

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

Fiscal Year Ended June 30, 2018

February 6, 2019

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



KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

February 6, 2019

Mr. David Salazar
Chief Facilities Executive
Los Angeles Community College District
770 Wilshire Boulevard, 6th Floor
Los Angeles, CA 90017

Dear Mr. Salazar:

This report presents the results of our work conducted to address the performance audit objectives relative to the Los Angeles Community College District's (LACCD) Proposition A, Proposition AA, Measure J and Measure CC bond programs. Our field work was performed during the period of May 7, 2018 through December 12, 2018 and our results are as of 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants (AICPA). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The audit objective of our work was to understand certain aspects of the LACCD management of the bond program and bond program expenditures in accordance with the requirements of Proposition 39.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

This report together with its appendices are intended solely for the use of management and the Board of Trustees and is not intended to be and should not be relied upon by anyone other than these specified parties.

Sincerely,

KPMG LLP

TABLE OF CONTENTS

EXECUTIVE SUMMARY..... 3

BACKGROUND 6

AUDIT SCOPE AND METHODOLOGY 8

AUDIT RESULTS, RECOMMENDATIONS AND MANAGEMENT RESPONSES..... 11

APPENDIX A - SUMMARY OF OBSERVATIONS..... 21

APPENDIX B - LIST OF ACRONYMS 28

APPENDIX C - SUMMARY AND STATUS OF 2016-17 OBSERVATIONS AND
RECOMMENDATIONS 29

EXECUTIVE SUMMARY

This performance audit was conducted in accordance with Generally Accepted *Government Auditing Standards* (GAGAS) 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, 2018 was performed during the period of May 7, 2018 through the date of this report.

Objective

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

The objective of this performance audit was to understand certain aspects of the Los Angeles Community College District's (LACCD or District) management of the bond program and bond program expenditures in accordance with the requirements of Proposition 39. Total aggregate bond expenditures were \$187,706,351 (audited) during the fiscal year ended June 30, 2018.

Scope

A performance audit uses objective analysis to compare the current condition (what is) against stated criteria (what should be). Our scope is determined by the District. In prior audit years, our performance audit of the District's bond program made several recommendations related to the program's *Standard Operating Procedures (SOP)* and how they can be improved. Over the years, the *SOP* have evolved to a point where the *SOP* were utilized as a primary criteria to compare program performance to this year.

The scope for this year's performance audit included the following areas of focus:

- **Program Management Office (PMO) Transition:** Our procedures included an assessment of the transition of key program management functions from AECOM to Jacobs including executive reporting, policies and procedures, roles and responsibilities, systems and tools, as well as the transition of the project management function of individual construction projects. An evaluation of the success of the transition relative to the program's defined key performance indicators (KPI's) and leading practices was also included. The objective of this audit work was to evaluate efficiency and effectiveness of the PMO transition of key program management functions.
- **Cost Estimating:** Our procedures included an assessment of the project cost estimating process for the defined project stages where relevant cost estimating activities take place. Such estimating activities include estimating of the initial project budget and subsequent project budget refinements, construction cost estimating, change order cost estimating, and an evaluation for compliance with PMO cost estimating *SOP* and leading practices. The objective of this audit work was to evaluate the effectiveness and efficiency of the program's project level cost estimating practices.
- **Procurement:** Our procedures included auditing compliance with existing PMO procurement policies and procedures for key procurement activities related to contracts awarded and/or negotiated in the current audit period. A review of contracts and evaluation for compliance with key procurement process steps and requirements included the bid solicitation; advertising and outreach; vendor

evaluation, selection and notification; vendor negotiation; and contracting. The objective of this audit work was to evaluate the efficiency and effectiveness of procurement activities as described in the *SOP*.

Our performance audit does not opine on the internal controls structure of BuildLACCD or LACCD. In addition, our performance audit did not include testing of internal controls to determine if the internal controls are operating as designed. Our audit is limited to reporting deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed.

Audit Summary

Based on our audit, we did not identify any significant internal control deficiency within the context of the audit, however we did identify one significant audit observation. We did not identify any significant¹ charges to the program that did not conform to the requirements of Proposition A, Proposition AA, Measure J and Measure CC. However, based on our audit scope this year, we made a number of observations where we identified opportunities for improvements.

Summary of Observations

Following is a summary of our observations, including the order of priority, which is a subjective ranking of importance among the observations:

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

Medium Priority - The recommendation pertains to a moderately significant audit finding. Reasonably prompt corrective action should be taken by management to address the matter.

Low Priority - The recommendation pertains to an audit finding of relatively minor significance or concern, yet still requiring attention. The timing of any corrective action is left to management's discretion.

Our detailed procedures, findings, recommendations, and management's responses are included in the following sections of this report.

PMO Transition Observations

1. Jacobs did not complete all contractual and PMO transition related deliverables on time, and some deliverables remain in-progress. (High Priority)
2. Concerns from the college project teams (CPTs) were not always effectively captured, resolved and communicated. (Medium Priority)

Cost Estimating Observations

3. The governing policies and procedures document (*SOP*) for the estimating process is not adequately detailed and focuses primarily on cost management and budget development, rather than adequately defining the process for developing a project estimate. Additionally, there appear to be gaps in compliance with specific *SOP* sections. (Medium Priority)

4. The bond program does not currently maintain a centralized cost source, such as a database, of relevant project cost information and unit rates. (Medium Priority)
5. Change order estimates were not consistently supported by the documentation required by the *SOP*. (Medium Priority)

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

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 Los Angeles Community College District's (LACCD or District) bond program is funded by Proposition A, Proposition AA, Measure J and Measure CC, which were approved by voters in 2001, 2003, 2008 and 2016, respectively. The total authorized bond fund dollars increased to \$9.6 billion from the inception of the program. Approximately \$4.5 billion remains, which is designated for capital improvements for the renovation and replacement of aging facilities and for the construction of new facilities. Of the \$4.5 billion in funds remaining, \$3.3 billion represent Measure CC funds.

The District began to use Measure CC bond funds in February 2018. Measure CC provides for the continuation of the District's Capital Bond Program for years to come. The planning and prioritization of capital projects which meet the requirements of Measure CC was a priority of the District during the FY2017-18.

Total aggregate bond expenditures (audited) were \$187,706,351 during the fiscal year ended June 30, 2018; \$3,406,596 (Proposition A), \$3,009,471 (Proposition AA), \$174,715,162 (Measure J) and \$6,575,122 (Measure CC).

BuildLACCD and the Project Management Office (PMO)

BuildLACCD's function is to facilitate the delivery of projects under the bond program. BuildLACCD consists of over 150 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, which was provided by AECOM Technical Services, Inc. (AECOM) for the period from April 4, 2013 to October 15, 2017.

On August 9, 2017, the Board of Trustees (BOT) authorized a "termination for convenience" of the April 3, 2013 program management agreement with AECOM effective October 15, 2017, and authorized an agreement with Jacobs Project Management Company (Jacobs or PMO) to provide program management services for the bond program for a five-year period commencing September 15, 2017 through September 14, 2022.

The BOT recommended an orderly transition from AECOM to Jacobs including a one month overlap between the beginning of the Jacobs contract and the end of the AECOM contract. This transition period began September 15, 2017 and ended on October 15, 2017, and occurred during the FY2017-18 performance audit period.

College Project Teams (CPTs)

Each college location has a College Project Team (CPT) in place. The CPTs are responsible for performing services to oversee college master planning, environmental impact studies, programming, design, construction, closeout, and are also responsible for overseeing design consultants, contractors, and vendors at each college location.

The bond program had operated under a decentralized model for the period between 2007 and 2013, a significant level of autonomy with the individual colleges, including project management decisions, documentation requirements, and methodologies. Beginning under the AECOM program management agreement in 2013 and continuing under Jacobs, all CPTs are contracted directly with the District but report to the PMO. This created a centralized structure and established more accountability by all of BuildLACCD.

AUDIT SCOPE AND METHODOLOGY

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

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States and as a requirement for construction bond programs under California Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act (Proposition 39)*. Our work for the year ended June 30, 2018 was performed during the period of May 7, 2018 through the date of this report.

