first PM (DMJM) 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 second PM (URS) was not contractually required to maintain the *PMP*, but saw the need for a bridge document to clarify changes that occurred from the decentralization Program transition. In early 2009, the PM (URS) began to outline the procedural changes due to the transition. This led to the creation of the *Program Touchpoints Handbook (Touchpoints)* in October 2010.

Our testing also included review of BuildLACCD, 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.

Touchpoints dated March 6, 2012 was in effect for part of the audit period, and then BuildLACCD issued two revised versions of *Touchpoints* dated December 5, 2012 and *Touchpoints* dated April 10, 2013.

BuildLACCD is developing an updated and comprehensive Standard Operating Procedure (SOP) based on *Touchpoints* and the *PMP*. The SOP was published and posted in AECOM's intranet in October 2013³.

³ KPMG did not evaluate or audit to the automated and updated SOP.

AUDIT RESULTS AND RECOMMENDATIONS

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

The performance audit for the 2011-12 audit period identified limited documentation of: (a) original project budgets; (b) the project budget re-baseline (October 2011); (c) estimated costs at completion (EAC); and (d) budget transfers.⁴

This year's audit did not evaluate the original project budgets as the District, based on prior years' audit results, has acknowledged the original budget process needs improvement and is working on implementing appropriate processes. Instead, we evaluated whether the most current project budgets are supported by:

- a) the District-wide October 2011 budget re-baseline process that took place in an effort to account for current project status, needs, trends, and future projections, managed by the former PM, URS;
- b) any subsequent budgets transfers; and
- c) estimated costs at completion calculations and documentation.

Observations remain for the 2012-13 audit period where the audit identified limited documentation in all three areas above.³ However, we did observe improvements to the budget transfer process. Additionally, our observations do not pertain to any budget re-baseline calculations, as none were performed for any of the Projects audited.

During our field work, BuildLACCD and BuildLACCD shared with us their current efforts to improve their budgeting process, which are detailed in their management responses.

1.1 Project Re-Baseline

The CPMs did not provide sufficient evidence that a re-baseline was not necessary during the Program wide re-baselining effort (October 2011).

The October 2011 budget re-baseline effort took place under the former PM (URS). In October 2011, BuildLACCD published its current *Master Building Program Budget Plan*, which was the result of BuildLACCD working with the individual colleges to re-baseline project budgets. The October 2011 budget re-baseline process was managed by the former PM (URS). Per the former PM (URS), the budget re-baseline process (October 2011) included a two-phased approach as outlined below.

(Phase 1) As part of a major effort to provide better public reporting, all of the campuses were asked to re-evaluate 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.

⁴ The 2012-13, 2011-12, and 2010-11 audits included testing of different campuses and projects.

(Phase 2, occurred concurrently with 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 campus 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).

Criteria: *Program Management Plan (Rev 2, SEP.01.04), Volume I, Section 6 Budget/Cost Management, "The Master Baseline Budget is prepared by the CPMs using Project Budget Establishment Form #PMA-0040 within the guideline set forth by the PM. A Budget Establishment Form is prepared for all Bond Program projects. The CPMs determine by estimating, evaluating, and preparing the budgets with sufficient backup including but not limited to: scope of work, gross square footage, assignable square footage, unit rates, and fees and mark-ups."*

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

Condition: CPMs did not perform re-baselining of project budgets for any of the four sampled projects or provide sufficient evidence that a re-baseline was not necessary. Although this in itself is not an indication of the baseline budgets being either realistic or unrealistic, it is not possible to determine if due diligence was performed during the re-baseline effort without appropriate documentation.

- The budgets for the two Pierce projects (Pierce Theater/Performing Arts – Modernization 05P-518 and New Library/Learning Crossroads Building 05P-541) were not re-baselined. The CPM determined that it was not necessary to modify approved budgets at the time, but did not document the reason for the decision not to re-baseline
- The budget for LAVC Library & Learning Resource Center (LLRC) Project 08V-802 was not re-baselined. The CPM determined that it was not necessary to re-baseline the budget as the Project was near completion, but did not document the reason for the decision not to re-baseline..
- The budget for LAVC Monarch Center (Monarch) Project 08V-842 was not re-baselined as the Design-Build contract had been awarded during the re-baseline period. The CPM determined that the Design-Build bid value was a close representation of realistic costs. The budget for the Monarch Center was based on design criteria and the best offer determined budget. This logic appears reasonable and the Design-Build bid was retained by the CPM.

Cause: During October 2011, the budgeting process remained decentralized under the control of the CPMs. The former version as well as the current version of *Touchpoints* does not provide instructions to the CPMs regarding budget re-baselining documentation. During the budget re-baseline process, the former PM did not require the CPMs to re-baseline project budgets or document their logic for a decision not to re-baseline. As a result of the limited policies and procedures and a decentralized budgeting process, the documented support maintained by the CPMs for the baseline budget was inadequate.

Effect: As a result of the limited documentation and documentation requirements related to the budget re-baselining effort, it is not possible to conclude whether the sampled projects' baseline budgets were appropriately established or maintained, with the exception of the LAVC Monarch project. Due to

inconsistent execution of the re-baseline efforts among projects, the District may have gaps in understanding how the current budget values were established. The current project budgets may therefore not be realistic or be used as a reliable measure of the current status of the bond program's performance.

1.2 Project Budget Transfers and Authorizations

Three of eight budget transfers did not explain the purpose of the budget transfer or include sufficient justification to support the transfer.

Past performance audits have shown that budget transfers are lacking in support and do not consistently contain sufficient justification for the transfers. Although the District's budget transfer process has improved, with less budget transfer deficiencies noted this year compared to past audit periods, there are still areas for improvement.

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 Program Touchpoints Handbook (version 03-06-2012), Section 0300 Cost Management, “...Each Budget Transfer shall be accompanied by a memo explaining the purpose of the budget transfer and sufficient justification to make a decision...”

Per Program Touchpoints Handbook (version 12-05-2012), Section 0300 Cost Management, “... All budget transfers require sufficient description about the reason for the budget transfer, justification and supporting documentation. Additionally, level 2 and 3 approvals require formal memo describing in detail the reasons for the budget transfer for the debit account (transfer from) and the justification for required funds for the credit account (transfer to)...vii. Budget transfers requiring Level 1 approval need to include purpose and justification on the Budget Transfer Form. All other budget transfers shall be accompanied by a separate memo explaining the purpose of the budget transfer and sufficient justification to make a decision.”

Condition: The CPMs did not comply with the terms of their CPM agreements or *Touchpoints* requirements. Three of eight budget transfers did not include a memorandum explaining the purpose of the budget transfer and sufficient justification to make a decision, as required. These include transfers that pertained to the Pierce-PAB, Pierce-NLLR and LAVC-LLRC projects.

Cause: The PM did not always perform an adequate review of the budget transfer package and did not consistently enforce *Touchpoints* budget transfer process requirements.

Effect: As a result of incomplete submission of sufficient backup to validate the budget transfers and inconsistent application of *Touchpoints* requirements for budget transfers, the District may have gaps in understanding how the current budget values were established. Therefore, the current project budgets may not present a clear picture of the Program budget or be used as a reliable measure of the current status of the bond program's performance.

The lack of a memorandum sufficiently explaining the purpose of the budget transfer may also jeopardize the ability to make an informed budget transfer decision. A sufficient explanation should include all relevant facts justifying the transfer, including background information that may be necessary to put into context the reason for the budget transfer and the impact to the project, campus, and program.

1.3 Project Budget Estimate at Completion (EAC)/Additional Anticipated Cost (AAC)

There is limited supporting documentation to validate and substantiate the AAC costs in the Dashboard report.

The monthly *Dashboard* reports serve as the status update of the various District projects to the public. Among other things, the *Dashboard* report contains estimated costs at project completion (EAC), which consist of commitments, total expenditures, and additional anticipated costs (AAC). Commitments and total expenditures to date are known values, while the AAC is an estimated value. Therefore, it is crucial that CPM staff develops AAC numbers carefully, in order to reflect an EAC that is as realistic as possible, given the facts known at the time.

Criteria: Per *Program Touchpoints Handbook (version 12-06-2012 and 04-10-2013)*, Section 0300 Cost Management, "...The CPMs are responsible to manage, monitor, and control project costs. Additional Anticipated Cost (AAC) items must be entered in the system for accurate reporting of the Estimate at Completion (EAC). For the purpose of determining the EAC, the system calculates it by adding the commitment balance, total expenditures and the additional anticipated cost items at the fund-cost type (bucket) level. The EAC for all the buckets is totaled at the project level to calculate the EAC for the project. Similarly, the EAC for all projects is rolled in to the EAC for the Campus. **Please note, that for projects without substantial commitments, the EAC will show a low value (high and inaccurate positive variance) unless the CPM staff inputs AAC items appropriately.** Therefore, it is important for the CPM staff to review the EAC for all their projects and input AAC items to reflect a realistic EAC. These calculations in the system are done as follows:

- $EAC = \text{Commitment balance} + \text{total expenditures} + \text{additional anticipated cost}$
- $\text{Uncommitted budget} = \text{Current Budget} - \text{Current Commitments}$
- $\text{Variance} = \text{Budget} - EAC$

Condition: We observed that four of four of the projects audited did not contain sufficient backup documentation to provide the ability to validate and substantiate the AAC amounts as reported in *Dashboard* report as of March 31, 2013 and June 30, 2013.⁵

Pierce AAC amounts

Based on our initial audit request for support of AAC budget amounts, the Pierce CPM provided limited documentation to support the AACs. Some amounts were supported by a one-page calculation sheet, developed for our audit, with limited or no justification for the anticipated cost. Although the calculations included a reference to an hourly rate, rental rate, probability percentage, insurance premium or purchase order for furniture, fixtures and equipment (FF&E), there were no indications what these rates or

⁵ The March 31, 2013 and June 30 2013 Dashboard reports were selected as March 31 was prepared under former PM (URS) and the June 30, 2013 was prepared under the new PM (AECOM).

assumption were based upon. Other AAC costs contained no supporting documentation to validate the amounts. Based on the initial documentation provided, we were not able to substantiate the AAC amounts.

