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

Fiscal Year ended June 30, 2015

December 2015

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

December 9, 2015

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, 2015, based on our agreed upon work plan with LACCD. Our work was performed during the period of July 1, 2015 through the date of this report.

We conducted this Performance Audit in accordance with *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations based on the established audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations based on our audit objectives.

This Performance Audit did not constitute an audit of financial statements in accordance with *Government Auditing Standards* or *U.S. Generally Accepted Auditing Standards.* KPMG was not engaged to, and did not render an opinion on LACCD's internal controls over financial reporting or over financial management systems.

The report includes an executive summary, background, audit scope and methodology, audit results and recommendations, and list of acronyms, as well as appendices.

Based upon the audit procedures performed and the results obtained, we have met our audit objectives. 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 serving LACCD in the coming years.

Sincerely,

KPMG LLP

TABLE OF CONTENTS

EXECUTIVE SUMMARY

This Performance Audit was conducted in accordance with *Government Auditing Standards* (GAS) 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, 2015, was performed during the period of July 1, 2015 through the date of this report, with significant fieldwork concluded by September 25, 2015.

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.

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. The District's bond program expenditures for the fiscal year ended June 30, 2015, totaled $290,667,328.

As of June 30, 2015 the District reported in their *Dashboard Report* current program funding of $6,264,846,864, costs incurred of $4,566,611,519, estimated additional costs (i.e. costs to be incurred) of $1,551,574,465, resulting in remaining bond funds of $146,660,880 (which includes a program reserve of $140,000,000).

Scope

The scope for this year's Performance Audit included four areas of focus:

- Project budgets, including the process for estimating costs to complete
- Bond expenditures
- Project schedules, including the process for estimating substantial completion
- Centrally managed projects ("40 J accounts")

Our scope included identifying significant charges to the bond program that did not conform to the requirements of Proposition A, Proposition AA, and Measure J.

Summary of Observations

During this year's audit, we observed several substantial improvements to some of the bond program's key capital project delivery processes compared to what we found during previous years. In particular, improvements were noted in the areas of budget, estimating, cost reporting and scheduling. Although substantial improvements were noted, we identified areas where additional improvements can be made. Two medium priority opportunities and three low priority opportunities were identified. No opportunities for improvement were identified as high priority.

Scheduling Observations

1a. The Program's monthly Dashboard Reports contain some inaccuracies and exclude certain relevant scheduling information. (Medium)

1b. Internal scheduling documentation shows large variances between the District's estimated completion date for several construction projects and the actual completion date as contracted with the contractor. The variances cannot be easily reconciled and explained. (Medium)

1c. Campus and program schedulers do not have a standardized activity codes and activity relationships across the colleges. (Low)

Budget and Cost Observation

2. The District has not yet finalized budgets for its low-priority projects. (Low)

Project Expenditure Observation

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

Summary

Based on our audit, we did not identify any internal control deficiencies. We did not identify any significant[1] charges to the bond program that did not conform to the requirements of Proposition A, Proposition AA, and Measure J. However, based on our audit scope this year, we did identify five areas where improvements can be made.

---

[1] GAS 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 $6.2 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 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.

College Project Teams (CPT)

The CPTs for each college reports directly to AECOM and are responsible for performing services to oversee college master planning, environmental impact studies, programming, design, construction, close-out, and occupancy. The CPTs are also responsible for overseeing design consultants, contractors, and vendors. Under the AECOM program management agreement, all CPTs are contracted directly with the District but report to AECOM. This creates a centralized structure and establishes accountability by all of BuildLACCD. Prior to 2015, the CPTs were known as College Project Managers (CPMs).

District Expenditures

Total bond program expenditures subject to our audit for the fiscal year ended June 30, 2015 were $290,667,328 of which $5,163,243 were related to Proposition A, $7,915,762 were related to Proposition AA, and $277,588,323 were related to Measure J.

As of June 30, 2015 the District reported in their *Dashboard Report* current program funding of $6,264,846,864, costs incurred of $4,566,611,519, estimated additional costs (i.e. costs to be incurred) of $1,551,574,465, resulting in remaining bond funds of $146,660,880 (which includes a program reserve of $140,000,000).

We understand that the District became aware that certain IT bond expenditures that occurred prior to December 31, 2014 may not have been allowable at the time such expenditures were made. We understand that the District has evaluated the expenditures and we have performed no procedures in connection with such expenditures, as it was outside the scope of our engagement.

