



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

Fiscal Year ended June 30, 2014

December 2014

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December 3, 2014

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, 2014, based on our agreed upon work plan with LACCD. Our work was performed during the period of May 19, 2014 through the date of this report.

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

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

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

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EXECUTIVE SUMMARY

This Performance Audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and as a requirement for construction bond programs under California Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act* (Proposition 39). Our work for the year ended June 30, 2014, was performed during the period of May 19, 2014 through the date of this report, with significant fieldwork concluded by September 19, 2014.

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, 2014, totaled \$274,087,768.

Scope

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

- Cost estimating process for projects in construction
- Cost estimating process for projects not yet in construction
- *Strategic Execution Plan*
- Bond expenditures
- Change orders

We performed our procedures related to the following projects and campuses:

- Los Angeles City College (LACC or City) – Clausen Hall Modernization
- Los Angeles Harbor College (LAHC or Harbor) – Theater Drama Speech Building
- Los Angeles Mission College (LAMC or Mission) – Media Arts Building
- Los Angeles Southwest College (LASC or Southwest) – School of Career and Technical Education
- West Los Angeles College (WLAC or West) – Campus Improvement – Street Improvements Lower Fire Service Road
- East Los Angeles College (ELAC or East) – School of Career and Technical Education

Additional campuses and projects were included with our change order and Estimated Costs at Completion (EAC) testing in order to get a broader view of the performance of the Program as a whole.

Summary of Observations

Cost estimating process for Projects in Construction (Estimates to Complete) and for Projects not yet in Construction (Estimates at Completion)

A standard practice in managing construction costs is to have a robust estimating process for projects, both at the beginning of a project and throughout its life cycle. Such a process should be documented and detailed and include, at a minimum: instructions on what should be considered in the preparation of estimates; timing of preparation and revisiting of estimates; the process for documenting changes in the estimated project costs; the individuals responsible for preparing the estimates; available training; the independent review process; and, maintenance of a log of all projects, costs and last review date.

In performance of our Performance Audit procedures, we noted that a formal documented process for estimating project costs was not available. Additionally, management had difficulty providing us with timely documented estimated project costs that were accurate and complete and had been reviewed by someone other than the preparer. This is a repeat observation.

The District's service provider continues to prepare and enhance *Standard Operating Procedures* (SOPs) that are intended to provide best practices in managing bond funds to both the Program management and Campus management staff. However, we note that the completed SOPs are general in nature, and don't include detailed enough information that could lead to success in areas such as scheduling and estimating project costs, as discussed above.

We determined this to be a deficiency in internal control over the process of estimating project costs.

Project Change Orders

Project change orders do not consistently contain adequate supporting documentation and/or are not always executed in accordance with District requirements. This is a repeat observation, however, as described more fully in a later section of this report, we noted improvement in the change order process when compared to the prior year.

Bond Expenditures

No findings reported.

Strategic Execution Plan

No findings reported.

Summary

Based on our audit, we identified an internal control deficiency related to the documentation and reporting of estimated project costs, which is significant within the context of the audit objectives, and a finding in the area of change orders, where we noted improvement over the prior year. We reported no findings in the areas of bond expenditures and the *Strategic Execution Plan* (SEP).

We did not identify any significant¹ charges to the bond program that did not conform to the requirements of Proposition A, Proposition AA, and Measure J.

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

BACKGROUND

In November 2000, the California legislature passed Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act* of the State of California, which amended provisions to the *California Constitution (Article XIII)* and the *California Education Code (Section 15272)* to include accountability measures for bond programs. Specifically, the District must conduct an annual, independent Performance Audit of its construction bond program to ensure that funds have been expended only on the specific projects listed.

The District bond program is funded by Proposition A, Proposition AA, and Measure J, which were approved by voters in 2001, 2003, and 2008, respectively. The total authorized bond fund dollars are \$5.725 billion and are designated for capital improvements for the renovation and replacement of aging facilities, and for the construction of new facilities.

BuildLACCD

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

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

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

Program Manager

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

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

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

AECOM and its team of professionals are responsible for managing a major portion of the Program-related activities, including maintenance of the master schedule and the master program budget. AECOM, however, does not oversee other functional areas within BuildLACCD such as IT projects, financial management of bond proceeds, and construction inspections. The Chief Facilities Executive (formerly Executive Director of Facilities Planning and Development) oversees the AECOM team. The current program management services contract between the District and AECOM began on April 4, 2013 and expires on April 3, 2018.