The Pierce CPM provided a *revised* one-page calculation sheet with additional information, assumptions, and justification for the calculation for some AAC items. The revised information included additional explanation and supporting documentation; however, for some items, documentation remained limited and did not provide sufficient support for the AAC. For example, we noted:

- agreements and quotes dated after the tested reporting period,
- expired quotes,
- lack of explanation or justification for the AAC,
- some AAC items were incorrectly classified as an AAC in error,
- insufficient supporting documentation for the AAC, and
- duplicate AAC items.

We noted that the supporting backup was not easily accessible by the CPM and required a significant level of effort and time by the CPM to locate and create a response to our audit request.

For the Pierce projects included in our sample, we identified the following dollar value of AACs with limited to no supporting documentation:

Pierce – 05P-518 Theater/Performing Arts – Modernization

- As of March 31, 2013 *Dashboard*: **\$580,810**
- As of June 30, 2013 *Dashboard*: **\$2,800,948**

Pierce – 05P-541 New Library/Learning Crossroads Building

- As of March 31, 2013 *Dashboard*: **\$1,909,722**
- As of June 30, 2013 *Dashboard*: **\$604,662**

LAVC AAC Amounts

The LAVC CPM did not provide supporting documentation for the forecasted AAC budget amounts. The relevant AAC amounts at LAVC are determined by using the difference between current project budget amount and the uncommitted balance.

For the LAVC projects included in our sample, we identified the following dollar value of AACs with no supporting documentation:

LAVC – 08V-802 Library and Learning Resource Center

- As of March 31, 2013 *Dashboard*: **\$1,439,065**
- As of June 30, 2013 *Dashboard*: **\$706,338**

LAVC – 08V-842 Monarch Center (Student Union)

- As of March 31, 2013 *Dashboard*: **\$3,849,525**
- As of June 30, 2013 *Dashboard*: **\$2,417,161**

Cause: The CPM determined the need, amount and level of supporting documentation required for the AAC item, without involvement by the PM. Additionally, the CPM determined the reasonableness and accuracy of the AAC amounts without the PM. The *Touchpoints* did not contain any requirements for the CPMs to document their AAC assumptions or validation of the CPMs AAC calculations by the PM.

Effect: As a result of insufficient supporting documentation for AAC items, the District may not have a reliable measure of project budgets to accurately determine and substantiate forecasted AAC costs that are included and reported in the monthly *Dashboard* report to taxpayers. Therefore, there may be unreported and unnecessarily restricted surplus budget amounts could be re-allocated to other campus projects or unreported budget shortfalls.

1-A Recommendation: LACCD should develop a procedure related to when and how to re-baseline project budgets.

1-B Recommendation: The PM should review with staff the responsibilities for reviewing budget transfer submissions from CPMs, and conduct periodic training sessions of *Touchpoints* budget transfer requirements for both CPM and PM.

1-C Recommendation: The PM should closely review and monitor all CPM reported AAC amounts as reported in the monthly *Dashboard* report to validate the assumptions and approach involved. This can be done on a sample basis. Additionally, the CPMs should be required to maintain AAC supporting documentation to substantiate the amounts. Specifically, the AAC supporting documentation should be strengthened by attaching the source document, calculation, claim, quote, contract, price sheet hourly rate, rental rate, etc. and/or a memo documenting the assumptions, logic, justification and analysis performed to support the AACs, as much as the information is available at the time the AAC is performed.

Management Response 1-A & 1-B: Management agrees with these recommendations. In October 2013, the BuildLACCD released its Standard Operating Procedures (SOP) that consists of a three-volume set of written procedures to replace the former BuildLACCD Program Touchpoints Handbook. This SOP will serve as the official operating procedure for the Bond Program. Specifically, SOP Section 4.2 establishes the procedures to establish the Program Master Baseline Budget. SOP Section 4.2.1 provides further guidance with regard to budget modifications and re-baselines, and requires the analysis of each project budget regardless of the amount of project budget that is changed. Management believes that the procedures established within the SOP provide a robust response to this recommendation.

Management Response 1-C: Management agrees with this recommendation. SOP Section 4.2.2 requires the CPM to furnish and input all known costs at the general ledger level. Management will further review the procedure to develop additional protocols and guidelines to strengthen CPM requirements surrounding the submittal of supporting documentation to substantiate all AAC assumptions. Additionally, in October 2013, the Program Management added a fulltime cost estimator to provide additional assurance over the accuracy of current budgets.

Subsequent to the fiscal year-end, BuildLACCD analyzed the total estimate to completion (EAC) costs, including account project risk, contingency, and cost escalation, for each college. EAC was then compared to available budget to develop an action plan for the successful completion of remaining projects.

2. The Project close-out process needs improvement: (a) Closed project reports are incomplete and contain outdated project data; (b) required project close-out documentation is incomplete or incorrectly filed; and (c) there are delays in closing out substantially complete projects. (High Priority)

The 2010-11 and 2011-2012 performance audits found that the close-out process was not adequately completed and that required project close-out documentation was inconsistently filed or missing.

These observations remain for the 2012-13 audit period where the audit identified the limitations to the close-out process including: (a) incomplete and out-dated closed project reports; (b) incomplete and incorrectly filed project close-out documentation; and (c) delays in obtaining DSA certification.

For purposes of auditing the close-out process, we selected 10 projects where close-out was taking place or had recently been completed:

- Los Angeles City College (LACC) Restrooms Modernization;
- East Los Angeles College (ELAC) Student Services Building E;
- Los Angeles Harbor College (LAHC) PE, Wellness Center;
- Los Angeles Mission College (LAMC) Family and Consumer Studies Building;
- Pierce Center for the Sciences;
- Los Angeles Southwest College (LASC) Student Services Education Center Upgrade;
- Los Angeles Trade Tech College (LATTC) Olive Street Parking;
- LAVC Student Services Center;
- LAVC Child Development Center; and
- West Los Angeles College (WLAC) Science and Math Building.

We audited the projects relative to District close-out requirements as well as requirements for close-out management included in the CPM contract agreements.

During our field work, BuildLACCD and BuildLACCD shared with us their ongoing efforts to improve the close-out process, which are detailed in their management responses.

2.1 Closed project reports are incomplete and contain outdated project data.

Criteria: The CPM contract agreements require the CPMs to review and confirm the completeness and accuracy of the as-built and other close-out documents. In addition, the CPM contract agreements require the CPMs to archive all documents related to the college projects in accordance with the program management documents and document control system.⁶

Per *Program Touchpoints Handbook (version 03-06-2012), Section 1900 Warranty/Archive*, the close-out process occurs in two Phases: Phase 1 occurs at substantial completion and Phase 2 occurs at final completion.

⁶ Program management documents means the written guidelines, processes, plans and procedures prepared by PM 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 (*CPM Contract(s) Section 1.1.106*).

Condition: The PM's master list of projects in close-out is not updated regularly with current project information. As such, it is difficult to determine the status of project close-out documents, including whereabouts of project files, project schedule milestone dates (substantial completion, building occupancy, final completion, and DSA close-out) or the current phase of project close-out (Phase 1 or Phase 2).

The *Master Project Document Archive Log* (excel), provided by the PM (URS) on April 8, 2013 to assist in selecting closed projects had not been updated, and there was no ongoing compliance and monitoring of closed projects by the PM during the audit period. Based on the log, we could not determine with certainty whether a project was in Phase 1 or Phase 2 close-out. Therefore, we used the *Master Project Document Archive Log* was only as a guide to assist in identifying projects at each campus that may be in the close-out phase.

The former PM (URS) suggested that the *CPM Schedule* from P6 should be used to assist in identifying recently closed projects. The *CPM Schedule* includes substantial completion, building occupancy, final completion, and DSA close-out dates of projects. The *CPM Schedule* dated March 1, 2013 was the most current version of this schedule report at the time we conducted our work. Based on our review of project data, we noted that the milestone dates for building occupancy in the *CPM Schedule* did not reconcile to the date of building occupancy listed in the *Master Project Document Archive Log*. Additionally, the *CPM Schedule* indicated "close-out" status for projects that were actually in "design," awaiting DSA approval. Therefore, the *CPM Schedule* report contained inaccurate milestone dates and could not be relied upon to make closed project sample selection.