Methodology

GAGAS 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 Government Auditing Standards and the District with respect to our methodology, which included the following elements:

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

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

Scope

The scope for this year's performance audit included three areas of focus:

Program Management Office (PMO) Transition

The program management office (PMO) function is to provide management and oversight of the bond program using controls and process to monitor key areas such as budget, schedule, cost, and reporting.

Our objective of evaluating the transition of key program management office (PMO) functions from AECOM to Jacobs was to assess the executive reporting, policies and procedures, roles and responsibilities, systems and tools as well as individual construction projects. This included an evaluation of the transition relative to the program's defined objectives, goals and industry leading practices. Our audit procedures included the following:

- a. Interviewed key program personnel with specific knowledge related to the PMO transition and obtained any additional transition related plans, policies, procedures, guidelines, checklists and/or internal memos that were effective during the transition.
 - Evaluated whether roles, responsibilities, and organizational structures were clearly defined, including clear indication of which management team members were responsible for transition

- oversight and key decision making.
- Assessed the development, approval and key deliverables/planned outputs of the PMO Transition Plan. Documented key requirements/deliverables/outputs and tested a sample set of documentation to confirm that PMO transition requirements were met, work products were maintained, and that documentation has been filed in accordance with program document management requirements. Example documentation reviewed included:
 - i. Program charter
 - ii. Internal/external reporting (KPI's)
 - iii. Key transition staff and management matrix/ 'crosswalk' between both of the PMOs
 - iv. Communications plan (reporting structures, issue escalation procedures, meetings, distribution lists, etc.)
 - v. Schedule indicating key milestones and official/formal handover of responsibility
 - vi. Knowledge and key known risk transfer, including current PMO/Project issues and challenges matrix (background, current status, mitigation, actions/commitments etc.)
- b. Interviewed key stakeholders, regional campus representatives, and obtain key communications, internal memos, flow charts and or guidelines to assess and evaluate the transition of the PMO's governance. Governance transition and implementation processes and procedures include but are not limited to the timeline, transition and implementation of:
- Systems and tools between the PMOs, AECOM and Jacobs
 - PMO policies and procedures
 - Key program objectives, goals, documentation, reporting and communication (if different from previous PMO)

Cost Estimating

The bond program's cost and budget management process included with the *SOP* are intended to provide the procedures and tools to establish and update project cost estimates from inception to project completion.

Our objective for this audit was, on a sample basis, to evaluate compliance with the PMO's cost estimating policies and procedures as well as to compare procedures to industry leading practices. This objective was advanced by assessing the project cost estimating process and review of key documentation for the defined project phases where cost estimating takes place, including estimating of the initial project budget and subsequent project budget refinements, construction cost estimating, and change order cost estimating.

Audit procedures included the following:

- a. Interviewing key program personnel with specific knowledge of the PMO's estimating process and obtain estimating related policies, procedures, guidelines, checklists and project specific estimate documentation that were prepared and effective during the audit period:
- Verified that the estimating process roles, responsibilities and organizational structure are clearly defined, including clear indication of management review and approval.
 - Verified that the estimating process procedures are clearly defined for the preparation of a Basis of Estimate (BOE), including key inputs from other business units (Project delivery strategy, scope, schedule), validation of information and review and approvals.
 - Verified that the estimating process procedures are clearly defined for the preparation of a project estimate, including key inputs from other business units, validation of information, and that key process outputs/deliverables are clearly defined.
 - Reviewed the process for refining project estimates based on project planning analyses, changes in project definition and design drawing completion.
 - Reviewed the process for developing estimate contingency and the contingencies alignment with risk models.
 - Reviewed the process for third party reviews or 'shadow' estimates and how these types or

- reviews are used to validate or adjust project estimates.
 - Reviewed the process for final estimate approval, publishing the estimate and incorporating the estimate into the baseline budget for control and reporting purposes.
- b. Evaluated the supporting documentation (on a sample basis), including the Project Estimate worksheet (PEW), for projects estimated within the audit period and determine if the estimates were prepared in accordance with the relevant *SOP* and leading practices.
 - c. Evaluated the supporting documentation for change orders (on a sample basis) estimated within the audit period and determined if the estimates were prepared in accordance with the relevant *SOP* and leading practices.

Procurement

The bond program's procurement process included with the *SOP* are intended to provide procedures for procuring and contracting for the program.

Our objective of evaluating compliance with existing PMO policies and procedures for key procurement activities related to contracts awarded and/or negotiated in the current audit period. Evaluate contracts (on a sample basis) and for compliance with key procurement process steps and requirements. Such requirements may include, but are not limited to: request for qualifications (RFQ)/bid solicitation; advertising and outreach; vendor evaluation, selection and notification; vendor negotiation; and contracting. Audit procedures included the following:

- a. Interviewed key program personnel with specific knowledge of the PMO's procurement process and obtain procurement related policies, procedures, guidelines, checklists and project specific estimate documentation that were prepared and effective during the audit period:
 - Interviewed key program personnel with specific knowledge related to the procurement process and to gain an understanding of specific projects in our sample
 - Reviewed and evaluated key procurement and contracting activities in the *SOP*, Program Management Administration – Contract Management
 - Documented improvements to the procurement process (based on KPMG's last assessment of procurement process in FY2015-16)
- b. On a sample basis, evaluated the supporting documentation for 10 contracts that went through one or more stages of procurement and/or contracting process within the audit period and determine if the contracts were in compliance with the relevant *SOP* and leading practices.
 - Evaluated the procurement and contracting process for compliance with *SOP* based on sampled projects which may include, Professional Services, Design-Bid-Build (DBB), Design-Build (DB), Lease-Leaseback (LLB), Master Services Agreements and Task Orders, and Prequalified Construction Service Providers (PQSP) Task Orders
 - Evaluated procurement requirements, which included:
 - a. RFQ/bid solicitation
 - b. Advertising and outreach
 - c. Vendor evaluation
 - d. Selection and notification
 - e. Vendor negotiation
 - f. Contracting
 - Evaluated the use of Planetbids, a web-based public bidding site used by PMO procurement team to manage requests for bids and proposals
 - Evaluated procurement/contract process against industry leading practices

AUDIT RESULTS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

PMO Transition

At request of the District, we evaluated the PMO transition from AECOM to Jacobs which occurred between September 15, 2017 and October 15, 2017. Our assessment of Jacobs' compliance to the contract for a sample of the deliverables and tasks associated with the transition-related activities was the focus of our review. As part of our audit scope, we also met with CPTs to gain perspective on the PMO transition from the field.

The PMO transition included a migration of BuildLACCD bond program data from the AECOM servers to the District. The complete migration of program data before AECOM's departure was critical to the success of the PMO transition and the seamless continuation of the program. In order to get this accomplished within the short transition time line, Gafcon, a third-party provider of data storage and servers, was initially utilized through a contract entered into with the District. The Jacobs contract included bringing the data storage and servers in-house and in October 2017, Jacobs migrated the bond program data from Gafcon to District owned servers.

As a result of our audit, we identified the following areas of improvements related to the PMO transition that could further enhance the current contractual obligations with Jacobs and benefit the program going forward:

1. Jacobs did not complete all contractual and PMO transition related deliverables on time, and some deliverables remain in-progress. (High Priority)

Criteria: The executed contract between the District and Jacobs incorporates a number of deliverables, including transition related deliverables, to be performed by Jacobs. Specifically, the Program Management Agreement (executed September 5, 2017), Exhibit D, Section B: *Project Manager shall provide the deliverables described in or reasonable inferable from Exhibit "H" - RFP Documents and Proposal attached hereto, including, but not limited to, the following written documentation and reports that incorporate and utilize, as reasonably practicable, the District's existing program systems and documentation...*

Exhibit D and Exhibit H above contain discrepancies between the contractual deliverable requirements.

In addition, Jacobs developed a *Transition Task List*, which was utilized to facilitate the PMO transition. The *Transition Task List* established key transition activities, deliverables and deadlines.