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, 2015. 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 *Government Auditing Standards* (GAS) 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, 2015, was performed during the period of July 1, 2015 through the date of this report, with significant fieldwork concluded by September 25, 2015.

Methodology

Government Auditing Standards (GAS), as promulgated by the Government Accountability Office (GAO), 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 GAS 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 four areas of focus:

- Project budgets, including the process for estimating costs to complete
- Bond expenditures
- Project schedules, including the process for estimating substantial completion
- Centrally managed projects ("40 J accounts")

Our scope included identifying significant charges to the bond program that did not conform to the requirements of Proposition A, Proposition AA, and Measure J.

Project Sample Selection

Based on the agreed upon work plan, a sample of fifteen (15) projects from all nine (9) colleges 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 collectively included expenditures from Proposition A, Proposition AA, and Measure J funds for the fiscal year ended June 30, 2015. Our selection of projects is included in Appendix A.

Performance Audit Plan

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

Project Budgets and Schedules (including process for estimating costs and schedule to complete)

Our objective of evaluating project budgets is to establish whether leading practices are followed related to project budgeting and cost estimating. In order to accomplish this objective, we documented and evaluated the estimated cost to complete (ETC) as well as scheduling reporting for fifteen projects from all nine campuses. Specifically, we performed the following procedures:

- Documented how the current project baseline is set and updated with respect to cost and schedule.
- Determined if project baseline budgets and schedules were established and updated throughout the design and construction process.
- Assessed cost estimating and cost control practices based on scope/design development and through the construction phase.
- Determined if independent cost estimating was performed in accordance with LACCD *Standard Operating Procedures (SOPs)* and other requirements.
- Evaluated how the ETC costs are calculated and estimated and how well they are supported by assumptions.
- Evaluated the types of formal reports, both internal and external, available for the bond program
- Evaluated the program's schedule reporting and schedule analysis, including variance reporting.

Bond Expenditure Testing (including testing of 40-J accounts)

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 selected a sample of FY2014/15 bond expenditures, including 40-J accounts transactions, 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 *Standard Operating Procedures (SOPs)*, California Public Contract Code, contract language, and published industry practices. We performed the following activities:

- Performed a walkthrough of the bond funds expenditure cycle and documented instances of internal control weaknesses or non-compliance with audit criteria.
- Reconciled bond funds with project expenditures.
- Assessed whether costs incurred were compliant with bond program criteria stated above.
- Evaluated expenditure reporting to the BOT and DCOC, which include *Dashboard* and audit reports.

- Documented instances where processes can be improved.

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 controls.
- 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).

AUDIT RESULTS AND RECOMMENDATIONS

Scheduling

Over the past four years, our Performance Audit results have indicated that the scheduling function was not performed with adequate District oversight and that schedule variance reporting was not conducted as expected. In addition, our audit results indicated that there was a lack of documentation to reconcile the original project schedule to the re-baseline schedule. Additionally, schedule delays were not always adequately supported or explained by underlying documentation, nor were they evaluated on a contemporaneous basis by BuildLACCD.

This year, we noted significant improvements in the District's scheduling process, although we still identified three areas where the District can continue to improve. Process changes implemented by BuildLACCD during the past year include enhanced policies and procedures (*Standard Operating Procedures*) and increased oversight and monitoring by BuildLACCD of campus prepared schedules. The District has also continued improving their efforts to evaluate scope and refine schedules of all its projects and prepared revised substantial completion and occupancy dates accordingly. Furthermore, BuildLACCD has started performing Earned Value Analysis (EVA) of cost loaded schedules. Earned Value Analysis (EVA) is an industry standard method of measuring a project's progress at any given point in time, forecasting its completion date and final cost, and analyzing variances in the schedule and budget as the project proceeds.

Following are the three areas identified where the District can continue to improve:

1a. <u>The Program's monthly *Dashboard Report*s contain some inaccuracies and exclude certain relevant scheduling information. (Medium)</u>

Criteria: A leading practice is to provide transparent, complete and accurate status update reports on the bond program to the public on a regular basis.