In our attempts to identify a comprehensive and up-to-date list of the current close-out status of projects, we noted the following based on our review of PM internal reports and documents related to closed project selection:

- The *Master Project Document Archive Log* (excel) as of April 8, 2013 contained incomplete information and data for closed projects.
- The *CPM Schedule (P6)* report dated March 1, 2013 contained outdated and inaccurate data milestones for substantial completion, building occupancy, final completion, and DSA close-out dates of projects.
- Building occupancy dates did not reconcile between *Master Project Document Archive Log* and *CPM Schedule (P6)* reports.
- Lack of system-generated reports for closed projects to identify key milestones and phase of close-out (Phase 1 or Phase 2 per *Touchpoints*).
- Lack of PM's (URS) knowledge of whereabouts of archive documents for recently closed projects (unknown if in Docview⁷, at CPM trailer, or in box on Warranty/Archive team's desk).
- Lack of PM's (URS) knowledge of whereabouts of archive documents for projects closed early in bond program (2009 or earlier) and prior to the creation of the Archiving/Warranty Section of *Touchpoints*. The PM (URS) explained this as the reason for lack of dates (blank cells) in the *Master Project Document Archive Log*.

Cause: There has historically been a lack of a dedicated PM staff to monitor the bond program's closed project portfolio to ensure compliance with internal processes, and District policies. Additionally, there is a lack of closed project reports available to track and monitor the status of closed projects.

⁷ Docview is LACCD's electronic document records and storage system maintained by the Program Manager

Effect: Lack of project close-out monitoring by the PM increases the risk that projects may not be closed out timely, may be missing documentation, and may cause delays to future construction. Without regular updates, monitoring, and review of project close-out data, the District will not have an accurate assessment of its closed project portfolio.

2-A Recommendation: The PM should maintain a current, inclusive and up to date master list of all projects that are in the process of being closed out and monitor the status of each project to help facilitate an expeditious close-out process.

2-B Recommendation: The District should require that the PM staff its team with adequate resources to enforce and facilitate compliance with close-out requirements for all completed projects, including projects completed since inception of the bond program, prior to the current PM.

2-C Recommendation: The PM should assist the CPMs in obtaining adequate project documentation during the construction phase, as necessary. Some of the required close-out documentation can be obtained early in the Project; the filing structure for Project documentation is a determining factor in closing out a project efficiently.

Management Response 2-A, 2-B, 2-C: Management agrees with these recommendations.

BuildLACCD is currently developing and implementing a comprehensive set of processes and procedures that address financial close-out, DSA Certification, Start-up Operations, and Project Archiving. The process includes an electronic data base closeout checklist. The CPM will use this checklist to track the status of the documents for the project close-out process. The PMO will verify that all close-out documentation specified on the checklist was furnished and fully executed. Close-out milestones will also be included on respective project schedules within the PMO's Primavera P-6 software so to insure that close-out items are completed in timely manner. This electronic data base checklist will be consistently monitored by the PMO and used to generate reports with regard to close-out status at each college. Upon implementation of these procedures, the PMO will conduct training and implement "pilot" projects to validate effectiveness of procedures and to allow for incorporation of any lessons learned.

2.2 Close-out documentation is incomplete and/or incorrectly filed.

Criteria: *Program Touchpoints Handbook (version 03-06-2012), Section 1900 Warranty/Archive, and LACCD's Master File Archives Index (dated 4/16/2010)* indicate the close-out documents required.

The PM is responsible for coordinating project file archiving with the CPM at substantial completion (*Archive Checklist CP-0132*) and at final completion with the balance of completed project close-out documents (*Project Close-Out Checklist CP-0135*). The PM Warranty/Archive team, when advised by the CPM of a project's close-out files being prepared and complete, will meet with the CPM to review final archive documentation based on the *Close-out Doc Box Inventory List CC-0135A* and *LACCD's Master File Index (MFIL) CC-0140 form*. The PM will collect completed project document packages from the CPM; the PM will scan the entire package, reproduce, confirm, and distribute 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: The close-out files for nine of the 10 sampled projects contained incomplete or incorrectly filed close-out documentation based on *Touchpoints* requirements. The LATTC Olive Street Parking

Project documents were located, but could not be evaluated relative to the *Touchpoints* requirements as project close-out commenced before the *Touchpoints* requirements were implemented.

- The required Phase 1 *Archive Checklist (form CC-0132)* was not prepared or completed for seven of 10 sampled projects (LACC, ELAC, LAMC, Pierce, LASC, LAVC, and LAVC). As a result, there is no record of dates of receipt, review, completion, and sign-off for any Phase 1 items by the campus, contractor, or BuildLACCD. The Phase 1 *Archive Checklist* is an important control to document and memorialize that the Phase 1 close-out process, which is completed at substantial completion, was executed in accordance with *Touchpoints* requirements. It also assigns accountability to those individuals responsible for verifying the completeness of the Phase 1 close-out processes and documentation, as evidenced by their signature.
 - The LAHC CPM prepared the *Archive Checklist (form CC-0132)* sampled project, but did not include a reference to the document location according to the *MFIL*.
 - Per LATTC CPM, the *Archive Checklist (form CC-0132)* was not in effect for the project, as the project started in 2003; therefore, we did not evaluate the LATTC project against *Archive Checklist (form CC-0132)* requirements.
 - CPMs stated that they found the *Archive Checklist (form CC-0132)* to be duplicative, as a similar checklist of items is contained in the *Project Close-out checklist (form CC-0135)*.
- The Phase 2 *Project Close-Out Checklist* was prepared for nine of 10 sampled projects, but was not prepared correctly.
 - The LAMC CPM did not include the *MFIL* number location reference on LACCD *Project Close-Out Checklist (form CC-0135)*, and stated that the *MFIL* number location would be added prior to submitting project documents to the PM. The LAMC CPM organized the project file boxes (hard copy) in order of the *Project Close-Out Checklist (form CC-0135)* list.
 - The LASC CPM used *MFIL* category “#10 – Close-out” as the main file number for project documents, rather than filing by *MFIL* subcategory file numbers.
 - The LATTC project close-out documents were stored using the 2003 matrix *Master File Archive Index-Rev 9-02-03*, not the 2010 *MFIL*.
- CPMs do not consistently file project documents according to LACCD’s *MFIL* or reference document location.
- The contractors’ and architects’ approval signatures were missing from the *Project Close-Out Checklist* (LACC, ELAC, LAHC, LAMC, Pierce, LASC, LAVC-SSC, LAVC-CDC, and WLAC)
- A number of documents for Phase 2 close-out projects could not be located in Docview or CPM close-out files, where they were expected to be located. The documents had been incorrectly filed, were incomplete, or the CPM had the document, but had not added the document to project close-out files.
- There was no information noted on numerous items in the *Project Close-Out Checklist* including: punch list completed and signed off; final inspection acceptance completed; DSA letter of certification; as-builts completed; final payment to GC less retention; retention paid to GC on completion of lien period; GC/CPM working files turned over to District after review by PM; PM review and acceptance of close out package; and Board of Trustees approves project completion.

Cause: The CPM and PM did not comply with *Touchpoints* and *LACCD's Master File Index List* requirements. Additionally, the CPM did not comply with contractual terms. Similar to prior year's findings, the document management processes set forth in *Touchpoints* appear to be insufficient and ineffective at the campus and Program levels.

Using a close-out checklist to support close-out requirements and to ensure the retention of essential project documentation is a better practice that is being implemented by the PM. However, the *Project Close-Out Checklist (form CC-0135)* continues to need improvement 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 *MFIL* number for documents associated with a process.
- Does not provide instructions for what documents satisfy requirements.
- Does not instruct the CPM to provide a date or confirmation that a process has been completed.

The CPM is required to have one person whose primary responsibility is close-out; however, it does not appear that this requirement is followed. As a result, close-out is being managed by individuals with many other responsibilities.

Effect: In prior year's audit, KPMG was informed by BuildLACCD that completion of the process is documented by the CPM's and PM's signatures on the *Project Close-out Checklist*. Without documentation to support the completion of a process, the date that the *Project Close-Out Checklist* was signed does not accurately reflect when each process was completed.

Project files that are not organized according to *LACCD's MFIL* and cannot be located or easily retrieved may place the District a legal risk of non-compliance with document retention requirements. In the event of a claim, the District needs to be able to retrieve project documentation. Inconsistent document retention and filing methods by CPMs may result in difficulties for the District to locate project files.

2-D Recommendation: The PM should review *Touchpoints* requirement to assess if the *Archive Checklist (form CC-0132)* and the *Project Close-Out Checklist (form CC-0135)* contains duplicate close-out items and, if so, eliminate the requirements from one of the checklists.

2-E Recommendation: The PM should reconcile the *Touchpoints Archive Checklist (form CC-0132)* and the *Project Close-Out Checklist (CC-0135)* to *LACCD's Master File Index List*.

2-F Recommendation: The PM should require that the CPM maintain project close-out files according to the *MFIL*.

2-G Recommendation: The CPM should update incorrect *MFIL* references noted on the *Project Close-Out Checklist* prior to submitting to the PM/District.

2-H Recommendation: CPMs should review the project files and identify missing documents to be added for document retention.

2-I Recommendation: The PM should conduct periodic audits of project close-out files for compliance with the *MFIL* and to ensure required documents are being retained.