Condition: Based on our sample of 43 deliverables included in the Jacobs Technical Proposal or their *Transition Task List*, five deliverables were completed late or remain in-progress. In the meantime, the existing program SOP governed:

- **Jacobs PMP (SOP replacement)** – The final draft of the *SOP* were due 90 days from the Notice to Proceed¹. This was still in-progress as of October 15, 2018.
- **Stakeholder Management Plan** – Due 45 days from the Notice to Proceed. This was completed April 2018.
- **Risk Management Plan** – Due 30 days after completion of the 30-day transition period and updated monthly. This was completed June 2018.

¹ Notice to Proceed was issued to Jacobs on 09/07/17.

- **Updated Scheduling Tool** –The transition task list states “Jacobs to identify scheduling tool” and the response states that this was not developed based on District guidance to minimize disruption to the program. Based on our understanding, the District and Jacobs’ mutually agreed to continue with the current P6 scheduling tool.
- **External Bond Program Website** – Incomplete. With the exception of updates to routine bond program data, the external facing website has not been changed. (Proposal: “*Similar to the El Paso Independent School District Bond Program Web-based example shown below, our team will develop an excellent graphical user experience than can even be extended to portable devices...*”)

Cause: We understand that Jacobs frequently met with the District to discuss the contract budget during the contracting negotiation period, as well as schedule and scope. As a result of these negotiations, Jacobs and the District reached an agreement for a reduction in fees from Jacobs’ original proposal. The final executed contract, which includes Jacobs’ original technical proposal by reference; incorporates the reduced fees, but not all of the corresponding reduction in scope and redaction of a number of proposed deliverables, including non-applicable deliverables included with Jacobs’ proposal. However, the District views the final executed contract, which contains all items from Jacobs technical proposal, by reference, as the standard to which Jacobs is held to for compliance. The contract further states that in those cases where differences exist between terminology or description used in Exhibit H and Exhibit D they will be discussed between the District and Program Manager.

Through interviews with Jacobs and the District, we noted that following the 30-day transition period, there was not an individual or group within Jacobs or the District that was specifically tasked with ensuring that the “Transition Task List” and other deliverables were timely completed and closed out.

Jacobs obtained District acceptance to continue using the current *SOP* rather than replacing with Jacobs PMP as outlined in Jacobs technical proposal. The District approved Jacobs’ submission requirements at 45-, 60-, and 90-day deliverable deadline interval with District acceptance for Jacobs to continue using the current *SOP*. Due to the sheer size and content of the *SOP*, Jacobs did not have sufficient time to perform a thorough review of current *SOP* and deliver a comprehensive final draft of *SOP* within the 90-day deliverable deadline (or PMO transition period). Jacobs continues to provide the District with periodic updates to the individual sections of the *SOP*, as required.

Effect: Based on the nature of a public bond program, any potential contract non-compliance presents a risk to the District. Intended deliverables and services outlined in the executed agreement with Jacobs may not align with what has been provided, or will be provided, as part of their services. Issues with timeliness may reflect poorly on the District, and gives the impression that adherence to published schedules is not a critical priority of the program. Discrepancies between the agreement and the services rendered to the District has also the potential for resulting in disagreements between the District and Jacobs at a later date.

Recommendation 1a: The District and Jacobs should meet to discuss progress and performance to-date and memorialize any departures from the current contractual obligations by Jacobs in a contract, amendment if required. A reconciliation of all expected deliverables and timelines should be performed to ensure that all contract commitments have been fulfilled and that no outstanding items remain.

Recommendation 1b: The District should improve its managing and monitoring of Jacobs’ contractual responsibilities and deliverables. Potential shortfalls or anticipated delays in the schedule should be communicated as quickly as practical and resolved with Jacobs to avoid any compliance issues.

Recommendation 1c: Jacobs should assign resources specifically for the purpose of managing and monitoring deliverables and contractual obligations internally in order to maintain compliance with the program management agreement, in a similar capacity as the District’s compliance function. The District should, however, not rely on Jacobs’ representation of contract compliance.

Management Response 1a: We agree with KPMG that there are differences between the deliverables requested by the District in the RFP (Exhibit D) and what Jacobs proposed in its technical proposal (Exhibit H). Per the contract, all those services described in Exhibit D and Exhibit H represent what Jacobs ultimately agreed to. Jacobs has met most of program management agreement deliverables contained within Exhibits D and H of the contract. For those outstanding differences that remain, discussions will need to take place to reconcile these differences with the District and Jacobs.

The Jacobs technical proposal (Exhibit H) was proposed at 98M, including reimbursables. The final negotiated fee was 85.9M, including reimbursables. Section A of Exhibit D in the contract contemplates that in cases where there are differences between Exhibit D and the Jacobs technical proposal incorporated by reference in Exhibit H, the differences will be discussed between District and Program Manager to reconcile. However, at this time, the District has not agreed to release Jacobs from any of its contractual obligations under Exhibits D and Exhibit H.

The Jacobs Executive Team and the District will meet to discuss any inconsistencies between the Exhibit D deliverables and the Jacobs technical proposal. The PMO Quality Assurance/Quality Control and PMO Internal Audit have mapped and reconciled deliverables as a starting point for these discussions. Of the 186 deliverables identified, four require clarification. Any agreement to clarify the contract deliverables will be memorialized.

Management Response 1b: The District has tasked a PMO Internal Audit firm and a PMO Special Program Manager to review and monitor contractual responsibilities, practices and deliverables. The District has also hired a Bond Program Monitor (approved by the Board of Trustees on January 9, 2019) that will provide oversight of Bond activities and practices, to include contract compliance related issues. These individuals and the administrative function they represent, will ensure that all aspects of the performance of the Jacobs contract will be reviewed and monitored.

Management Response 1c: Jacobs has assigned the PMO QA/QC Manager to internally monitor deliverables and contractual obligations. The District has assigned PMO Internal Auditor and PMO Special Program Manager to validate Jacobs' representation of contract compliance. This assures the District that all deliverables requested are being met.

2. Concerns from the College Project Teams (CPTs) were not always effectively captured, resolved and communicated. (Medium Priority)

Criteria: Jacobs Technical Proposal, Section 6.7.5: *“During our transition period we will sit down with the outgoing PMO team and your designated stakeholders to discuss expectations, objectives, and priorities, and conduct an initial opportunity, risk, and issues brainstorming session.”*

Condition: While the program management transition was generally considered to be a success by the District and Jacobs, several College Project Teams (CPTs) voiced concerns that the transition largely occurred at the PMO level without sufficient input from the individual colleges. In particular, certain “legacy” problems and concerns from CPTs were not captured during and after the transition process. Several CPTs reported the desire for a “feedback loop” with the PMO and the District as an opportunity to identify and suggest improvement to the current processes.

Cause: The transition from AECOM to Jacobs occurred in a compressed time frame where “legacy” problems and streamlining processes were not a priority. Because of the short timeframe allowed for the transition, the Jacobs team and the District focused on managing the transition process at the PMO level without prioritizing consideration of the longstanding perceived legacy issues or concerns among the CPTs.

This was reaffirmed by CPTs stating that there was a period of silence prior to the transition when no information was being shared.

Effect: Without an effective feedback loop from the CPTs and a process in place for vetting related concerns identified at the college level by the District or PMO, longstanding issues or challenges at the CPT level may remain, which may impact the efficiency and effectiveness of the day-to-day execution of the program.

Recommendation 2: Going forward, appropriate consideration should be given to help ensure that feedback is gathered on a regular basis from process stakeholders at the CPT level and that it is used for improving program processes. Despite the transition period having already passed, Jacobs still has the opportunity to meet with the CPTs and identify areas for improvement. We recommend that Jacobs document process related concerns reported by the CPTs and track how these concerns are addressed, resolved and communicated.

Management Response 2: Jacobs agrees to document process related concerns reported by the CPTs and track how these concerns are addressed, resolved and communicated.