College Project Management

The CPM for each college reports directly to AECOM and are responsible for performing services to oversee college master planning, environmental impact studies, programming, design, construction, close-out, and occupancy. The CPMs are also responsible for overseeing design consultants, contractors, and vendors. Under the AECOM program management agreement, all CPMs are contracted directly with the District but report to AECOM. This creates a centralized structure and establishes accountability by all of BuildLACCD. Additionally, CPMs have undergone organizational changes in an effort by BuildLACCD to right-size the CPM team at each campus location.

District Expenditures

Total bond program expenditures subject to our audit for the fiscal year ended June 30, 2014 were \$274,087,768 of which \$4,708,633 were related to Proposition A, \$19,952,182 were related to Proposition AA, and \$249,426,953 were related to Measure J.

AUDIT SCOPE AND METHODOLOGY

KPMG LLP (KPMG) was engaged to provide the annual bond program Performance Audits under a single agreement covering a three-year period, beginning with the fiscal year ended June 30, 2014. This Performance Audit encompasses the District construction bond program and does not include the District's business operations, administration, or management of any projects outside of the bond program. In addition, KPMG's work under this engagement did not include providing technical opinions related to engineering, design, and facility operations and maintenance.

Methodology

We conducted this Performance Audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) as promulgated by the Government Accountability Office (GAO). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our comments and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our comments and conclusions based on the audit objectives. As such, we followed the requirements of GAGAS and the District with respect to our methodology, which included the following elements:

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

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

Project Sample Selection

Based on the agreed upon work plan, a sample of six projects from six 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 included expenditures from Proposition A, Proposition AA, and Measure J funds for the fiscal year ended June 30, 2014. Our selection of projects included:

- Clausen Hall Modernization at Los Angeles City College (LACC or City);
- Theater Drama Speech Building at Los Angeles Harbor College (LAHC or Harbor);
- Media Arts Building at Los Angeles Mission College (LAMC or Mission);
- School of Career and Technical Education at Los Angeles Southwest College (LASC or Southwest);
- Street Improvements Lower Fire Service Road – Campus Improvement at West Los Angeles College (WLAC or West); and
- School of Career and Technical Education – East Los Angeles College (ELAC or East).

Performance Audit Plan

Bond Oversight, Management and Reporting Evaluation

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

In order to accomplish this objective, we documented and evaluated the estimated cost to complete (ETC) for five projects from five campuses, including LACC, LAHC, LAMC, LASC, and WLAC. Specifically we:

- Documented how the current project baseline is set and updated in regards to cost
- Evaluated how the ETC costs are calculated, estimated and how well they are supported by assumptions.

We evaluated the types of formal reports, both internal and external, that are available for the bond program, and determined their compliance with bond oversight and management requirements including Proposition 39, Cost Principles, *Touchpoints*, *Standard Operating Procedures*, and other requirements, such as:

- Facilities Master Plan and Board Approved Project List
- Limits of use specified in bond issuance package (Bond official statement project list)
- District Citizens' Oversight Committee (DCOC)
- Annual Performance Audits completion and reporting
- Annual financial audits completion and reporting

Bond Expenditure Cycle Testing

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

Specifically, we performed the following procedures:

We selected a sample of FY2013/14 bond expenditures and reviewed supporting documentation to validate the performance of bond program funds expended and measure against bond program criteria. Such criteria include the requirements of Proposition 39, LACCD *Cost Principles*, and other Performance Audit criteria, such as those set forth in and by Proposition 39, *Cost Principles*, the Project Management Manual, LACCD Program *Touchpoints* Handbook, California Public Contract Code, contract language, and published industry practices. 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.

Campus Construction Bond Fund and Project Management Evaluation

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

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

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

- Compared Campus capital expenditures with LACCD expenditures accounting and funding source, if a separate system or file exists, to identify discrepancies, if any.
- Compared project budget and scope to current authorized budget and scope and allowable purposes under Proposition 39.
- Evaluated expenditure 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).
- We evaluated control/budgeting systems for FY2013/14 by performing the following procedures:
 - Determined if project baseline budgets were established and updated throughout the design and construction process.
 - Determined if independent cost estimating was performed in accordance with *Touchpoints* and or *Standard Operating Procedures*.
 - Assessed cost estimating and cost control practices based on scope/design development and through the construction phase.