Management Response 2-D to 2-I: Management agrees with these recommendations. BuildLACCD is currently developing and implementing a comprehensive set of processes and procedures that address financial close-out, DSA Certification, Start-up Operations, and Project Archiving. The process includes an electronic data base closeout checklist. The CPM will use this checklist to track the status of the documents for the project close-out process. The PMO will verify that all close-out documentation specified on the checklist was furnished and fully executed. Close-out milestones will also be included on respective project schedules within the PMO's Primavera P-6 software so to insure that close-out items are completed in timely manner. This electronic data base checklist will be consistently monitored by the PMO and used to generate reports with regard to close-out status at each college. Upon implementation of these procedures, the PMO will conduct training and implement "pilot" projects to validate effectiveness of procedures and to allow for incorporation of any lessons learned.

2.3 Delays in closing out substantially complete projects

DSA certification signifies that a project has met required codes and required documentation to substantiate compliance and is an important document to obtain for a project. DSA certification is a critical process and without completing this final step, the entire project is considered "non-conforming." Although the building may still be occupied without DSA certification, DSA certification means that the construction projects adhere to state and local building codes and meet California standards for safety and accessibility.

Criteria: Per *Program Touchpoints Handbook (version 03-06-2012), Section 1900 Warranty/Archive:*

- *Final Completion Phase:*
 - *Description: Phase II Archive (requires DSA certification letter)*
 - *Action: Receive from CPM Phase II docs - scan and copy – provide copies to Campus Facilities, District record and e7 Studio.*

Per the PM Design Liaison and DSA team, the typical length of time to receive DSA certification for a project in close-out (date of substantial completion to date of DSA certification) can vary depending on the type of job (Design-Build and Design-Bid-Build) and project value. The PM stated the following internal project close-out timeline:

- Projects over \$10M: 12 months from date of occupancy to obtain DSA certification letter.
- Projects under \$10M: 8 months from date of occupancy to obtain DSA certification letter.
- If there is a claim: add 4 months.

For the 10 sampled projects undergoing close-out, KPMG compared the date of project substantial completion to the date of DSA certification to determine the time span to close the projects.

Condition: Based on our analysis, four of 10 projects have received DSA certification (from LACC, LATTC, LAVC, and WLAC): The LACC project took almost seven years to receive DSA certification, while LATTC, LVAC, and WLAC each took approximately three years. Although the WLAC project has received DSA certification, the final as-builts are not yet complete.

For the six projects (from ELAC, LAHC, LAMC, Pierce, LASC, and LAVC) that have not received DSA certification, the average duration of the project close-out process from date of substantial completion to the measured last day of fiscal audit period, June 30, 2013, is approximately two years. Two of these

Projects (ELAC and Pierce) were closed out by DSA citing missing documentation (October 2012). Until the campuses provide the missing documentation, DSA certification will not be granted.

For the projects that have not yet received DSA certification, the project close-out process is not yet complete. As such, the average duration will be extended based on the actual date of DSA certification and/or completion of other close-out activities.

Based on the 10 sampled projects, none has received DSA certification within the PM Design Liaison and DSA team's internal project close-out timelines referenced above.

Cause: Several factors contributed to the delays, including:

- DSA back-log, furloughs and other DSA limitations
- delay in submitting documentation to DSA by the Architect of Record (AOR)
- construction completed ahead of DSA acceptance of plans resulting in rework
- unforeseen additional or changed DSA requirements
- DSA certification process incorrectly cancelled by CPM
- change in CPM firms - new CPM was incorrectly under the impression that close-out had been completed
- inadequate transition of AOR staff
- inadequate transition of contractor staff
- contractor termination
- outstanding non-compliant work items by contractor (punch list)
- DSA revised process of change order preparation and submittal by AOR
- AOR slow in obtaining DSA approval for change orders
- claims and mediation involving original design team
- financial default by contractor resulting in extra efforts to get construction completed
- contractor Certified Payroll issues
- delayed commissioning
- termination of AOR

While the DSA is a contributing factor to delays in obtaining project certification, some factors are in the control of the project team. The CPM, AOR, and Inspector of Record (IOR) must effectively manage the project to make timely submissions to DSA. Although the AOR is responsible for driving the process to obtain DSA certification, several documents must be provided by the District and its consultants. Ultimately, it is the District's responsibility to make sure all parties follow the necessary procedures to obtain final certification.

Effect: Because of a pro-longed close-out process from the time substantial completion is achieved, the District may face additional funding requirements, delays in completing additional projects dependent on DSA certification, and a negative perception that the District has not met required codes and standards.

Based on our discussions with the PM, if a project receives a *DSA Close of File Without Certification* letter, the campus/CPM is not able to start new construction projects that are connected to (or reliant upon) the project closed without certification. DSA will not allow new construction to start at the campus until the project receives DSA certification. We noted that two of the sampled projects received a *DSA Close of File Without Certification* letter (ELAC, letter dated October 19, 2012, and Pierce, letter dated September 17, 2012).

2-J Recommendation: The PM should enhance the DSA tracking, monitoring, and resolution efforts with CPM teams to decrease the length of time it takes to obtain DSA certification of District completed projects.

2-K Recommendation: The PM should consider assigning a dedicated PM Design Liaison and DSA staff to each campus/CPM to assist with reviewing and monitoring completed project DSA documentation for compliance (as reasonable). This monitoring should start at the commencement of construction so that all required DSA documentation is understood by all parties and appropriately collected, filed and tracked.

2-L Recommendation: The PM should focus on resolving Projects that are closed without DSA certification as tracked by the Design Liaison and DSA team.

2-M Recommendation: LACCD should consider making DSA certification a requirement for final payment for its Architects and other consultants, as applicable.

Management Response 2-J to 2-M: Management agrees with these recommendations. BuildLACCD is currently developing and implementing a comprehensive set of processes and procedures that address financial close-out, DSA Certification, Start-up Operations, and Project Archiving. The process includes an electronic data base closeout checklist. The CPM will use this checklist to track the status of the documents for the project close-out process. The PMO will verify that all close-out documentation specified on the checklist was furnished and fully executed. Close-out milestones will also be included on respective project schedules within the PMO's Primavera P-6 software so to insure that close-out items are completed in timely manner. This electronic data base checklist will be consistently monitored by the PMO and used to generate reports with regard to close-out status at each college. Upon implementation of these procedures, the PMO will conduct training and implement "pilot" projects to validate effectiveness of procedures and to allow for incorporation of any lessons learned.

3. Project schedule delays are not consistently supported by underlying documentation or evaluated on a contemporaneous basis by the Program Manager. (High 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.

The 2011-12 performance audit found that: (a) schedule variance reporting between campuses is not standardized and reports 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.

The 2012-13 performance audit found that there were several instances during the audit period where schedule delays were not adequately supported or explained by underlying documentation.

During our field work, BuildLACCD shared with us their efforts to improve the scheduling process with added PM oversight and involvement, which are detailed in their management responses.

Criteria: The District's schedule management policies and procedures articulated in *BuildLACCD Program Touchpoints Handbook (Version April 10, 2013)*.

Additionally, the PM has a fiduciary responsibility to the District where appropriate oversight of CPM schedule management, documentation and analysis of schedule delays and, as appropriate, assisting the CPMs in implementation of a recovery plan are key responsibilities.

Condition: As part of our audit, we identified critical-path schedule activities for selected projects where the finish date changed more than 30 days from one month to the next. On several occasion, the same activity for the same project experienced multiple repeat monthly delays. For the majority of the delays analyzed, there was little or no documentation available supporting or explaining the delay. Particularly, there was very little support describing how the number of delay days was calculated/estimated and what assumptions and facts were available at the time to justify the magnitude of the delay.

Cause: During the audit period, there were no CPM requirements or guidelines for the retention of detailed schedule change documentation. BuildLACCD acknowledges *Touchpoints* do not contain these requirements. During the majority of our audit period, the PM 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 PM Schedule Manager conduct any schedule variance analysis or validation of the delay days presented by the CPM.⁸

During our audit period, the District's project scheduling function rested primarily with the individual colleges and their CPMs. The CPMs submitted their schedules on a monthly basis to the PM Schedule Manager who compiled the data on a District-wide level.

Limitations in the PM scheduling function observed during or audit period include:

⁸ 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.

- No PM analysis of the CPM schedules is conducted to validate the logic, duration and reasonableness of the delays calculated.
- No uniform schedule activity codes between campuses exist, instead campuses decide their own codes.
- No correlation of actual completion of work with actual schedule time passed for any given activity.
- For more than half of the fiscal year there was no assistance to correct and manage impact of delays offered to the CPMs by the PM.
- “Construction,” which many times are a multi-year activity, is shown as one activity on the schedule without intermittent milestone components visible in the CPM reports produced to the PM.

The new PM (AECOM) implemented a centralized scheduling function in April 2013 that supports campus projects per our recommendation in our initial schedule performance audit for FY2010-11. Based on our audit, the new PM scheduling team is in the process of addressing the deficiencies noted above. The PM’s plans for the new scheduling function, when fully implemented, appear to constitute an improvement from the schedule oversight provided by the former PM.