Immediately following Jacobs' assumption of the Build-LACCD program, a college project team "All Hands" meeting was held. This meeting included all CPTs and introduced a new process to encourage suggestions, pain points, and improvement opportunities. PMO Executive Management introduced the new organization strategy to improve the speed and quality of communication between the PMO and the campuses. Three Regional Program directors (RPDs) were assigned three campuses each; the RPDs were a departure from the previous PMO's organization, and this required time for adjustment at the CPT level. The RPDs were responsible for immediate interfacing with the CPTs and for addressing or elevating concerns so the concerns could be addressed effectively. Improvements made at one campus could also be considered by other campuses which increased the speed of change. And the RPDs were charged with ensuring timely and effective two-way communication between campuses, PMO and District. An added benefit was that Jacobs personnel had been working at the college project team level in various campuses since 2003 and were familiar with the legacy issues and areas of improvements required. Our experience with the Program and our change in strategy facilitated a smooth transition and markedly increased communication and exchange of ideas between campuses, PMO and District. This resulted in not having an immediate need to directly interface and receive feedback from the college project teams, as it was not considered a top priority during the transition. This meeting informed CPTs to offer their suggestions for improvement directly with their Regional Program Directors.

Jacobs was issued the Notice to Proceed on 9/5/2017, and was on-site commencing activities on 9/15/2017. Since the transition period, executive management has met with the CPTs, College Administration and District multiple times including bi-weekly updates meetings, risk presentations, Lessons Learned meetings, partnering sessions and roundtable meetings. The PMO executive management will continue these or similar efforts into the future.

Cost Estimating

As stated in the LACCD bond program *SOP*, the purpose of the project budget and cost management process is to define the process used by the District and PMO to facilitate and verify sufficient bond program funds are available to finish each project successfully, through the use of timely and accurate development and analysis of estimates, budgets, and cash flow projections.

During the reporting phase of our FY2016-17 performance audit, the PMO team was in the process of establishing new policies and procedures to formalize the cost estimating and budgeting process at each critical phase of the project lifecycle.

As part of this year's audit scope, we focused on compliance with established procedures regarding initial project estimating activities, as well as estimating activities through the Project lifecycle phases. While reviewing these procedures, we also considered how standardized estimating documents were established, sourced, and used, where applicable. Our review also included compliance with established procedures for change order estimates, including the procedure for reviewing and approving change order cost estimates, change order negotiations and change order packages.

As a result of our audit, we identified the following areas of improvement related to cost estimating that could further benefit the program going forward:

3. The governing policies and procedures document (SOP) for the estimating process is not adequately detailed and focuses primarily on cost management and budget development, rather than adequately defining the process for developing a project estimate. Additionally, there appear to be gaps in compliance with specific SOP sections. (Medium Priority)

Criteria: *Program Management Administration (PMA 05): Budget & Cost Management (Rev 5)*

Support from *Program Management Administration (PMA 05): Budget & Cost Management (Rev 5), Section 7.0 - Attachment 2 Project Estimate Worksheet, v.1, 6/29/2017* and *Program Management Administration (PMA 05): Budget & Cost Management (Rev 5), Section 4.3.*

(A) Leading practices in policies and procedures promulgated by leading industry organizations were reviewed and considered during this analysis. The District's SOP were compared against such leading practices as well as leading practices identified by KPMG, other organizations, and governmental agencies incorporated into KPMG's Controls Assessment Tool.

Included, but not limited to those leading practices are:

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

(B) *Program Management Administration (PMA 05): Budget & Cost Management (Rev 5), Section 4.3* identifies the PMO Program Controls lead as a potential facilitator for review of cost management and estimating procedures. The direct reference reads as follows:

"The PMO Program Controls Cost Lead is responsible for ensuring the standardized approach of cost management is communicated to the PMO Cost Analysts and CPT Cost Analysts and assists with auditing that procedures are being followed."

This is the first mention of a procedures audit and it is not clear who the intended audit leader would be, or the relative frequency of such procedure reviews.

Condition:

(A) The current cost estimating and project budgeting section of the SOP (*Program Management Administration (PMA 05): Budget & Cost Management (Rev 5)*) focuses primarily on cost and budget management practices throughout the project, while lacking specific details around estimate development and project estimating over the life of the project.

The document does not clearly identify at each project phase the estimating specific requirements nor does it indicate roles or responsibilities throughout each phase. In addition, the document does not promulgate the use of any standard estimating or approval templates or indicate the necessary

documentation and steps required for developing an adequate cost estimate at each project phase, including detailed requirements on documenting the estimator's assumptions and data sources so that the estimate can be validated.

The *SOP* state that baseline estimates (and all subsequent estimates) are validated by PMO estimators, but there is no detail of what this validation process entails.

The *SOP* do not include prevailing industry standard level of detail in the following areas, for example:

- **Historical costs tracking and application:** It is not clear how historical costs are tracked and leveraged for new project estimates. There are instructions within the *SOP* supporting the use of systems such as RS Means as well as historical data; however, the document does not elaborate on the source, application, or update frequency of such data points or documentation of assumptions
- ***SOP* dependencies:** Strong project estimates often involve close coordination with other project control processes such as risk management and schedule management. These dependencies are particularly important when determining project contingency. While the current *SOP* document identifies the need for coordination with project schedulers, there is limited detail around contingency development and key interactions with risk and schedule functions. Finally, there is limited discussion in the current *SOP* around necessary contingency levels and the unique calibrations that may occur for each project depending on scope, risk, and phase.
- **Estimate reviews and alignment:** While the current *SOP* document clearly describes the PMO estimator's role in reviewing and verifying baseline estimates, it is unclear how estimate variances are resolved through this review process. The estimating team indicated during interviews that alignment is reached through a constant comment and revision process with the architectural and engineering consultants. This appears to be an effective process for the team and should be reflected in the current *SOP* document. Additionally, there does not appear to be a set threshold for engagement of a third-party estimator.

We also noted that several types of forms were utilized in completing phase estimates, including the 2017 LACCD project estimating worksheet, the BuildLACCD-PMO estimate, a prior legacy project estimate worksheet (PEW) document, an initial budget projection tool, and various estimates produced by Architects and Engineers.

Variations in the estimates were observed most frequently in the pre-bid phases of the project development process.

- (B) In addition to alignment of the *SOP* document with industry standard levels of detail and description around key estimating processes, Section 4.3 includes an internal review process for ensuring compliance with *SOP* policies and procedures.

Prior to the audit period, there does not appear to have been a comprehensive review of internal estimating and cost management *SOP* procedure compliance. The *SOP* do not identify who the intended audit leader would be, or the relative frequency of such procedure compliance reviews.

Cause: The *Budgeting & Cost Management SOP* were identified by Jacobs at the beginning of the audit period as needing additional refinement and were still undergoing revision during the conclusion of our audit field work.

A limited definition of the internal review recurrence within the *SOP* requirement section (*Program Management Administration (PMA 05): Budget & Cost Management (Rev 5), Section 4.3*) may be

contributing to the lack of compliance and standardization of processes. The current *SOP* language appears to indicate the requirement for an internal compliance review of budget and cost management procedures, without providing detailed structure around execution of this audit requirement.

Leading practices promulgate internal review of compliance with *SOP* procedures be conducted on a recurring bases.

Effect: The lack of a fully developed phase estimating process in the *SOP* results in varying degrees of reliability among project cost estimates, as any actions and methodologies for cost estimating are ad-hoc rather than being consistently based on standardized practices. It is possible that estimates will be developed inefficiently and ineffectively, potentially also utilizing incorrect and/or outdated assumptions, containing errors and inconsistent input variables, and that estimates will not be comparable from one phase to the next.

In addition, without a standardized internal review process, consistent execution of key business processes may be at risk, potential improvements to the program may be missed and it may be difficult to monitor ongoing program processes and ensure adherence to standard policies and procedures, as well as monitoring alignment with industry practices and cost metrics.

Recommendation 3a: Jacobs should finalize its estimating *SOP* document to outline the estimate development roadmap and key integration points with standard templates, methodologies, team members, and stakeholders at all phases of a project. The PMO should also consider providing focused estimating procedures for all different project delivery methods.

Recommendation 3b: Jacobs should review most recent estimates in order to (i) gain comfort regarding accuracy of the estimates and (ii) consider converting estimates to Build standardized forms and maintain the standard format going forward.