We evaluated change order verification by performing the following procedures:

- Determined if selected change orders were appropriately authorized and supported by proper documentation from the contractor and subcontractor.
- Determined if change orders were appropriately authorized internally.
- Determined whether District established internal change order procedures were followed.
- Assessed projects with a change order(s) and documented reasons for change order and, if possible, identified how change orders could have been minimized.
- Confirmed that changes were allowable under Proposition 39.
- We evaluated BuildLACCD's *SOPs* by performing the following procedures:
 - Perform a GAP analysis of *SOPs* against leading practices, such as policies & procedures used by other large capital programs, and recognized by construction industry organizations.
 - Evaluated *SOPs* against recommendations from previous Performance Audit recommendations.

We evaluated BuildLACCD's *Strategic Execution Plan* by performing the following procedures:

- Gained an understanding of LACCD's *Strategic Execution Plan*.
- Gained an understanding of change order prevention measures included with the Strategic Plan.
- Evaluated the results from the *Strategic Execution Plan*.

AUDIT RESULTS AND RECOMMENDATIONS

1. Cost Estimating Process

To ensure the Bond Program will have sufficient funds to finish current and planned projects successfully, the BuildLACCD Program Management Office (PMO) undertook the exercise of completing a *Strategic Execution Plan* (SEP) during the current audit period. The SEP encompasses, among other things, the identification and estimation of costs at completion (EAC) for all projects in construction, as well as the identification and estimation of EAC for all projects that have not yet entered into construction.

Based on findings noted in the cost estimating process in past years' Performance Audits, the District elected to again include cost estimating in the scope of this year's Performance Audit.

In performance of our procedures, we noted that a formal controls and procedures document for estimating project costs for those individuals responsible for each aspect of that process, was not available. Such controls and procedures should be documented and detailed and include, at a minimum: instructions on what should be considered in the preparation of estimates; timing of preparation and revisiting of estimates; the process for documenting changes in the estimated project costs; the individuals responsible for preparing the estimates; available training; the independent review process; and, maintenance of a log of all projects, costs and last review date.

As a result, management had difficulty providing us with timely documented estimated project costs that were accurate and complete and had been reviewed by those charged with managing the costs of existing and upcoming projects. This is a repeat observation.

We recommend that the cost estimating process be enhanced to include formal instructions to those that are involved in the cost estimating process. This could provide more consistent and timely information, which may enhance management's ability to evaluate timely, the costs to complete ongoing and upcoming projects and prioritize the use of the remaining bond proceeds available.

1.1 Limitations in Supporting Documentation

Observation: We were unable to determine that estimated costs were consistently supported by sufficient evidence to validate and substantiate the reported amounts.

Criteria: Standard budgeting, estimating and cost forecasting practices within government organizations as well as the construction industry are generally based upon a documented methodology for estimating projects costs. Those methodologies contain controls, which includes policies and procedures as well as retention of an audit trail to support cost estimates.

During our period of audit, the College Project Managers (CPM) were required to comply with the *Build-LACCD Program Touchpoints Handbook (Touchpoints)*, effective April 10, 2013 – October 14, 2014, the *Standard Operating Procedures (SOP)* effective October 15, 2013 and the conditions set forth in their CPM Agreement.

Touchpoints outlines a process for entering additional anticipated costs (AACs) into the Universal Inquiry Integration (UII) system for accurate reporting of the EAC. *Touchpoints* indicates that the EAC is calculated by adding the commitment balance, total expenditures and the additional anticipated cost items at the fund-cost type (bucket) level. The EAC for all the buckets gets totaled at the project level to calculate the EAC for the project. Therefore, it is important for the CPM staff to review the EAC for all their projects and input AAC items to reflect a realistic EAC.

The *SOP* states that it is the responsibility of the CPM to include in the PMIS cost system all known costs at the GL level. Per the PMO, the CPMs establish the ETC amount and determine the level of supporting documentation. The Project Controls group reviews the ETC item only when an estimate is added or when the estimated amount has changed.