Effect: The absence of a formal requirement to provide supporting documentation for schedule delays has led to an environment where proposed scope changes are not challenged by CPMs and projects are perpetually delayed. As a result, the District’s bond program may continue to experience unexplained schedule delays or changes, which in turn may result in additional costs.

3-A Recommendation: The District should continue investing in a centralized PM schedule oversight function for all campus projects. This oversight function would be responsible for evaluating the reasons for project schedule delays in order to ensure that there is adequate documentation and a reasonable explanation for a project delay. This added oversight will also serve as a catalyst for reducing delays by ensuring that the CPMs have reviewed all options before proceeding with a project delay.

Management Response 3-A: Management agrees with this recommendation. The SOP implemented in October 2013 requires the CPM to prepare and submit a Monthly Variance Narrative, which includes a listing of all projects that have been delayed by more than 30 days when compared against its initial Program Master Baseline Schedule. This narrative requires a description of the number of delay days, reasons for the delay, the impact on construction and occupancy of the building, as well as a recovery plan. The PMO’s scheduling team monitors these narratives reported by the CPMs, perform monthly variance discussions with all colleges, and require corrective action as warranted. The PMO is developing a CPM performance matrix to monitor accuracy, errors and compliance.

SOP further requires schedule tracking and analysis of projects starting in the planning and design phase. Project schedule baselines will encompass planning, procurement, and design as well as construction and close-out phases. This will allow the PMO to more accurately project total project lifecycle.

4. Project change order mark-ups and field orders do not consistently contain adequate supporting documentation and/or are not always executed in accordance with District requirements. (Medium 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.

The 2011-12 performance audit identified: (a) the District’s field order process was not followed⁹; (b) change order 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.

The 2012-13 performance audit identified similar observations: (a) the District’s field order process was not consistently followed; (b) the contractor applied incorrect or unsupported markup amounts to change order proposals.

There were three change orders totaling \$968,362 for the selected projects from LAVC and Pierce. No other change orders were executed during our period of audit. Each change order consists of several *Change Order Proposals* (COPs). In total 52 COPs for \$510,014 were audited.

A summary of the audit results of the COPs sampled is included in the table below:

No	Observations	LAVC	Pierce	Total
4.1	District field order process was not consistently followed.	12 of 47 COPs	0 of 5 COPs	12 of 52 COPs (23%)
4.2.a	Contractor applied incorrect markups to change order proposals.	0 of 47 COPs	5 of 5 COPs	5 of 52 COPs (10%)
4.2.b	Change orders were submitted with documentation limited in detail to support the calculation of contractor markups.	10 of 47 COPs	1 of 5 COPs	11 of 52 COPs (21%)

4.1 District field order process was not consistently followed.

Criteria: *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 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."

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 Manger 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... In addition and without limitation to the foregoing, CPM shall: (A) Monitor each contractor’s

⁹ A Field Order should be processed for work that has to be completed in advance of substantiation and evaluation of a corresponding contract adjustment.

work to prevent changes and deviations from the original scope of the work from being performed without a properly executed field order, unilateral change order or change order.”

Condition: The CPMs, contractors, and design-builders did not comply with *Touchpoints* and contract field order requirements.

Work related to 12 COPs for LAVC (23%) was performed prior to execution of a field order or change order, as evidenced by time and material records and invoices included in the change order packages. It is against District requirements to perform work ahead of execution of required documentation. The COPs total \$76,258, which is 15% of the total change order costs sampled during the audit period.

Although work related to 12 COPs commenced prior to the execution of the field order or change order, it appears that an informal scope and ROM was known by the CPM and contractor at the time that change work commenced for six of the 12 COPs.¹⁰

Cause: The CPM at LAVC determined that it would be advantageous to allow the contractor to proceed with work at the contractor’s risk without waiting for execution of a field order in order to mitigate potential impacts to the completion schedule. In the instances where an informal scope or ROM was not documented prior to the commencement of work, the CPM indicated that the field conditions and cost for such work could not be clearly verified until the work was completed. As a result, these COPs were based on actual time and material costs verified by the IOR.

The CPM did not enforce the required change management process. Although the contractor and design-builder performed the work at their own expense, the CPM allowed the contractors to proceed with work without having obtained the required advanced approvals and LACCD notification through the field order process. As a result, supporting documentation indicates that negotiations regarding the agreed COP price took place after the subcontractors had invoiced the contractors for work performed.

Effect: The CPMs may commit LACCD to non-contractual work without LACCD’s knowledge or consent by allowing contractors to proceed with change work prior to obtaining the appropriate authorizations through the field order and change order process. As a result, LACCD may be paying a higher price and be exposed to claims disputes.

4-A Recommendation: LACCD should require CPMs and colleges to follow the field order process and enforce this requirement.

Management Response 4-A: Management agrees with this recommendation. We noted that there was a pre-existing control deficiency among CPMs with regard to their work being performed prior to completion of a fully-executed field order. To address this deficiency, the PMO has developed and implemented Standard Operating Procedures (SOPs) to process Construction Field Orders (CFOs). CFOs will be processed for all field orders, including urgent and/or emergency conditions, and the revised formwork will provide specific instructions with regard to signature and authorization requirements. All CFOs will be approved and signed prior to their issuance and work being completed. CPMs that do not

¹⁰ The date on the *Construction Field Order Form* reflects the date the CPM issued the field order to the contractor. We determined that an informal scope and ROM was known prior to commencement of change work by comparing the date on the *Construction Field Order Form* with the date that work was performed, as evidenced by time and material records and invoices.

conform to these updated procedures will be issued a substandard performance letter, notifying the District and College President of the CPM's.

4.2 Contractor applied incorrect or unsupported markups to change order proposals.

Criteria: *Design Builder's Contract Section 7.7.3 (Allowable Costs)* identifies allowable, compensable costs for change orders including "costs of royalties and permits."

CPM Contract 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.

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 Manger shall Manage the process of submittal, review, approval and performance thereof as set forth in the Contract Documents, including, without limitation, the following:...(6) review and evaluate the contractor's proposal for entitlement, pricing and/or schedule impact and schedule meetings for review, negotiation and settlement of unresolved issues."

General Conditions of Construction/Design-Build Contracts, 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: For five of 52 COPs (10%), the design-builder did not correctly calculate markups against subcontract and design-builder costs resulting in an insignificant overpayment by the District. Additionally, the design-builder charged a "DSA fee" at an unsubstantiated rate of 0.71% that was applied to subcontract and design-builder costs. In addition, the design-builder incorrectly calculated the design-builder's overhead and profit, and bond and builder's risk insurance. The design-builder applied the bond and builder's risk insurance percentage to subcontract and design-builder costs, and then applied the design-builder's overhead and profit percentage. Based on the formula prescribed by *COP Form CP-0270*, the design-builder's overhead and profit percentage should be applied to subcontract and design-builder costs before the bond and builder's risk insurance percentage. Applying the design-builder's overhead and profit percentage **after** applying the bond and builder's risk insurance percentage results in a larger overhead and profit amount for the design-builder than is allowable. The overpayment by the District was not significant.

Eleven of 52 COPs (21%) were submitted with documentation that was limited in detail to confirm accurate calculation of allowable markups. The submitted *COP Forms CP-0270* identified the original COP cost proposed by the contractor but did not show how markups were applied to achieve the final agreed costs. The *Record of Negotiation Forms* stated the final agreed upon cost, but did not identify the subcontractor and contractor's costs before contractor overhead and profit, bond, and builder's risk insurance. Upon our request, the CPMs provided the subcontractor's and contractor's costs before

markups for the 11 COPs. Based on the additional information provided, we confirmed that the markups for the 11 COPs were accurately calculated.

Cause: The design-builder did not submit costs for DSA permits associated with change orders in compliance with their contract. The design-builder also used their own COP form that was not equivalent to LACCD's *COP Form CP-0270*, as is required by *Touchpoints*. By using their own form, the design-builder was able to manually add the "DSA fee" as a markup to subcontract and design-builder costs. In addition, the design-builder did not use the same formula for calculating markups that is prescribed on *COP Form CP-0270*. The PM updated *Touchpoints* in December 2012 to require that design-builders and contractors use *COP Form CP-0270* and not an "equivalent." However, this requirement was not effective until after the subject change order was executed.

In addition, the CPM did not reject the design-builder's COPs for non-compliance with the design-builder's contract. The CPM indicated that the "DSA fee" was for permit fees paid by the contractor related to change work. However, the contract specifies that allowable costs for permits should be based on actual costs of the permits. The CPM indicated that the "DSA fee" should have been calculated per DSA guidelines, and that the fee would need to be adjusted in the next change order. According to the CPM, the DSA permit fees should be based on DSA's pre-established fee structure that is dependent on the cost of the project.

The CPMs did not consistently document the subcontractor's and contractor's costs before markups in the change order submittal packages. Although 11 of 52 COPs were submitted with documentation limited in detail to support how the contractor's markups were calculated, the remaining 41 of 52 COPs did identify the final agreed subcontractor's and contractor's costs before markups on the *COP Form CP-0270* and/or *Record of Negotiation Form*.

Effect: Ineffective implementation of change management controls by the CPM resulted in inaccurate payments by the District. Additionally, lack of or insufficient documentation to support the proposed cost adjustment may lead to inaccurate calculation of markups, overpayment or payment of unjustified costs.