Condition: The District's *Dashboard Report* serves as the primary status report to the general public of the bond program's progress on individual capital projects. The *Dashboard Report* depicts variances in projected budgetary needs and variances from one month to the next, among other things. While reviewing this year's *Dashboard Reports* we noted the following:

- At the time of our audit, the *Dashboard Report* was being reformatted and as a result, it was not published for the month of July, 2015. Since this period is outside our period of audit, the new version of the *Dashboard Report* was not evaluated.
- The *Dashboard Report* does not contain any schedule variance reporting.
- The *Dashboard Report* does not report the date for substantial completion for projects, which is an industry standard construction milestone date.
- The *Dashboard Report* does not consistently reconcile reported data back to the referenced source documentation.

Although the *Dashboard Report* includes a line item for the schedule for each project, the report does not currently include or discuss schedule variances from previous month nor does it include the substantial completion date for each project. Substantial completion is the stage in the progress of the work when the work or designated portion thereof is sufficiently complete in accordance with the contract documents so that the District can occupy or utilize the work for its intended use[1].

---

[1] Definition of "Substantial Completion" from American Institute of Architects (AIA).

Our audit results also indicted that certain referenced source documentation did not reconcile to the information in the *Dashboard Report*. The milestone dates reported in the *Dashboard Reports* include Design Start, Notice-to-Proceed (NTP) Construction Start, and Occupancy/In-Use. The *Dashboard Report* references the source for this information to be the monthly *P3/P6 Schedule*[2] on a specific date, however we were unable to consistently verify this information. Based on our conversations with BuildLACCD, it appears the *Dashboard Report* reference is in error and needs to be corrected going forward.

Cause: The District has not emphasized schedule variance reporting in the *Dashboard Report* in the past. Additionally, the District has recognized that the *Dashboard Report* was in need of improvements at the time of our audit field work and has since been working on improvements.

Effect: Without inclusion of key reporting elements and performance indicators in the *Dashboard Report,* such as schedule variance reporting, the District does not report its progress in line with leading practices and is not providing full transparency of scheduling.

In order to provide better transparency to the public, it would be beneficial to include schedule variances in the *Dashboard Report* along with an explanation of the variance (which usually consists of a schedule extension or delay). It would also be beneficial to include the date of substantial completion for each project in the *Dashboard Report* as this date is identified in the construction contract and comprises a significant milestone in the construction process.

Recommendation 1a: The District should update their monthly *Dashboard* reporting practices to include schedule variances, substantial completion dates, and correct reference to source documentation.

Management Response: Management agrees with the observation in general. Management is in the process of implementing schedule variance reporting and incorporating substantial completion dates into the monthly *Dashboard* report.

In addition, it was recognized that under the prior decentralized structure scheduling activity codes may have been consistent within colleges but in some cases differed across the program. Management has implemented uniform codes across the program and is in the process of ensuring that these are being applied at all colleges. The new standard uniform coding structure being implemented will address any prior challenges with any perceived inaccuracies between Dashboard reports and underlying supporting documentation.

1b. Internal scheduling documentation indicates large variances between the District's estimated completion dates for several construction projects and the actual completion date as contracted with the contractor. The variances cannot be easily reconciled and explained. (Medium)

Criteria:

LACCD's Standard Operating Procedures 6 Schedule Management – Section 5.0 Reporting states:

> *"A variance report will be prepared by each CPD each month, including a listing of all projects which have been delayed by more than 30 days as compared to the initial Master Schedule baseline. The variance report template is an internal document stored on the Program Controls shared drive. The narrative will include the number of days delayed, the reason/root cause for the delay (such as an error or omission in contract documents, unforeseen conditions, code changes, etc.), the impact on construction and occupancy of the building, and a recovery plan. In addition, these variance*

---

[2] P3/P6, Primavera Scheduling, is a software program commonly utilized in the construction industry.

reports will contain supporting documents and electronic files to support and monitor schedule changes such as slippage or cost over- and under-runs."

Condition: Although project variances are prepared by individual colleges, reviewed by the Program Manager and compiled by BuildLACCD internally, it is not possible based on current reporting practices to always determine the composition of an existing schedule variance on a project. The existing schedule variance for purposes of this discussion measures the variance from the internally projected completion date and the contractually established completion date, the latter which includes schedule extensions granted by change orders. In other words, it compares what may happen based on outstanding exposures to what the construction contract currently states. There is no mechanism in place to track historical changes in order to understand each individual root cause or event that affected the schedule, at what point in time the change occurred, and by how many days the event affected the schedule.

Cause: While budgets can be tacked on a line item basis, schedules cannot. Many events can contribute to changing the critical path of the schedule and resulting in a delay. Currently, several projects show significant schedule variances and it is not possible to conclude how many days are attributable to what root cause.