Per the *Standard Operating Procedures (SOPs)*, (version October 15, 2013), *Program Management Procedure – Budget/Cost Management Plan, Section 4.0 Procedure*, “District policy applicable to Proposition A/AA/J Bond Program Budget/Cost Management is summarized as follows... Consolidated cost information related to the Bond Program is to be tracked against budgets. The following classes of cost are tracked by the system: original budgets, current approved budgets, forecast budget, commitments/encumbrances, expenditures, and Additional Anticipated Costs (AAC’s)...”

Section 4.2.2 Additional Anticipated Costs (AAC’s), “It is the responsibility of the CPM to include in the PMIS cost system all known costs at the GL level. For an AAC which was not in the original or current budget, project budget contingency must be moved to the GL line(s) for which the AAC will be executed. If no budget or contingency exists for the AAC, the AAC may be entered without budget causing the Variance to go negative. This will require the CPM to develop a recovery plan for that project and submitted in their monthly reports to the PMO for review.”

Condition: Based on our audit of sampled ETC amounts, we initially observed that 4 of the 5 (80%) campus projects sampled for March 2014, and 5 of 5 (100%) campus projects sampled for June 2014, did not contain all sufficient support to validate and substantiate the ETC amounts in the Dashboard report. (March 2014: LACC, LAHC, LAMC, LASC; and, June 2014: LACC, LAHC, LAMC, LASC, WLAC). As a result, we expanded our sample to include 10 additional sampled projects. Due to the lack of a formal and documented process over the cost estimating process, the information requested was not easily accessible by the CPM for LACC, LAHC, LAMC and LASC, and required a significant level of effort and time by the CPM to locate the information requested. In addition, for certain estimated costs, there was no supporting documentation to validate the amount included in the estimate provided during our fieldwork.

Cause: The SOPs, at the time of our fieldwork, did not include a clearly defined cost estimating procedure or review process. Additionally, there was a lack of clarity in internal communication within the PMO.

Effect: Without a formal documented process and internal communication protocols in place, and without an ability to generate supporting documentation on a timely basis, estimated amounts reported cannot be adequately evaluated. Dashboard Reports and other critical documentation may contain unrealistic estimated amounts.

Recommendations:

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 Response:

- The PMO discovered the EAC/ETC process deficiency while reviewing legacy SOPs and during the initial development of the SEP and agrees that procedures related to the development of EACs and ETCs require greater uniformity and consistency in order to accurately forecast project costs.
- The PMO updated the SOP on EACs in conjunction with the SEP development.
- The SOP on EACs has since been developed and published.
- The new CPTs (College Project Teams) and CPDs (College Project Directors) are being trained on all SOPs to include EAC/ETC. The new team's performance will be audited against adherence to the new SOPs outside of these types of external audits.
- In addition, the PMO has undertaken several initiatives in the last six months – including the following corrective actions with regard to EACs and ETCs:
 - Program-wide re-baseline of project budgets
 - Development of a *Strategic Execution Plan*
 - Development of a Project Priority Plan
 - Development of a more uniform, centralized and structured system to regularly maintain all supporting documentation with regard to compilation of project ETCs and EACs.
- The PMO will continue to develop, enhance and publish written SOPs that contain sufficient detail and definition to guide the daily operations of the Program.

CPM firms at each college are responsible for managing the day-to-day operations for each project, including project budgets. CPMs along with the PMO's Program Controls and Construction departments review and monitor budgets, commitments, and expenditures on a daily and weekly basis. While forecasted EACs may require some lag time, the responsible parties that manage costs consistently adjust ETCs within the Program's UII and Widget reporting software. These systems are the tools that provide the needed transparency to manage budgets and the related EACs.

1.2 Standard Operating Procedures (SOPs)

Observation: The Standard Operating Procedures (SOP) do not include a defined process for estimating project costs. In addition, other areas of the SOPs that are not fully developed

Criteria: A vast majority of the available literature on Procedures prescribe the following key elements of an effective Procedure:

- The procedure needs to identify WHO is acting.
- The procedure needs to identify the precise action required: WHAT is to be done and HOW.
- The procedure needs to state WHEN the act needs to occur.
- The procedure references DOCUMENTS to be used.
- The procedure needs to include to reflect the sequence of events in sequential steps, which may be written in a pictorial (flow chart).
- The procedure need to identify RECORDS created as a result of the Procedure, where they are stored and for how long.
- There is a centralized function for issuing Amendments to the Procedure.
- Amendments to the Procedure are issued timely and non-verbally.
- USERS should be involved in developing the Procedures.