4-B Recommendation: The CPM should examine the calculation of markups in change orders submitted by this design-builder in order to determine the total amount that should be credited to the District resulting from overstated DSA fees and incorrectly calculated markups. The PM should perform periodic audits of contractor and design-builder change orders to review for contract compliance.

4-C Recommendation: Similar to recommendations from the previous 2011-12 performance audit, *Touchpoints* should be revised to require that the change order package include a *COP Form CP-0270* that reflects the final agreed upon price, or revise the *Record of Negotiation Form* to include clear instructions for the CPM to identify the final agreed upon price and how it was derived and justified.

Management Response 4-B & 4-C: Management agrees with these recommendations. Although the errors noted by KPMG were not material, the PMO believes that the Bond Program will benefit from added assurance surrounding CPM mark-ups on change orders. The PMO will develop a sampling process that provides a secondary level of review on these change orders to confirm that CPM mark-ups to change orders are accurately calculated. As part of this effort, the PMO will develop a CPM performance matrix to monitor accuracy, errors and compliance. Additionally, the PMO intends to review applicable change orders to determine the amounts of incorrectly calculated DSA-related fees and credited back to the District. Within the SOP, the PMO has developed a process, which will require the attachment of all supporting documentation such as the Record of Negotiation (Form CP-0320) and descriptions of any differences between the estimate, COP proposal, and final price.

5. Certain 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.

The 2011-12 performance audit found: (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.

This remains an observation during the 2012-13 performance audit where: (a) invoices were missing required forms and signatures; and (b) sampled bond expenditure invoices were not compliant with vendors' contract terms and conditions. Overall, our observations were not significant and our recommendations include minor adjustments to the current process.

5.1 General contractor and design-build invoice packages were at times missing required forms to support billings

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

- *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 audited 19 invoices across each of the four selected projects from LAVC and Pierce and 50 bond expenditure invoices covering all campus projects for compliance with *Touchpoints* invoice process requirements. Of the 19 invoices tested for the selected projects from LAVC and Pierce, five invoices included change order billings.

Five invoices that contained a change order billing, including four invoices for the selected projects and one bond expenditure invoice, were missing at least one or more invoice form required by *Touchpoints* to support the change order amounts billed. The invoices tested were missing the following forms:

- For two of three Design-Build invoices for the selected projects (67%), a *copy of change order CP-0260 or CP-0261 including authorizing board action* (or Proposed Board Action (PBA)) was not included in the original invoice package. However, the change order form was accordingly

approved prior to invoice payment processing and the form was found in the system of record (DocView).

- For two of three Design-Bid-Build invoices for the selected projects (100%), a copy of the executed *Change Order Encumbrance Form* for the change order being billed was not included in the original invoice package. However, the document was process correctly and the form was found in the system of record (Docview).
- For one of 50 bond expenditure invoices (2%), a copy of the executed *Change Order Encumbrance Form* for the change order amount billed was not included in the original Design-Bid-Build invoice package. However, the document was process correctly and the form was found in the system of record (Docview).

Cause: The CPMs did not always comply with their CPM agreement terms to adhere to *Touchpoints* requirements and the PM did not consistently enforce *Touchpoints* invoice process requirements. Additionally, the intent of *Touchpoints* is different from how it is worded, resulting in non-conformance.

One CPM complied with the *PMP* that was issued by a previous PM for project management processes instead of *Touchpoints*. The *PMP* summarizes each step of the invoice process; however, it does not indicate what forms are required to be submitted as part of the invoice package, which are identified in *Touchpoints*. In addition, the CPM did not submit copies of the executed encumbrance forms during the invoice process, because the CPM believed budget verification was submitted and confirmed during the change order process.

The other CPMs did not comply with *Touchpoints* as the Program's requirements for invoice processing at the time the invoices were submitted to the PM and explained that the PM instructed them to verify that the executed documents were available in Docview for the change orders being billed. As a result, the CPMs did not consistently submit all invoice forms required by *Touchpoints*.

When a copy of the change order and PBA or executed encumbrance form was not provided in the invoice package, we confirmed that the change order was executed and change order funds were encumbered prior to payment by the District. Additionally, although copies of these documents required by *Touchpoints* were not included in the invoice packages submitted to the PM, these documents were retrieved from Docview separately.

It appears that the PM has the processes in place to confirm that the change order is executed and funds are encumbered prior to the change order being paid by the District. According to the PM, encumbrance forms and PBAs are executed, approved, and uploaded separately to Docview prior to invoice processing. During the invoice process, the encumbrance forms and PBAs are verified on Docview and, therefore, are not attached to the invoice package in order to avoid redundancy of documentation. As a result, to require the CPM to submit a 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) with the invoice submittal packages appears unnecessary.

Effect: The CPM is not compliant with *Touchpoints* and contract requirements.

5-A Recommendation: In order to avoid redundancy of documentation, the PM should update *Touchpoints* to require that the CPM confirm that a copy of the change order and PBA or executed encumbrance are located on Docview for contract change orders being billed in lieu of submittal of these documents in the invoice package.

Management Response 5-A: Management agrees with this recommendation. The PMO intends to update its SOP to clarify the requirements with regard to the submission of supporting documentation within a typical invoice package. The PMO will also provide additional training for the CPMs so to ensure their heightened reviews of the Invoice Payment Approval Form.

5.2 Bond expenditure invoices were at times not compliant with vendors' contract requirements.

Criteria: Contract terms and conditions establish requirements including the following:

- *Advanced approval by the District for any Staffing Plan changes prior to performance of services affected (CPM Agreement Section 4.1.5.1).*
- *If Basic Services Fee is based on hourly compensation, invoices submitted by Consultant shall be accompanied by copies of supporting documentation including, without limitation, time sheets verifying actual hours and tasks performed (Professional Services Agreement 30485, Section 3.7 (Accompanying Documentation); Professional Services Master Agreement 50190, Section 3.6 (Accompanying Documentation).*
- *Invoices shall be summarized by Task Order number and by Subtask assignment when applicable (Professional Services Agreement 2055, Exhibit B – Supplemental Compensation Provisions).*

Condition: Five of 50 (10%) bond expenditure invoices did not conform to the vendor's billing terms. The discrepancies were not significant.

- One CPM invoice included an employee status that did not agree with the activated CPM staffing plan.
- Two professional services agreement invoices calculated progress payments based on percentage completion instead of based on actual hours performed, as required by the vendor's contract.
- One design services agreement invoiced performance of work prior to task orders being executed/signed by LACCD and the consultant.
- One professional services agreement invoice does not align with amounts approved for the Task Order. Therefore, we are unable to determine amount invoiced towards the Task Order to date.

Cause: At times Task Orders and base contracts contained conflicting billing terms. Additionally, the CPM and PM did not always enforce the contractual requirements.

Effect: The District may have paid for services that did not appropriately follow the required contractual terms and conditions (i.e. hourly rate vs. percentage of completion)

5-B Recommendation: The PM should conduct periodic contract compliance audits of vendors' contractually auditable rates, reimbursable expenses, and allowable costs of work.

Management Response 5-B: Management agrees with this recommendation. The PMO intends to perform periodic compliance reviews of its vendors' rates, expenses and allowable costs to ensure that process owners review non-compliance with the contractual billing terms. Management has reviewed and updated the Invoice Approval Payment Form, so to validate the invoicing format against the contract billing requirements prior to processing for payment.

LIST OF ACRONYMS

Acronym	Definition
AAC	Additional Anticipated Costs
AECOM	Program Manager or AECOM Technical Services, Inc (Program Manager as of April 2013)
AGC	American General Contractors
AIA	American Institute of Architects
AOR	Architect of Record
BOT or Board	Board of Trustees
BuildLACCD	Los Angeles Community College District Program Management Office, a blended program management team consisting of URS or AECOM (after April 4, 2013), other consultants, and members of the District.
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 (Program Manager from August 2001 to February 2007)
Docview	Document records and storage system maintained by Program Manager
DSA	Division of the State Architect (California)
EAC	Estimate at Completion (i.e. completion costs)
ELAC	East Los Angeles College
FF&E	Furniture, Fixtures and Equipment
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GC	General Contractor
IOR	Inspector of Record
KPMG	KPMG LLP
LACCD or District	Los Angeles Community College District
LACC	Los Angeles City College
LAHC	Los Angeles Harbor College
LAMC	Los Angeles Mission College
LASC	Los Angeles Southwest College
LATTC	Los Angeles Trade Technical College
LAVC	Los Angeles Valley College
LLRC	Library and Learning Resource Center from LAVC
Monarch	Monarch Center - Student Union from LAVC
NLLC	New Library/Learning Crossroads Building from Pierce
OIG	Office of Inspector General
PAB	Theatre/Performing Arts Building from Pierce
PBA	Proposed Board Action
Pierce	Pierce College
PM	Program Manager or URS, Inc or AECOM Technical Services, Inc (after April 4, 2013).
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
SOP	Standard Operating Procedures Manual
T&M	Time and Materials
TO	Task Order
Touchpoints	Program Touchpoints Handbook
UII	Universal Inquiry Interface
URS	URS Corporation (Program Manager from March 2007 to April 2013)
WLAC	West Los Angeles College