Effect: As a result of not knowing what cause can be attributed to specific delay days, it is not possible to analyze the variance and know what caused the projected delays or provide adequate transparency to the public. In order to minimize costs for delays, it is critical to utilize a sound scheduling system that withstands analysis and supports underlying logic.

> **Recommendation 1b: The District should start tracking individual line item schedule changes on a monthly basis for purposes of conducting their own internal schedule variance analysis.**

Management Response: Management agrees with the observation in general. Management performs analyses of project delays across all colleges. Management has consistently enhanced the scheduling process via comprehensive project meetings, Earned Value Analyses, and Time Impact Analyses. These practices collectively are sufficient to understand variances at the line item level as warranted. In addition, the relevant SOP has been enhanced accordingly.

1c. Campus and program schedulers do not utilize a standardized activity codes and activity relationships across the colleges. (Low)

Criteria: The scheduling software utilized by LACCD (Oracle Primavera P6) provides the capability to setup and assign activity codes to activities on the District's construction projects. Activity codes are used to classify, categorize, and organize activities based on individual projects and the District's scheduling reporting needs. A set of standardized activity codes will help facilitate a more efficient schedule creation and subsequent analysis. There are common codes utilized by industry that can be further developed to fit the needs of LACCD and augmented going forward. However, it would be beneficial for the District if activity codes were created centrally.

Condition: At the time of our audit, the activity codes differed between projects and campuses and had not yet been standardized across the program. The Program Scheduler agreed that this is a needed improvement in order to make scheduling more efficient and effective.

Cause: Up until this point, the PM has allowed each campus to set-up and assign its own activity codes and activity relationships for each project.

Effect: Non-standardized activity code makes it difficult to prepare, analyze and compare schedules.

Recommendation 1c: The District should create and implement uniform scheduling activity codes for project scheduling purposes.

Management Response: It was recognized that under the prior decentralized structure scheduling activity codes may have been consistent within colleges but in some cases differed across the program. Management has implemented uniform codes across the program and is in the process of ensuring that these are being applied at all colleges. With the new centralized model a standard uniform coding structure is deemed to be a better industry practice.

Budget and Costs

4. <u>At the time of our audit field work, the District had not yet prepared a revised project budget baseline for low priority projects. (Low)</u>

Previous Performance Audit results have indicated that the District lacked formal, standard operating procedures for estimating project costs, including a process for estimating future costs to be incurred based on remaining scope. Our prior audits also indicated, based on our sampling, that project budgets and cost projections were not adequately supported by underlying documentation and assumptions. As a result, in past years, we were not able to conclude that the District's budgeting process was effective, efficient, or in line with leading practices, nor were we able to conclude that remaining bond funds appeared sufficient to complete the projects as approved by the Board. Last year, we identified this as a deficiency in internal control over the process of estimating project costs.

This year, we noted significant improvements in the District's budget and cost estimating practices. Process changes implemented by BuildLACCD during the year include enhanced policies and procedures (*Standard Operating Procedures*), a uniform and standardized process for preparing budgets and cost estimates, and adequate supporting documentation and assumption for budget line items and cost estimates, based on our sampling and test results.

The District has over the past year continued their effort to evaluate scope and refine budgets of all its projects and prepared revised project budget baselines, based on our prior recommendations. Estimated additional costs for projects have been aligned with remaining project scope as well as remaining available funds. Adjustments have been made to individual project budgets as necessary. Projects have also been re-prioritized based on measurable metrics and projects across multiple campuses similar in nature have been bundled in order to facilitate more cost effective project delivery. In short, the District has created a meaningful process to measure and report project costs incurred, remaining bond funds, and estimated additional costs to complete the remaining scope of the program.

Another significant improvement is the monthly campus meetings the District conducts. These monthly in-person budget and scheduling meetings are held between BuildLACCD personnel and the individual campuses in order to thoroughly evaluate incurred costs, remaining scope and remaining budget. This is particularly helpful as project scoping and budgeting is a continuous process as design is refined, changes occur, and construction progresses. This type of centralized oversight and monitoring was not in place during prior years. We believe this practice also has contributed to a more efficient and effective budgeting process.

Criteria: Leading practices and the bond program's *Strategic Execution Plan* establishes that all program projects will be re-baselined with respect to budget and schedule and prioritized in order of importance.