- Ambiguous words and expressions such as “may,” “should,” “as applicable,” “as necessary,” are better replaced with definite requirements.

The process of estimating costs to complete project, as reported to the public on the program’s dashboard report is a critical process and therefore, this process needs to be fully documented.

Condition: The *Standard Operating Procedures (SOP)* effective October 15, 2013 includes *section 4.2.2 Additional Anticipated Costs (AAC’s)* which provides a brief narrative on the AAC. However, section does not include a definition of the estimate to complete (ETC), the components of estimate at completion (EAC) and the required documents used to support the monthly Dashboard reporting.

In addition to specific procedures related to cost estimates, there are other areas in the SOPs that are still under development. More importantly, the SOPs as currently written do not consistently contain the critical elements of effective Procedures.

Cause: The *SOPs* do not contain a section on the EAC/ETC process. CPM’s do not have clearly direction on the EAC/ETC process or requirements for estimates. Program Manager does not have an established ETC review process in place for the Program.

Effect: As a result of an incomplete set of Procedure on EAC/ETCs, there are still areas where interpretation and/or decision making are left to the CPM’s and others who are or may be part of the process instead of being explicitly prescribed. Consequently, there may be inadequate decisions made, actions taken and documentation used. The CPM does not prepare or provide any supporting documents for ETC amount, as the *SOPs* do not provide any requirements to do so. The Program Manager does not perform a thorough review of ETCs entered by CPM’s, resulting in unsupported ETCs.

Recommendations:

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 Response:

- The current SOPs are intended to provide general guidance to the PMO and CPM and are supplemented by work plans with more detail to facilitate day to day operation, which is industry practice.
- The PMO will continue to develop, enhance and publish written SOPs to contain sufficient detail and definition to guide the daily operations of the Program. These SOPs are continually refreshed and published on the Sharepoint website for distribution within the LACCDBuild team.
- The first version of the SOPs were published in October 2013. At the time of this audit the SOPs had been in use for 9 months. The SOPs have since been updated.
- Training was ongoing after the SOPs were published to train staff on new processes and continues as modifications are made to the SOPs.

- The new CPTs (College Project Teams) and CPDs (College Project Directors) are being trained on all SOPs. The new team's performance will be audited against adherence to the new SOPs outside of these types of external audits.
- The PMO/AECOM is privy to similar programs of this magnitude and greater and their SOPs. The SOPs used for LACCD meet the needs of the program and they will continue to be refined.

2. Project Change Orders

Based on findings identified in the change order process in past years' Performance Audits, the District elected to include change orders in this year's Performance Audit scope.

We tested all change orders executed during the audit period for the sampled projects, which comprised 19 change orders totaling \$1,707,925. The change orders included of 69 *Change Order Proposals (COPs)* and 9 *Construction Field Orders (CFO or field orders)*.

We observed overall improvement within the change order management process. Specifically, we observed fewer instances of departures from the SOP requirements, and that these departures were of a lesser magnitude. It appears that the change order controls in place within the CPM and PMO structure are operating more effectively than in prior years.

2.1 Field Orders

Observation: The District Field Order process was not consistently followed.

Criteria: Included with Appendix E.

Condition: The CPMs, Contractors, and Design-Builders did not obtain advanced authorization in writing for cost adjustments via an executed CFO or change order prior to commencement of work as required. The CPM did not enforce the required change management process related to field orders.

Field orders were not submitted for the 6 COPs where work was performed prior to execution of a CFO or change order when field orders were required. These COPs constitute a total cost adjustment of \$40,815, or 2% of the total change order costs sampled during the audit period.

Although work related to the 6 COPs commenced prior to the execution of the CFO or change order, it appears that an informal scope was known by the CPM and contractor at the time that change work commenced based on information provided by the CPM.