Recommendation 3c: The PMO should update the *SOP* to clearly identify an internal audit frequency for an assessment of the cost and budget management procedures. This will help ensure that the project teams and PMO staff are maintaining control and accuracy throughout the estimate and cost management lifecycle.

Management Response 3a: The PMO is currently in the process of developing a new estimating *SOP*, which will include identifying and outlining estimating requirements, roles and responsibilities of project team members, the estimating templates and tools, development of estimates at various project phases and new estimating processes and procedures. As part of the estimating improvement efforts, the PMO has already developed and is utilizing standardized estimating tools to establish project budgets consistently at various phases throughout a project lifecycle. *SOP* will also include specific estimating processes and procedures for different delivery methods (i.e., Design-Bid-Build and Design-Build).

Management Response 3b: The PMO continues to review estimates for their accuracy and requires that the estimates are reviewed by all necessary parties. The PMO will reinforce the use of standardized forms in the Budget and Cost Management *SOP*, and further enforce through a “Form Announcement” to both the PMO and CPTs. We will continue to enforce their usage going forward.

Management Response 3c: The PMO is currently reviewing the estimating, budget and cost management procedures. The *SOP* will be updated to include internal review processes and procedures and frequency of subsequent reviews will be formalized and documented. A checklist will be developed and included in the *SOP* to enhance control and accuracy of estimating and cost management.

4. The bond program does not currently maintain a centralized cost source, such as a database, of relevant project cost information and unit rates. (Medium Priority)

Criteria: *Program Management Administration (PMA 05): Budget & Cost Management (Rev 5)*, and generally accepted industry best practices.

Condition: The PMO does not currently maintain a central source, such as a database, of direct project cost sources to be leveraged on project cost estimates. Estimators are instead manually referencing past bond program projects to compare unit costs and develop new cost estimates, if historical costs are referenced at all, in addition to utilizing the estimator’s own, personal approach to estimating.

The *SOP* states that estimates “sources such as RS Means, American Institute of Architects (AIA) Best Practices, and recent history.”

Cause: The current practice of estimating project costs based on the estimator’s personal experience and professional knowledge of the industry and market has been deemed sufficient by the PMO so far. The collection and tracking of historical program cost data has been a manual effort.

Effect: Without a centralized and standardized cost reference, the cost reference process remains subjective to the experience and knowledge of the estimator with a likelihood of variances and ambiguity. Estimates may be developed as efficiently as desired, had the estimators had access to a database of information rather than building a manual estimate from the ground-up each time.

Recommendation 4: Jacobs and the District should consider creating a centralized cost source to be referenced in the *SOP*, to help estimators efficiently identify comparable project types and cost categories, while also helping to ensure that the most accurate and representative unit costs are easily accessible. An example of this database would include the following:

- Historical unit costs from final project job cost reports
- Final contractor bid values
- Verified third-party estimate costs
- Verified web-based unit cost sources
- Market and industry standard percentages and costs

Jacobs and District should implement a review process to confirm or update any cost ranges that are sourced from industry benchmarks or historical data. As the market changes, fixed reference points within the estimate workbook templates should be reviewed on a recurring basis. The estimating team should consider maintaining complete and current records of all of these ranges.

Management Response 4: Currently the PMO uses the following cost sources: “R.S. Means Data” from Gordian, “Current Construction Costs” from Sierra West Publishing, “Manuals of Labor Units” from National Electrical Contractors Association, “Labor Estimating Manual” from Mechanical Contractors Association of America, “Construction Economics Data” from Engineering News Record, historical bond program architect/engineers estimates, and historical bond program contractor/design-builder bid values. We will evaluate the feasibility of collating this information into one single database. The results of the cost-benefit analysis will be reported and delivered to the District for their determination.

The PMO has a current review process to confirm or update any cost percent ranges that are sourced from industry benchmarks or historical data. However, we understand the need for consistency of sources of data estimators will be using. We will provide specific direction on which cost sources must be researched, and have the review process formalized and documented in the new estimating *SOP*.

5. Change order estimates were not consistently supported by the documentation required by the SOP. (Medium Priority)

Criteria: Section 7.8.14, Preparation and Approval of Change Orders, “*To obtain approval by the PMO and the District, the CPT will complete the following documents listed below with appropriate signatures for each CO/COP level,*” and;

Section 7.8.11, Change Order Estimating Procedures, “*Every effort must be taken by the CPT to provide an accurate estimate of the proposed change order values. These estimates will be prepared by an experienced estimator. Estimates of the costs for labor, material and equipment may be solicited from suppliers, rental companies/service companies...*”

Condition:

- The forms included in the *Change Order Proposals (COP)* and *Change Orders (CO)* were frequently outdated, and did not reflect the latest version issued by the PMO. In addition, contractor forms or forms not generated by the District were used. In some instances, the forms used by contractors were as much as eight years old. Of the 10 executed change orders we reviewed, seven samples included at least one outdated form in the COP supporting documentation. In all, we observed 33 instances of outdated forms being included in approved change orders.
- Labor rates used to generate change order proposal estimates were occasionally expired, or missing altogether from the change order proposal. Of the 10 executed change orders we reviewed, five samples included expired labor rates in at least one of the change order proposals included in the change order supporting documentation.
- Change order documents occasionally lack the necessary signatures for approval and execution. Of the 10 executed change orders sampled, seven contained at least one change order proposal which included a document that was not duly authorized. Overall, we observed 39 individual change order proposals that contained at least one document which lacked a necessary signature.
- Change order estimates less than \$5K were submitted without adequate supporting documentation for the *Fair Cost Estimate*. Of the 10 executed change order samples we reviewed, seven samples did not provide adequate cost detail for at least one change order proposal included in the overall change order package. In practice, the PMO estimators perform a *Fair Cost Estimate* for change order proposals less than \$5,000 when requested by the CPTs. The *SOP* do not specify a minimum threshold on the proposed amount of the COP for the review by PMO estimators.

Cause:

- In some change order estimates, CPTs or contractors did not use the updated forms posted on the bond program website, and instead used forms that were saved locally on their hard drives.
- PMO has not enforced the strict usage of the latest bond program documents.
- Recreating a document to achieve compliance may be viewed as unnecessary or duplicative.
- The estimating process is not adequately detailed in the *SOP*, and CPTs may not fully understand the information that is required to be included in an estimate.
- CPTs did not prepare cost estimates for changes less than \$5,000 although the *SOP* does not include this dollar threshold limit.
- CPTs are not aware that the rates for a specific union labor has expired or has been updated since the form was last prepared. Union rates change on an annual basis and the applicable period varies by union.
- Documents were submitted for approval during periods when a College Project Director (CPD) was not available to authorize the document. (The CPD left the program, but the documents were submitted without a signature, regardless.)

Effect: By using incorrect or outdated project forms and not including accurate information or obtaining all necessary approval signatures, this may lead to change orders that do not fully support the work or price contemplated.

Recommendation 5a: The PMO should reject any non-standardized forms for change orders.

Recommendation 5b: The PMO should issue updated labor rate calculation forms on an ongoing basis to reflect updated prevailing wage rates. To prevent variations in the calculation of the rates, CPTs should not be generating individual rate sheets for inclusion in the change order packages.

Recommendation 5c: The PMO should carefully review all proposed change orders from the CPTs and promptly reject all documents that lack appropriate signatures. The PMO should consider providing each CPT with a signature authority matrix which identifies interim authorities in the event that a designated signature authority is unavailable.

Management Response 5a: The PMO will establish revised procedures detailing the list of forms and their uses in the estimating SOP. The PMO will ensure that all necessary forms are included when Change Orders are routed by the CPTs to the PMO for review and approval, and reject those that are non-compliant.

QA/QC conducted an audit and will be sending out Non-conformity reports (if necessary) to reinforce proper form link usage, instead of CPTs/PMO relying on previously downloaded forms in local drives.

Management Response 5b: The PMO will update SOP to include Department of Industrial Relations (DIR) website link so CPTs can use latest labor rates. CPTs currently use the labor rates that were applicable at the time the work was performed.