Condition: Our one observation relates to the District's evaluation of budget base lining of low priority projects, which remained outstanding at the time of our audit. It is the District's intent to finalize re-baselining of the budgets for lower prioritized projects.

Cause: We realize that the scope of lower prioritized projects may be deferred if budget overages occur on higher priority projects, or they may not happen at all. Constant changes in scope impact budget and schedule. However, as lower prioritized projects remain, their budgets should also be re-baselined.

Effect: Without re-baselining the budgets of lower priority projects, the program has not established their best estimate of costs to complete the program as a whole.

Recommendation 2: The District should complete the revised project baseline effort for all projects.

Management Response: Management is continually working with the District and the individual colleges to finalize their baseline budgets and related project priorities.

Expenditures

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

Prior Performance Audit results have indicated that that certain invoices related to bond expenditures did not comply with contractual terms and conditions and/or did not contain adequate supporting documentation to support the charges. Shortcomings have included missing required forms and signatures; incorrectly calculated invoice amounts; and expenditures that were not compliant with certain terms and conditions of the governing contract. Our audit findings have been minor in nature and have not resulted in significant overbillings to the District.

This year, our findings are insignificant, however the District would still benefit from making adjustments to certain contractual clauses or invoice practices. Specifically, we identified the following opportunities for improvement:

Condition:

- One invoice in the amount of $121,274 included $57,138 for personnel, sub-consultant and hourly rates that were not identified in the contract or through prior written approval by District, as required by the contract. The Program Management Office (PMO) was not able to provide prior written approval by District authorizing one key personnel or the sub-consultant and the rates.

- 19 invoices in the amount of $ $2,754,855 did not include conditional or unconditional waivers as required by the contract terms. According to the District, waivers are not required for professional services and do not apply. However, this should be reflected in the contract.

- One invoice included a reimbursable expense for mileage which exceeds the allowable amount per month (insignificant).

- One invoice included expenses incurred in prior periods (between one to three years prior to invoice date). The contract specifies "earned during the preceding thirty (30) day period (insignificant).

Cause: Some of the contractual requirements do not apply and therefore were not enforced by the project team, while other invoicing requirements have been overlooked.

Effect: Without having proper terms and conditions included with its contract terms and also without following them, the District may be subject to overcharges.

> **Recommendation 3: The District should ensure appropriate contract terms related to contractor and vendor billings are executed and subsequently followed.**

Management Response: Management acknowledges that the findings are insignificant; however, management will continue to look for enhancement opportunities related to invoice practices and contract compliance.

LIST OF ACRONYMS

Acronym	Definition
AECOM	Program Manager or AECOM Technical Services, Inc. (Program Manager as of April 2013)
AIA	American Institute of Architects
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
CPD	College Project Director
CPM	College Project Manager
CPT	College Project Team
DCOC	District Citizens' Oversight Committee
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	Estimated Cost at Completion (for a project)
ETC	Estimated Cost to Complete (a project)
GAS	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
PM or PMO	Program Manager or Program Management Office, a role filled by AECOM
PMI	Program Management Institute
PMP	Program Management Plan
QA/QC	Quality Assurance/Quality Control
RFP	Request for Proposal
SOP	Standard Operating Procedures Manual
Touchpoints	Program Touchpoints Handbook
UII	Universal Inquiry Interface
URS	URS Corporation (Program Manager from March 2007 to April 2013)

APPENDIX A − LIST OF PROJECTS

College	Project ID	Project Name	Status
LACC	01C-108	Da Vinci Hall Modernization	In Design
LACC	01C-134	Student Services Center	In Construction
LACC	01C-146	Physical Plant (M&O) Building	In Construction
ELAC	02E-218	Academic Network Integrated Backbone	In Construction
ELAC	02E-231	Campus Student Center/Book Store Complex	In Construction
LAHC	03H-350.03	Infrastructure/Land & Hardscape/Security	In Construction
LAMC	04M-421	Campus Demand Side Management	In Design
PC	05P-502	Life Science, Chemistry, Physics Building Renovation	In Construction
PC	05P-537	Stadium ADA Improvements	In Construction
LASC	06S-618	School of Math & Sciences (Lecture Lab)	In Design
LATTC	07T-701	South Campus	In Construction
LATTC	07T-702	Learning Resources Center	In Construction
LAVC	08V-801	Media and Performing Arts Center	In Design
LAVC	08V-837	Athletic Training Facility-Baseball Stadium Bleacher	In Construction
WLAC	09W-953	Central Plant Phase 1 & 2	In Design