APPENDIX A - SUMMARY OF MANAGEMENT'S PLANS (Improvements reported under BuildLACCD)¹¹

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

- **Quality Management:** A draft of new LACCD bond program *Standard Operating Procedures* (SOPs) has been issued by the PM and will be implemented across the bond program. The SOPs include a quality management system/quality plan to establish quality key performance indicators, internal quality audits, quality management training, and quality councils that will collect lessons learned/best practices/process improvement suggestions from the CPMs. The PM implemented “web-enabled” SOPs in October 2013, so that all users can access the SOPs from any location a user has internet access. The SOP will serve as the Program’s policies and procedures, as recommended by KPMG in past audits.
- **Design Groups:** BuildLACCD has created a Regional Design Liaison (RDL) group aligning with the construction Regional Program Liaison (RPL) group, which will serve as an extension of the Program working directly with the CPM and campuses. Additionally, the Program has provided additional resources to manage a centralized DSA close-out process within the design group, including training, tracking, and facilitation.
- **Construction Support:** The Program has redefined signatory levels for both change orders and field orders. The Program has also added a section to its procedures for specifying requirements for change order estimating and change order negotiation and clearly defined roles and responsibilities related to substantial completion.
- **Furniture, Fixtures and Equipment (FF&E) Procurement:** Enhancements were made to the District’s database to enhance tracking of FF&E procurement from Proposed Board Actions (PBA) through purchase order (PO) execution. Improvements include assigning an asset tag for all FF&E purchase order products and additional SAP training on the new system enhancements. Metrics are also tracked to ensure compliance with new asset tracking procedures.
- **Asset Management:** The District has implemented Radio-Frequency Identification (RFID) technology to track fixed assets, including on-going installation of active readers in over 600 intermediate distribution frame (IDF)/ main distribution frame (MDF) rooms. The software utilized will be integrated with SAP for automated updates.
- **Finance and Accounting:** The District automated the aspect of the monthly bond expenditure reconciliation process between BuildLACCD and the District. The PM organized a hands-on PM team to work directly with the CPMs to properly identify, escalate, and report fiscal year-end accruals in a timely and efficient manner. The District implemented an automated report to address and identify all “non-bond” expenditures.
- **Key Performance Indicators (KPIs):** The District has adopted an approach where the CPMs, as well as the architects, engineers, contractors and consultants will be evaluated on specified and measurable KPIs and will be held accountable for “making the grade.”

¹¹ KPMG did not audit these “leading practices” against PM represented performance criteria.

- **Risk Management:** The District has implemented a formal Risk Management Program that will identify and track risks throughout the project life cycle as well as apply risk mitigation strategies to eliminate and reduce risks to the program. This is accomplished with tools such as a risk register that prioritizes each risk and assigns action owners for mitigation and resolution. This risk management plan will be applied to all projects current and future. This effort will assist in the reduction of unforeseen costs, help align the correct project budgets and contingencies to projects, and will allow for early issue resolution prior to occurrence of the issue.
- **Information Technology Management:** BuildLACCD updated program server hardware as well program data back-up and recovery procedures. Data serves have been relocated to secure off-site location to insure recoverability of vital / key data.

APPENDIX B - SUMMARY AND STATUS OF 2011-12 OBSERVATIONS

(status representations made by BuildLACCD)

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.</p> <p>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</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. 	<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><u>September 2013 Update:</u></p> <p>1-A: As of the December 2012 update, BuildLACCD has completed implementation of the updated budget procedures to the Touchpoints manual.</p> <p>Item is complete.</p> <p>Closed.</p> <p>1-B: Management agrees with this recommendation. As stated above (1-A) the PM issued in December of</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
		<p>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.</p>	<p>This process should be performed on an as-needed basis.¹²</p> <p>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.</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>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.</p> <p><u>September 2013 Update:</u></p> <p>1-B: This following items have been included within BuildLACCD SOP procedures:</p> <ol style="list-style-type: none"> Budget Establishment In Process. Baseline Budget - The Master Budget was established in October of 2011 and will be tracked throughout the life of the project(s). Budget will be tracked but no re-baseline will occur. Item is complete. Closed Budget Transfer Requests – This requirement is outlined in LACCD SOP procedure manual. The PMO Program Controls team reviews, validates and approves the budget adjustment. Item is complete Closed. Estimate at Completion –The PMO is currently developing this item. In Process. <i>Touchpoints</i> requirement language and forms – The Project Budget Transfer signature requirement has been updated in Section 300 of

¹² 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>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>	High	<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 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,</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 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</p>	<p>the <i>Touchpoints Handbook</i>. Item is complete Closed</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 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><u>September 2013 Update:</u></p> <p>2-A: BuildLACCD has implemented a procedure that requires all field orders to be reviewed and approved by a Regional Program Liaison (RPL). The RPL is a dedicated Program resource who works directly with assigned CPMs to ensuring onsite presence and oversight by the PM at the colleges. Item is complete Closed</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 Touchpoints handbook to further strengthen the documentation requirements of the</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
		<p>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>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-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</p>	<p>COP negotiation process as well as how the final agreed upon price is derived.</p> <p><u>September 2013 Update:</u></p> <p>2-B and 2-C: BuildLACCD has implemented a procedure that requires a Record of Negotiations for each change, and the inclusion of Form CP-0320 as a record of key discussion and negotiation points. Once the final agreed-upon price is determined, the contractor will be required to update the COP formwork and/or include final pricing in the CO form.</p> <p>Item is complete</p> <p>Closed</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><u>September 2013 Update:</u></p> <p>2-D: The Regional Program Liaisons are required to review all COs and corresponding support to ensure compliance. In addition, it is written into AECOMs contract to perform internal audits which are being performed by the Quality control group.</p> <p>Item is complete</p> <p>Closed</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
			<p>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>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.</p> <p><u>September 2013 Update:</u></p> <p>2-E and 2-F: Per the SOP developed by the PMO, the CPM will be required to maintain an accurate CO log within PMIS (Project Management Information System). COs that are approved by the CPMs will be required to be submitted to the RPLs within 5 business days for their review.</p> <p>Item is complete</p> <p>Closed</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</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
<p>3 (2012 KPMG 03): The project close-out process was not adequately completed; required project close-out documentation is inconsistently filed or missing.</p>	<p>Medium</p>	<p>The inability to retrieve project documentation after project close-out 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 close-out process should identify BuildLACCD as being responsible to monitor, track and ensure complete and timely close-out by the CPMs. BuildLACCD should consider adding the following to the close-out process in <i>Touchpoints</i>:</p> <ul style="list-style-type: none"> • Use a separate project <i>Close-Out Checklist</i> for each Project • Develop a single close-out 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 	<p>and updated to apply to current requirement for T&M change orders.</p> <p><u>September 2013 Update:</u></p> <p>2-G and 2-H: Completed (See notes as of December 2012). Item is complete Closed</p> <p>3-A, 3-B and 3-C: Management agrees with observation regarding phase 2 project close-out 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 close-out process should be strengthened and the <i>Project Close-Out 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 close-out 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 close-out process and status. Part of the process will include conducting internal audits.</p> <p><u>September 2013 Update:</u></p> <p>3-A, 3-C: BuildLACCD will develop and implement comprehensive close-out processes and procedures (covering financial close-out, DSA Certification, Start-up/Operation and Project Archiving). The process includes creating an</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
			<ul style="list-style-type: none"> ▪ 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 close-out 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>Close-Out Checklist</i> still needs to be revised to follow suit.</p> <p>3-B: BuildLACCD should consider conducting periodic audits of project close-out documentation to ensure compliance with <i>Touchpoints</i>.</p> <p>3-C: BuildLACCD should consider close-out status report updates from the CPMs for applicable projects.</p>	<p>electronic database, a close-out checklist, and user manuals that describe how the CPM and PMO will implement the checklist. The CPM will use the checklist to track the status of documents related to project close-out. The PMO will verify completion of close-out documentation and sign-off items on the checklist. Close-out milestones dates will be included in the P6 schedule to track timeframes for close-out items. The PMO will also use the electronic database checklist to generate reports that give the status of closed-out projects at each college. Upon implementation of these procedures, the PMO will train CPM staff, which will include selection of “pilot” projects to validate effectiveness of procedures and to allow for incorporation of any lessons learned.</p> <p>In process.</p>
<p>4 (2012 KPMG 04): Procurement of professional services documentation is not consistently retained.</p>	<p>Low</p>	<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</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 	<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 ongoing improvements, the PM contracts department currently performs regularly scheduled onsite training with each CPM to review contract</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
<p>5 (2012 KPMG 05): The schedule variance reports issued by individual campuses are not standardized and do not always contain the components required by leading practices.</p>	<p>Low</p>	<p>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>(templates, forms, or other documents) are required at each stage in the process.</p> <ul style="list-style-type: none"> 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>procurement procedures. In addition, the PM will work with the District to develop a document retention policy.</p> <p><u>September 2013 Update:</u> 4-A and 4-B: Completed per previous management response. In addition, Procurement of Professional Services is now performed by PMO and all required supporting documentation is retained by the PMO.</p> <p>Item is complete Closed</p>
<p>5 (2012 KPMG 05): The schedule variance reports issued by individual campuses are not standardized and do not always contain the components required by leading practices.</p>	<p>Low</p>	<p>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 thorough analytical schedule variance review.</p>	<p>5-A: The District should standardize the CPM schedule variance reporting requirements and format in <i>Touchpoints</i>. 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.</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</p>	<p>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.</p> <p><u>September 2013 Update:</u> 5-A: Standardization criteria per previous management response have been included in the</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
<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. 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.</p>	<p>scheduling management process.</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-C: In order to avoid misinterpretation of the General</p>	<p>updated SOPs. The Variance report has been standardized and CPMs are required to submit their reports by the first day of each month. The monthly schedule and variance meetings continue to occur between CPMs and the PMO.</p> <p>Item is complete Closed</p> <p>5-B: Completed as of October 2012 management response. Item is complete Closed</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. <u>September 2013 Update:</u> 6-A: BuildLACCD has implemented a procedure, which outlines the forms and signatures requirements. Item is complete Closed</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. Subsequent to the 2011 updates, the PM now rejects design-build invoices that do not follow the</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
		<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>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>contractually prescribed milestones for preconstruction and design services. <u>September 2013 Update:</u> 6-B and 6-C: Completed per previous management response. Item is complete Closed 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. <u>September 2013 Update:</u> 6-D: Completed per previous management response. Item is complete Closed</p>