Management Response 5c: College Project Directors are responsible for submission of complete Change Order Proposal (COP) packages with all appropriate signature and supporting documentation. The PMO will create a signature authority matrix to identify interim/alternate authority when designated authorities are unavailable. At the college level we will request that the College President delegate signature authority in case of his/her absence. Any COP packages submitted to the PMO for review and approval that do not comply will be corrected prior to processing.

APPENDIX A - SUMMARY OF OBSERVATIONS

N.	FY2017-18 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	Process Owner
PMO TRANSITION				
1	<p>Jacobs did not complete all contractual and PMO transition related deliverables on time, and some deliverables remain in-progress.</p> <p>(High Priority)</p>	<p>Effect: Based on the nature of a public bond program, any potential contract non-compliance presents a risk to the District. Intended deliverables and services outlined in the executed agreement with Jacobs may not align with what has been provided, or will be provided, as part of their services. Issues with timeliness may reflect poorly on the District, and gives the impression that adherence to published schedules is not a critical priority of the program. Discrepancies between the agreement and the services rendered to the District has also the potential for resulting in disagreements between the District and Jacobs at a later date.</p> <p>Recommendation 1a: The District and Jacobs should meet to discuss progress and performance to-date and memorialize all any departures from the current contractual obligations by Jacobs in a contract, amendment if required. A reconciliation of all expected deliverables and timelines should be performed to ensure that all contract commitments have been fulfilled and that no outstanding items remain.</p> <p>Recommendation 1b: The District should improve its managing and monitoring of Jacobs’ contractual responsibilities and deliverables. Potential shortfalls or anticipated delays in the schedule should be communicated as quickly as practical and resolved with Jacobs to avoid any compliance issues.</p>	<p><u>Management Response 1a:</u> We agree with KPMG that there are differences between the deliverables requested by the District in the RFP (Exhibit D) and what Jacobs proposed in its technical proposal.</p> <p>Per the contract, all those services described in Exhibit D and Exhibit H represent what Jacobs ultimately agreed to. Jacobs has met most of program management agreement deliverables contained within Exhibit “D” of the contract (deliverables requested per District RFP). The Jacobs technical proposal (Exhibit H) was proposed at 98M, including expense reimbursables, and deliverables. The final negotiated fee was 85.9M, including expense reimbursables. Section A of Exhibit D in the contract contemplates that in cases where there are differences between Exhibit D and the Jacobs technical proposal incorporated by reference in Exhibit H; the differences will be discussed between District and Program Manager to reconcile.</p> <p>The Jacobs Executive Team and the District will meet to discuss any differences between the Exhibit “D” deliverables and the Jacobs technical proposal. The PMO Quality Assurance/Quality Control and PMO Internal Audit have mapped and reconciled deliverables as a starting point for</p>	<p>BuildLACCD (PMO)</p> <p>District (1b)</p>

N.	FY2017-18 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	Process Owner
		<p>Recommendation 1c: Jacobs should assign resources specifically for the purpose of managing and monitoring deliverables and contractual obligations internally in order to maintain compliance with the program management agreement, in a similar capacity as the District’s compliance function. The District should, however, not rely on Jacobs’ representation of contract compliance.</p>	<p>these discussions. Of the 186 deliverables identified, four require clarification. Any agreement to clarify the contract deliverables will be memorialized.</p> <p><u>Management Response 1b:</u> The District has tasked a PMO Internal Audit firm and a PMO Special Program Manager to review and monitor contractual responsibilities, practices and deliverables. The District has also hired a Bond Program Monitor (approved by the Board of Trustees January 9, 2019) that will provide oversight of Bond activities and practices, to include contract compliance related issues. These individuals and the administrative function they represent will ensure that all aspects of the performance of the Jacobs contract will be reviewed and monitored.</p> <p><u>Management Response 1c:</u> Jacobs has assigned the PMO QA/QC Manager to internally monitor deliverables and contractual obligations. The District has assigned PMO Internal Auditor and a PMO Special Program Manager to validate Jacobs’ representation of contract compliance. This assures the District that all deliverables requested are being met.</p>	
COST ESTIMATING				
2	Concerns from the college project teams (CPTs) were not always	<p>Effect: Without an effective feedback loop from the CPTs and a process in place for vetting related concerns identified at the college level by the District or PMO, longstanding issues or challenges at the CPT level may remain, which</p>	<p><u>Management Response 2:</u> Jacobs agrees to document process related concerns reported by the CPTs and track how these concerns are addressed, resolved and communicated.</p>	BuildLACCD (PMO)

N.	FY2017-18 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	Process Owner
	<p>effectively captured, resolved and communicated.</p> <p>(Medium Priority)</p>	<p>may impact the overall efficiency and effectiveness of the day-to-day execution of the program.</p> <p>Recommendation 2: Going forward, appropriate consideration should be given to help ensure that feedback is gathered on a regular basis from process stakeholders at the CPT level and that it is used for improving program processes. Despite the transition period having already passed, Jacobs still has the opportunity to meet with the CPTs and identify areas for improvement. We recommend that Jacobs document process related concerns reported concerns reported by the CPTs and track how these concerns are addressed, resolved and communicated.</p>	<p>Immediately following Jacobs’ assumption of the Build-LACCD program, a college project team “All Hands” meeting was held. This meeting included all CPTs and introduced a new process to encourage suggestions, pain points, and improvement opportunities. PMO Executive Management introduced the new organization strategy to improve the speed and quality of communication between the PMO and the campuses. Three Regional Program directors (RPDs) were assigned three campuses each; the RPDs were a departure from the previous PMOs organization, and this required time for adjustment at the CPT level. The RPDs were responsible for immediate interfacing with the CPTs and for addressing or elevating concerns so the concerns could be addressed effectively. Improvements made at one campus could also be considered by other campuses which increased the speed of change. And the RPDs were charged with ensuring timely and effective two-way communication between campuses, PMO and District. An added benefit was that Jacobs personnel had been working at the college project team level in various campuses since 2003 and were familiar with the legacy issues and areas of improvements required. Our experience with the Program and our change in strategy facilitated a smooth transition and markedly increased communication and exchange of ideas between campuses, PMO and District. This resulted in not having an immediate need to directly interface and receive feedback from the college project teams, as it was not considered a top priority during the transition. This meeting informed</p>	

N.	FY2017-18 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	Process Owner
			<p>CPTs to offer their suggestions for improvement directly with their Regional Program Directors.</p> <p>Jacobs was issued the Notice to Proceed on 9/5/2017, and was on-site commencing activities on 9/15/2017. Since the transition period, executive management has met with the CPTs, College Administration and District multiple times including bi-weekly updates meetings, risk presentations, Lessons Learned meetings, partnering sessions and roundtable meetings. The PMO executive management will continue these or similar efforts into the future.</p>	
COST ESTIMATING				
3	<p>The governing policies and procedures document (SOP) for the estimating process is not adequately detailed and focuses primarily on cost management and budget development, rather than adequately defining the process for developing a project estimate.</p>	<p>Effect: The lack of a fully developed phase estimating process in the <i>SOP</i> results in varying degrees of reliability among project cost estimates, as any actions and methodologies for cost estimating are ad-hoc rather than being consistently based on standardized practices. It is possible that estimates will be developed inefficiently and ineffectively, potentially also utilizing incorrect and/or outdated assumptions, containing errors and inconsistent input variables, and that estimates will not be comparable from one phase to the next.</p> <p>In addition, without a standardized internal review process, consistent execution of key business processes may be at risk, potential improvements to the program may be missed and it may be difficult to monitor ongoing program processes and ensure adherence to standard policies and procedures, as well as monitoring alignment with industry practices and cost metrics.</p>	<p><u>Management Response 3a:</u> The PMO is currently in the process of developing a new estimating SOP, which will include identifying and outlining estimating requirements, roles and responsibilities of project team members, the estimating templates and tools, development of estimates at various project phases and new estimating processes and procedures. As part of the estimating improvement efforts, the PMO has already developed and is utilizing standardized estimating tools to establish project budgets consistently at various phases throughout a project lifecycle. SOP will also include specific estimating processes and procedures for different delivery methods (i.e. Design-Bid-Build and Design-Build).</p>	<p>BuildLACCD (PMO)</p>