APPENDIX B – SUMMARY OF MANAGEMENT'S PLANS
(Improvements reported by BuildLACCD, and not subject to audit)[3]

The current PM has continued many initiatives to improve the bond program under its current 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 audited by KPMG:

Program Improvements:

- Average major procurement tender time is 116 days;

    – 3.3% improvement from 120 days reported in April 2015

    – 37.3% improvement from 185 day average pre-April 2013

- Zero protests filed in 2015;

- Division of the State Architect (DSA) closeout bin time reduced by 50% Since 2014

- 21% Reduction in Projects Closed w/out Certification Since 2014;

- 10 *Standard Operating Procedures (SOPs)* created or refreshed;

- Over 200 Bond Program forms reviewed and/or refreshed for enhanced efficiencies;

- Budgeting process more structured and enforces enhanced discipline;

- Standard budgeting templates for better estimated additional cost (EAC) reporting and uniform reporting across the program including quantifying potential risks;

- Monthly financial accounting quality assurance/quality control (QA/QC) analyses (internal audit) performed at a granular level (general ledger code, project coding, period of performance for invoices, prepaid expenditures) for 100% of expenditures;

- Enhanced training to CPT staff on accounting principles and fiscal year-end accrual process.

---

[3] KPMG did not audit these "leading practices" against PM represented performance criteria.

APPENDIX C - SUMMARY AND STATUS OF 2013-14 OBSERVATIONS AND RECOMMENDATIONS
(Management's response provided by BuildLACCD)

2013-2014 Observations and Recommendations	Management's Response and Status
Cost Estimating Process 1. The District should require that the Program Manager be more rigorous in its review and monitoring of all project estimates at each campus throughout the year as entered and reported in the monthly Dashboard report, and keep records of such review. This would include the estimated costs and associated source documentation and calculations related to claims, quotes, contracts, price sheet hourly rates, rental rates, etc. and/or a memo documenting the assumptions, logic, justification and analysis performed to support the estimated costs. 2. The Program Manager should update SOPs section 4.2.2 to include the definition of the estimate to complete (ETC), the components of EAC, the supporting documents required to be maintained for ETC and the internal reports used in the monthly Dashboard process. It should also clearly define the roles and responsibilities of the CPM and the Program Manager-Program Controls team for the cost estimating process, and provide proper training to those individuals.	**Management's October 2015 Update:** Closed

2013-2014 Observations and Recommendations	Management's Response and Status
Standard Operating Procedures 1. The Program Manager should update SOPs section 4.2.2 to include the definition of the estimate to complete (ETC), the components of estimate at completion (EAC), the supporting documents required to be maintained for ETC and the internal reports used in the monthly Dashboard process. It should also clearly define the roles and responsibilities of the CPM and the Program Manager-Program Controls team for the cost estimating process, and provide proper training to those individuals. 2. The PMO should consider incorporating key elements of leading policies and procedures as described herein into the SOPs. 3. The Program Manager should provide training to the CPMs and Program Controls team on the ETC process, once process has been established and added to SOP's.	**Management's October 2015 Update:** Closed

2013-2014 Observations and Recommendations	Management's Response and Status
Field Orders 1. LACCD should require CPMs and colleges to follow the field order process and enforce this requirement. CPMs who do not adhere to the required process should be evaluated accordingly.	**Management's October 2015 Update:** Closed. **Status** Not included in current year scope of procedures.
Change Order Markup 1. The Program Manager should review and modify SOP, as appropriate, to ensure that the forms required in a change order submittal are meaningful and necessary to support the change order. In addition, the SOP should be modified to allow Contractor and CPM equivalent forms for Change Order Pricing Sheet Form CP-0280, Change Order Estimate Summary Sheet Form CP-0290, and CPM Estimate Pricing Sheet Form CP-0300.	**Management's October 2015 Update:** Closed. **Status** Not included in current year scope of procedures.

2013-2014 Observations and Recommendations	Management's Response and Status
Change Order Forms and Support 1. Change orders were not consistently submitted with required forms or sufficient detail. In addition, the change order procedure as currently written, requires the use of prescribed forms where a contractor equivalent may suffice	**Management's October 2015 Update:** Closed. **Status** Not included in current year scope of procedures.