APPENDIX C - SUMMARY AND STATUS OF 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>January 2013 Update: 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.</p> <p>In progress.</p> <p><u>September 2013 Update:</u></p> <p>1-A: BuildLACCD has drafted and issued a four volume Standard Operating Procedure (SOP) that serves as a comprehensive set of policies and procedures for the bond program.</p> <p>Item is complete Closed</p> <p>1-B: Management agrees with the recommendation</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
2 (2011 KPMG 02):	High	Without adequate support of	2-A: The PM should increase the	<p>to implement a Quality Assurance/Quality Control (QA/QC) team with an internal audit function. BuildLACCD has already started this process with the creation of a QA/QC manager to oversee the quality of design documents. The QA/QC team could establish a continuous process improvement and lessons learned program. The QA/QC team will develop the baseline criterion performance metrics to measure performance of all the vendors, contractors, and consultants on the bond program.</p> <p>January 2013 Update:</p> <p>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.</p> <p>In progress.</p> <p><u>September 2013 Update:</u></p> <p>1-B: The new SOP requires a quality control program within BuildLACCD to conduct internal audits.</p> <p>Item is complete Closed</p> <p>2-A, 2-B: Management agrees with the observation</p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
<p>Project budgets and budget transfers are not consistently supported by fully documented assumptions.</p>		<p>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 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>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 develop the <i>Touchpoints</i> requirements to include sufficient process descriptions for each step in the budget management process, including:</p> <p>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.</p> <p>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 the State Architect (DSA) approval,</p>	<p>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 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>January 2013 Update:</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>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>	<p>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. Closed</p>
<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. 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. 3-C: LACCD should determine if</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. Subsequent to the period of audit, management is currently providing a high-level active project schedule report under the <i>Dashboard</i> 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 <i>Dashboard</i> 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</p>

Observati n	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
			<p>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>use as part of the CPM monthly reports.</p> <p>January 2013 Update:</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>In addition, the program schedulers are making site visits on regular monthly basis to observe progress and discuss schedule updates.</p> <p>3-A & C – Closed</p> <p>3-B – In Progress</p> <p><u>September 2013 Update:</u></p>

Observation	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
<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 do not allow the PM to track when critical decisions are made. Since the authorized signatories for 11 of 14 LASC field orders did not provide an approval date on the <i>Construction Field Order Form CP-0330</i>, it is unknown whether work proceeded ahead of the required approvals.</p> <p>Failure to ratify changes orders in a timely manner may lead to under reporting of project commitments and remaining budgets, which increase the risk of budget, overruns.</p> <p>Change order packages were approved without required documentation and signatures</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 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>3-B: BuildLACCD requires CPM to submit monthly schedule and variance reports, which includes a narrative of the cause of delay and the mitigating measures. Item is complete Closed</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. We agree there was a control deficiency at the CPM level that resulted in work performed without proper field order approval. For the LASC field orders selected for KPMG test-work, a number of field orders were reviewed by Program Management prior to commence of work and were not approved pending additional requested information. When presented to PM for approval, a series of information requests regarding the Field Orders were presented to CPM for response. For purposes of the review and approval of the Change Order, which included said Field Orders, the execution of the Field Order was not material as the request for execution of the Field Order was superseded by the request for execution of the Change Order. The Field Order was merely included in the package as informative back up documentation, as it contained description and explanation regarding the change, though existing in only a partially executed draft at the point of Change Order Execution. As the District did not execute the draft Field Order, it was not an enforceable or effective document (per General Conditions Section</p>

Observati n	Priority Ranking	Effect/s	Recommendation/s	Management Response and Status
		<p>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>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</i> Handbook, and on the face of the Field Order form; the Program Manager will endeavor to further communicate the importance and process of the Field Order process to the CPM staff. The PM will assist the CPMs to follow the field order process by increasing onsite presence and oversight. In addition, the PM will seek to implement measures to enforce controls in place to ensure compliance with the procedures.</p> <p>January 2013 Update:</p> <p>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.</p> <p>In addition, BuildLACCD continues to communicate these requirements to CPM staff regularly during the CPM roundtable and controls meetings.</p> <p>The District adopted a resolution for centralized accountability measures to allow the PM to directly</p>

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				<p>oversee the College Project Managers This resolution will go into effect with the new PM contract.</p> <p>In Progress</p> <p><u>September 2013 Update:</u></p> <p>4-A: BuildLACCD has implemented a procedure that requires all field orders to be reviewed and approved by the Regional Program Liaison (RPL). The RPL is a dedicated Program resource who works directly with assigned CPMs to ensuring onsite presence and oversight by the PMO at each college.</p> <p>Item is complete</p> <p>Closed</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>January 2013 Update:</p> <p>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</p>

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				<p>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.</p> <p>CPM staff is 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.</p> <p>Closed</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>January 2013 Update</p> <p>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.</p> <p>Closed</p> <p>4-D: Management agrees with KPMG's recommendation that the requirements for Cost Estimates be more specifically articulated in the <i>Touchpoints Handbook</i> 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</p>

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<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 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</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 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</p>	<p>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>January 2013 Update: The Touchpoints handbook issued in December 2012 was updated to implement a dollar amount threshold for the specific requirements of cost estimates. Closed</p>
<p>5-A: Management agrees that vendors should not be allowed to start work prior to the contract effective date or contract execution. January 2013 Update: 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 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. Closed</p>				

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		<p>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>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>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>January 2013 Update:</p> <p>This is already part of the requirements in the contract documents. No further action is required.</p> <p>Closed</p> <p>5-C: Management agrees with this recommendation.</p> <p>January 2013 Update:</p> <p>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.</p> <p>Closed</p>
<p>6 (2011 KPMG 06): The project close-out process was not adequately completed; required project close-out documentation was inconsistently filed or not consistently available.</p>	<p>Low</p>	<p>The inability to retrieve project documentation after project close-out 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</p>	<p>6-A: LACCD should update the <i>Project Close-Out 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 Close-out Checklist</i>, including completion of a process.</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, close-out 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</p>

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		<p>claim or other event.</p> <p>Determining which items on the <i>CDC Project Close-Out 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 close-out documents required by their contract.</p>	<p>6-B: LACCD should improve the quality assurance control process on the close-out documentation provided by colleges to help facilitate adequate close-out of projects, including timely receipt of required close-out documentation and an appropriate filing structure.</p>	<p>CPM Project Management activities including warranty and whole building commissioning, generation, compilation and proper document to comply with the current close-out requirements.</p> <p>January 2013 Update:</p> <p>The PM revised and strengthen of the close-out 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 close-out process and status. Part of the process will include conducting internal audits.</p> <p>In Progress</p> <p><u>September 2013 Update:</u></p> <p>6-A, 6-B: BuildLACCD is in the process of developing and implementing comprehensive close-out processes and procedures (covering financial close-out, DSA Certification, Startup/Operation and Project Archiving). The process includes creating an electronic database close-out checklist and user manuals to detail how the CPM and PMO will implement the checklist. The CPM will use the checklist to track status of the documents related to project close-out. The PMO will verify completion of close-out documentation specified on the checklist and will also sign off on items on the checklist. Close-out milestones will be included in the P6 schedules to track the timeframes for close-out items. The electronic database checklist will be used to generate reports checked by the PMO, which will provide the status of closed-out projects at each campus.</p>

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<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 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</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-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>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 payment schedule and this section was revised for contract documents effective January 2011.</p> <p>January 2013 Update: No further action required. Closed</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>January 2013 Update: Management has provided training to CPM staff to ensure contract compliance regarding pre-approvals and retention of approval documents. Closed</p> <p>7-C: Management agrees with the observation that the CPM did not submit several <i>Unconditional</i></p>

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		previously requested on an older version.		<p><i>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>January 2013 Update:</p> <p>Management provided additional training at PM and CPM level to address the requirements of "Waiver" and the tracking system in place.</p> <p>Closed</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>January 2013 Update:</p> <p>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.</p> <p>Closed</p>