N.	FY2017-18 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	Process Owner
	<p>Additionally, there appear to be gaps in compliance with specific SOP sections.</p> <p>(Medium Priority)</p>	<p>Recommendation 3a: Jacobs should finalize its estimating SOP document to outline the estimate development roadmap and key integration points with standard templates, methodologies, team members, and stakeholders at all phases of a project. The PMO should also consider providing focused estimating procedures for all different project delivery methods.</p> <p>Recommendation 3b: Jacobs should review most recent estimates in order to (i) gain comfort regarding accuracy of the estimates and (ii) consider converting estimates to Build standardized forms and maintain the standard format going forward.</p> <p>Recommendation 3c: The PMO should update the SOP to clearly identify an internal audit frequency for an assessment of the cost and budget management procedures. This will help ensure that the project teams and PMO staff are maintaining control and accuracy throughout the estimate and cost management lifecycle.</p>	<p><u>Management Response 3b:</u> The PMO continues to review estimates for their accuracy and requires that the estimates are reviewed by all necessary parties. The PMO will reinforce the use of standardized forms in the Budget and Cost Management SOP, and further enforce through a “Form Announcement” to both the PMO and CPTs. We will continue to enforce their usage going forward.</p> <p><u>Management Response 3c:</u> The PMO is currently reviewing the estimating, budget and cost management procedures. The SOP will be updated to include internal review processes and procedures and frequency of subsequent reviews will be formalized and documented. A checklist will be developed and included in the SOP to enhance control and accuracy of estimating and cost management.</p>	
COST ESTIMATING				
4	<p>The bond program does not currently maintain a centralized cost source, such as a database, of relevant project cost information and unit rates.</p> <p>(Medium Priority)</p>	<p>Effect: Without a centralized and standardized cost reference, the cost reference process remains subjective to the experience and knowledge of the estimator with a likelihood of variances and ambiguity. Estimates may be developed as efficiently as desired, had the estimators had access to a database of information rather than building a manual estimate from the ground-up each time.</p> <p>Recommendation 4: Jacobs and the District should consider creating a centralized cost source to be referenced in the SOP, to help estimators efficiently identify</p>	<p><u>Management Response 4:</u> Currently the PMO uses the following cost sources: “R.S Means Data” from Gordian, “Current Construction Costs” from Sierra West Publishing, “Manuals of Labor Units” from National Electrical Contractors Association, “Labor Estimating Manual” from Mechanical Contractors Association of America, “Construction Economics Data” from Engineering News Record, historical bond program architect/engineers estimates, and historical bond program contractor/design-builder bid values. We</p>	BuildLACCD (PMO)

N.	FY2017-18 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	Process Owner
		<p>comparable project types and cost categories, while also helping to ensure that the most accurate and representative unit costs are easily accessible.</p> <p>An example of this database would include the following:</p> <ul style="list-style-type: none"> • Historical unit costs from final project job cost reports • Final contractor bid values • Verified third-party estimate costs • Verified web-based unit cost sources • Market and industry standard percentages and costs <p>Jacobs and District should implement a review process to confirm or update any cost ranges that are sourced from industry benchmarks or historical data. As the market changes, fixed reference points within the estimate workbook templates should be reviewed on a recurring basis. The estimating team should consider maintaining complete and current records of all of these ranges.</p>	<p>will evaluate the feasibility of collating this information into one single database. The results of the cost-benefit analysis will be reported and delivered to the District for their determination.</p> <p>The PMO has a current review process to confirm or update any cost percent ranges that are sourced from industry benchmarks or historical data. However, we understand the need for consistency of sources of data estimators will be using. We will provide specific direction on which cost sources must be researched, and have the review process formalized and documented in the new estimating SOP.</p>	
COST ESTIMATING				
5	<p>Change order estimates were not consistently supported by the documentation required by the SOP.</p> <p>(Medium Priority)</p>	<p>Effect: By using incorrect or outdated project forms and not including accurate information or obtaining all necessary approval signatures, this may lead to change orders that do not fully support the work or price contemplated.</p> <p>Recommendation 5a: The PMO should reject any non-standardized forms for change orders.</p> <p>Recommendation 5b: The PMO should issue updated labor rate calculation forms on an ongoing basis to reflect updated prevailing wage rates. To prevent variations in the calculation of the rates, CPTs should not be generating individual rate sheets for inclusion in the change order packages.</p>	<p><u>Management Response 5a:</u> The PMO will establish revised procedures detailing the list of forms and their uses in the estimating SOP. The PMO will ensure that all necessary forms are included when Change Orders are routed by the CPTs to the PMO for review and approval, and reject those that are non-compliant.</p> <p>QA/QC conducted an audit and will be sending out Non-conformity reports (if necessary) to reinforce proper form link usage, instead of CPTs/PMO relying on previously downloaded forms in local drives.</p>	BuildLACCD (PMO)

N.	FY2017-18 Audit Observation	KPMG Effect/Recommendation	BuildLACCD Management Response	Process Owner
		<p>Recommendation 5c: The PMO should carefully review all proposed change orders from the CPTs and promptly reject all documents that lack appropriate signatures. The PMO should consider providing each CPT with a signature authority matrix which identifies interim authorities in the event that a designated signature authority is unavailable</p>	<p><u>Management Response 5b:</u> The PMO will update SOP to include Department of Industrial Relations (DIR) website link so CPTs can use latest labor rates. CPTs currently use the labor rates that were applicable at the time the work was performed.</p> <p><u>Management Response 5c:</u> College Project Directors are responsible for submission of complete Change Order Proposal (COP) packages with all appropriate signature and supporting documentation. The PMO will create a signature authority matrix to identify interim/alternate authority when designated authorities are unavailable. At the college level we will request that the College President delegate signature authority in case of his/her absence. Any COP packages submitted to the PMO for review and approval that do not comply will be corrected prior to processing.</p>	

APPENDIX B - LIST OF ACRONYMS

Acronym	Definition
AECOM	AECOM Technical Services, Inc.
AIA	American Institute of Architects
AICPA	American Institute of Certified Public Accountants
BOT or Board	Board of Trustees
BuildLACCD	Los Angeles Community College District Program Management Office, a blended program management team consisting of AECOM or Jacobs (after October 15, 2017), other consultants, and members of the District.
CO	Change Order
COI	Conflict of Interest
COP	Change Order Proposal
CII	Construction Industry Institute
CMA	Construction Management Association
CPD	College Project Director
CPT	College Project Team
DB	Design-Build
DBB	Design-Bid-Build
DocView	Document records and storage system maintained by Program Manager
EAC	Estimated Cost at Completion (for a project)
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
JACOBS	Program Manager or Jacobs Project Management Co.
KPI	Key Performance Indicators
KPMG	KPMG LLP
LACCD or District	Los Angeles Community College District
LLB	Lease-Leaseback
MATOC	Multiple Award Task Order Contracts
NOITA	Notice of Intent to Award
PEW	Project Estimate Worksheets
PMA	Program Management Administration
PMO	Program Manager or Program Management Office
PMI	Project Management Institute of America
PMIS	Program Management Information System
PQSP	Prequalified Service Provider
QA/QC	Quality Assurance/Quality Control
RPD	Regional Program Directors
RFQ	Request for Qualifications
RFP	Request for Proposal
SOP	Standard Operating Procedures Manual

APPENDIX C - SUMMARY AND STATUS OF 2016-17 OBSERVATIONS AND RECOMMENDATIONS

(Management’s response provided by BuildLACCD)