APPENDIX D - SUMMARY AND STATUS OF 2012-13 OBSERVATIONS AND RECOMMENDATIONS

(Management's response provided by BuildLACCD)

2012-2013 Observations and Recommendations	Management's Response and Status
1. Budgets and Budget Transfers 1-A: LACCD should develop a procedure related to when and how to re-baseline project budgets. 1-B: 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: 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's October 2015 Update:** Closed.

2012-2013 Observations and Recommendations	Management's Response and Status
2. **Project Close-Out** 2-A: 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: 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: 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's October 2015 Update:** Closed. **Status** **Not included in current year scope of procedures.**

2012-2013 Observations and Recommendations	Management's Response and Status
2-D: 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: 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: The PM should require that the CPM maintain project close-out files according to the MFIL. 2-G: The CPM should update incorrect MFIL references noted on the Project Close-Out Checklist prior to submitting to the PM/District. 2-H: CPMs should review the project files and identify missing documents to be added for document retention. 2-I: The PM should conduct periodic audits of project close-out files for compliance with the MFIL and to ensure required documents are being retained. 2-J: 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: 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: The PM should focus on resolving Projects that are closed without DSA certification as tracked by the Design Liaison and DSA team. 2-M: LACCD should consider making DSA certification a requirement for final payment for its Architects and other consultants, as applicable.	**Management's October 2015 Update:** Closed **Status** **Not included in current year scope of procedures.**

2012-2013 Observations and Recommendations	Management's Response and Status
3. Project Schedule Delays **3-A:** 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's October 2015 Update:** Closed **Status (KPMG):** **Although a centralized function has been implemented, KPMG noted areas of improvements with respect to scheduling.**
4. Change Orders 4-A: LACCD should require CPMs and colleges to follow the field order process and enforce this requirement. 4-B: 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: 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's October 2015 Update:** Closed. **Status (KPMG):** **Not included in current year scope of procedures.**

2012-2013 Observations and Recommendations	Management's Response and Status
1. Invoices 5-A: 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. 5-B: The PM should conduct periodic contract compliance audits of vendors' contractually auditable rates, reimbursable expenses, and allowable costs of work.	**Management's October 2014 Update:** Closed. **Status (KPMG):** **Low priority observation related to invoices repeated in accompanying report for year ended June 30, 2015.**

APPENDIX E - SUMMARY AND STATUS OF 2011-12 (Open Recommendations as of September 2013)
(status representations made by BuildLACCD)

2011-2012 Observations and Recommendations	Management's Response and Status
1. Budgeting and Cost Estimating **1-B:** BuildLACCD should further develop the *Touchpoints* requirements to include sufficient process descriptions for each step in the budget management process, including: a. Budget Establishment – Develop a requirement for the PM to retain all supporting documentation submitted in support of the methods and assumptions used by the CPMs. 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.	**Management's October 2015 Update:** Closed

2011-2012 Observations and Recommendations	Management's Response and Status

3. Close-Out
 	
 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 *Touchpoints*:
 	
 • Use a separate project *Close-Out Checklist* 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:
 	
   o Identification of the party responsible for each item
 	
   o Identification of the process involved and document required /created with each item
 	
   o Columns for the following information:
 	
     ▪ Date process/ document initiated and completed
 	
     ▪ Initials of person responsible for completing process
 	
     ▪ Initials of person accepting/ approving the process and documentation
 	
     ▪ Document name and location
 	
 It appears that the December 2012 *Touchpoints* was revised to include more detail regarding the 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 *Close-Out Checklist* still needs to be revised to follow suit.
 	
 3-B: BuildLACCD should consider conducting periodic audits of project close-out documentation to ensure compliance with *Touchpoints*.
 	
 3-C: BuildLACCD should consider close-out status report updates from the CPMs for applicable projects.
	<u>Management's October 2015 Update:</u>
	
	 Closed
	
	 Status
	
	 Not included in current year scope of procedures.

APPENDIX F - SUMMARY AND STATUS OF 2010-11 OBSERVATIONS (Open Recommendations as of September 2013)
(status representations made by BuildLACCD)

2010-2011 Observations and Recommendations	Management's Response and Status
2. Close-Out **6-A:** LACCD should update the *Project Close-Out Checklist* to better reflect college project filing structures. LACCD should include a narrative explanation of requirements to satisfy completion of each item in the *Project Close- out Checklist*, including completion of a process. **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.	**Management's October 2015 Update:** Closed **Status** **Not included in current year scope of procedures.**