2016-2017 Observations and Recommendations	Management’s Response and Status
<p>1. <u>Baseline Budgeting/Forecasting</u></p> <ul style="list-style-type: none"> Project budget estimates, including changes to cost estimates and budget transfers, are not consistently documented and supported by the College Project Teams (CPTs). <p>Recommendation 1a: Build should increase PMO oversight of the CPT estimating process at set stages of projects where it is deemed that a higher risk of incorrect project cost estimates exist in order to avoid a large scale re-baselining efforts at a later date. Smaller, periodic adjustments to estimates is preferable.</p> <p>Recommendation 1b: All budget transfers should include a memorandum to fully explain the cause, purpose, justification and financial feasibility of the budget transfer. Additionally, the current “white paper” requirement should be incorporated with the <i>SOP</i>.</p>	<p><u>Management’s November 2018 Update:</u></p> <p>1a. Closed</p> <p>PMO established and enforced a process of monthly update of projects Estimates at Completion (EACs) by CPTs. The PMO also developed updated and standardized Initial Project Budget Project Tool (IPBPT) to improve accuracy and consistency of project cost estimate at the inception of a project. Budget and Cost Management SOP was updated in February 2018 including requirements of submittal of updated PMO estimate and Project Estimate Worksheet (PEW) at each key project milestones in the project lifecycle to improve the accuracy of cost estimating.</p> <p>1b. Closed</p> <p>Budget and Cost Management SOP was updated in February 2018 identifying white paper requirement for a budget transfer greater than or equal to \$250,000. Budget and Cost Management SOP was also updated to identify the requirement of memorandum for all budget transfers and the requirement of RPD’s approval. The budget transfers submitted to PMO will be rejected in the absence of supporting documentation.</p>

2. Invoice Management

- The current PMIS does not include adequate tracking of invoices, from receipt of invoice to payment.

Recommendation 2a: BuildLACCD should incorporate and track all invoice approval activities with the Invoice Approval Activity Log, starting with the receipt of invoice, in order to facilitate vendor payments on time in accordance with California contracting law and contractual obligations.

Recommendation 2b: The PMIS should be configured to provide frequent reminders to invoice approvers until the invoice is acted upon and advanced to the next stage of approval.

Management's September 2018 Update:

2a. Closed.

Additional controls were implemented in October 2017:

1) A daily "stuck in state" review is performed by the Finance Manager or designee, to identify invoices that haven't moved to the next stage of processing within one calendar week. Items found to be stuck in state are forwarded to the appropriate processing team to move it along.

2) A daily 30-day deadline review is performed by the Finance Manager or designee to identify the invoices that are getting close to the 30 day deadline for payment. If close (1-2 weeks depending on the stage), the Finance Manager forwards to the appropriate team member with a priority to process.

3) A monthly management review report of overall performance of invoice processing is prepared by the Finance Manager or designee. This report is shared with PMO leadership and the CFE.

2b. Closed.

3. Project Closeout

- The closeout process for several projects finished prior to April 2013 have not yet been completed and on a few occasions, project close-out requirements promulgated by the *SOP* are not met.

Recommendation 3a: The PMO should validate the master list of all projects that are in the closeout process or that were previously closed out so that it contains the same information found on the source document.

Recommendation 3b: The PMO should ensure that the CPTs complete required lessons learned for each project completed, utilizing forms specified within the *SOP*. Lessons learned should be documented contemporaneously and be completed in a timely fashion in order to capture essence of the lesson being documented. In addition to issues that may cause potential problems on a project, teams should also capture successes and the methods by which they were accomplished.

Recommendation 3c: The BuildLACCD program should revise the *SOP* to reflect that retention should be paid within 30 days of receipt of the retention invoice.

Recommendation 3d: The PMO should endeavor to review all legacy projects for completeness and accuracy in order to ensure that all contractual, procedural, and regulatory requirements related to project closeout are satisfied.

Management's September 2018 Update:

3a. Open.

PMO team after the turn over from AECOM to Jacobs have since started and completed the review and verification of recorded data (based on lookup of actual record documents / signed project forms). This verified data have also been submitted to PMO Controls for further validation, coordination and incorporation into the Program database. This is a work in progress and estimated to be completed by March 2019.

Target Completion: March 2019

3b. Closed.

PMO team had since issued revised SOP (SOP CP 2.0, Rev.2, dated 9/8/17) to reflect issuance of Lessons learned on monthly basis, the use of new Checklist and outline the reference to form CP-380 "Project Lesson Learned" which is due NLT 30 days after the project Final Notice of Completion.

3c. Closed.

The SOP adheres to release 100% of the balance of project retention less withholds at 150% of disputed items or withhold within 60 days of substantial completion. Per Current Statute, substantial completion is released within 60 days.

3d. Open.

The new closeout coordinator and additional supporting staff were hired to commence the work.

Target Completion: September 2019

4. Project Management Information System (PMIS)

- There is limited integration between the various PMIS platforms (SharePoint, Proliance, DocView, ProjectWise, P6), causing each program to operate largely independently.

Recommendation: The PMO should continue enhancing the PMIS by increasing the degree of connectivity between each platform. The PMIS should be capable of capturing and transferring all project-related information between each individual platform to ensure that a change in one key project area results in an update to all other platforms and teams.

Management's November 2018 Update:

4 No Further Action Required

The Data Warehouse serves as the center of consolidating information from the various applications that constitute PMIS- Proliance, Primavera P6 and Cost Point. Data Warehouse is used by Program Controls to capture all project-related information for reporting purposes. Any change from existing PMIS application will require significant Bond-funded investment by the District. No further actions required, unless the District determines change in application is necessary.

5. Risk Management

- Project risk registers are not always completed in accordance with the *SOP*.

Recommendation 5a: The CPT's and PMO should memorialize their monthly consideration of risk by updating the risk register on a monthly basis, even when there is no change to the risk register. Additionally, risk comments should be a required field of the risk register.

Recommendation 5b: The *SOP* should be updated to increase PMO oversight to projects of inherently higher risk to the program.

Management's September 2018 Update:

5a. Closed.

Risk Management Team (RMT) has conducted quarterly Risk Workshops with all CPTs and expressed the importance of monitoring and/or updating their respective risk registers on a monthly basis. There efforts could be confirmed by either editing the risk—which updates the “Modified Date” even when the risk has not changed—and/or adding the date and monthly update in the “Risk Comments” field of each risk register.

Risk Management *SOP* was also revised to reflect these procedures. Further, RMT sends notification emails on a monthly basis to each of the campuses (including the College Project Director, Regional Program Director, and necessary Risk Owners) reminding them to update their risk registers, providing them various monthly status reports, noting the number of risks that have not been updated in the past month, and notifying them of mitigation measures past due. (Supporting documents are available upon request).

5b. Closed.

RMT has and continues to inform Program Director and Deputy Program Director of high risk projects and/or top risks at weekly Senior Staff Meetings, Bond Program Update (BPU) meetings, and bi-weekly Legal Facilities Meetings (LFM). RMT also notifies the District, Lead Construction Counsel, and Office of General Counsel of projects of inherently higher risks at weekly BPU and bi-weekly LFM meetings. (Weekly meeting agendas are available upon request; some agendas may be confidential/privileged).

Further, RMT has and continues to generate and review monthly “Program Review Reports” to the District, which includes the Top 10 Red Risks and categorizes them by project. (Monthly Reports available upon request)

Risk Management *SOP* was revised to reflect the updates.

6. Change Orders

- *SOP* requirements related to the change order process are not always followed. Additionally, the *SOP* do not provide requirements for changes to Professional Service Master Agreements, Professional Service Task Orders for Specialized Services, and Professional Service Multiple Award Task Order Contracts for amendments to the agreements.

Recommendation 6a: The PMO should discuss the non-compliance issues identified by this audit with the CPTs as a “lessons learned” and establish a procedure to monitor CPT compliance with the requirements established by the *SOP* going forward.

Recommendation 6b: The District should update the *SOP* with a written procedure of current PMIS process flow for guidance on revisions or modification to Professional Service Master Agreements, Professional Service Task Orders for Specialized Services, and Professional Service Multiple Award Task Order Contracts (MATOCs).

Management’s September 2018 Update:

6a. Closed.

The PMO Regional Program Directors have communicated and will continue to communicate with the CPT teams to enforce adherence to the *SOPs*. This is an ongoing effort to continue enhancing the overall Program.

6b. Closed.

Revisions to the *SOP* have been made. See latest *SOP* for details.