Cause: The CPMs provided the following explanations for why work proceeded without the required authorizations:

- The former CPM did not execute the CFO
- Due to the urgent need to proceed with work, the CPM verbally directed the contractor to proceed with work while tracking costs with time and materials (T&M) tickets.
- The contractor proceeded with work at their risk to avoid delays. Immediate work was required by the Inspector.

Although the Contractor and Design-Builder performed the work at their own expense, the CPM allowed the contractors to proceed with work without having obtained the required advanced approvals and LACCD notification through the field order process.

Effect: The CPMs may appear to commit LACCD without LACCD's knowledge or consent by allowing contractors to proceed with change work prior to obtaining the appropriate authorizations through the CFO and change order process.

Recommendation:

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 Response:

- Significant improvement has been implemented in the change order process.
- The larger finding noted above cited the use of a different industry acceptable substitute form in lieu of the form provided in the procedure.
- The PMO will continue to improve this process.
- The new CPTs (College Project Teams) and CPDs (College Project Directors) are being trained on all SOPs to include change orders. The new team's performance will be audited against adherence to the new SOPs outside of these types of external audits.
- Change order processes and controls within the Program have significantly improved in the last twelve months across all campuses, via
 - 1) establishment of written SOPs
 - 2) submission of supporting documentation
 - 3) higher compliance with contractual requirements. The PMO will continue to monitor and enforce previously-established written procedures with regard to full execution of change orders and field orders.

2.2 Change order markup

Observation: Contractor applied incorrect or unsupported markups to change order proposals.

Criteria: Included with Appendix E.

Condition: For 3 of 69 COPs (5%) totaling \$79,845, the Contractor or Design-Builder did not correctly calculate markups for overhead and profit or bonds resulting in an insignificant overpayment.

Cause: The Design-Builder and Contractor did not apply the allowable markups in compliance with their contract. The CPM did not reject the Design-Builder's and Contractor's COPs for applying inaccurate markups that were not compliant with the Design-Builder's and Contractor's contract. Although the cost impact of these three COPs is immaterial, it provides evidence that change management controls were not consistently executed since the CPM and the Program Manager did not verify that costs were correctly represented prior to approving the change order.

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

Recommendation:

1. The Program Manager should perform periodic audits of Contractor and Design-Builder change orders to review for contract compliance.

Management Response:

- Significant improvement has been implemented in the change order process.
- Only 3 COPs were identified with this finding.
- The findings noted above cite the use of a different industry acceptable substitute form in lieu of the form provided in the procedure.
- The PMO will continue to improve this process.

- The new CPTs (College Project Teams) and CPDs (College Project Directors) are being trained on all SOPs to include change orders. The new team's performance will be audited against adherence to the new SOPs outside of these types of external audits.
- Change order processes and controls within the Program have significantly improved in the last twelve months across all campuses, via
 - 1) establishment of written SOPs
 - 2) submission of supporting documentation
 - 3) higher compliance with contractual requirements. The PMO will continue to monitor and enforce previously-established written procedures with regard to full execution of change orders and field orders.

2.3 Required change order forms and support

Observation: 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.

Criteria: Included with Appendix E.

Condition: Four of 19 change orders (21%) totaling \$122,828 were missing at least one change order level form, and 63 of 69 COPs totaling \$1,696,713 were missing at least one COP level form. In addition, for 7 of the 63 COPs, the CPM did not provide sufficient detail on the form to support the CPM's estimate.

Change Order Level:

- 4 of 4 Change orders were missing a copy of the *Proposed Board Action (PBA)* for Contract Award.
- 1 of 4 Change orders was missing a *CO Processing Checklist Form CP-0325*.

Change Order Proposal Level:

- 50 of 63 COPs were missing a *Notice of Change Form CP-0254*.
- 49 of 63 COPs were missing a *Change Order Pricing Sheet Form CP-0280* completed by the Contractor; however, a Contractor equivalent form was provided in lieu of CP-0280.
- 60 of 63 COPs were missing the *Change Order Estimate Summary Sheet Form CP-0290*, and 35 of 63 COPs were missing *CPM Estimate Pricing Sheet Form CP-0300* completed by the CPM; however, a CPM equivalent form was provided in lieu of *Form CP-0290* and/or *CP-0300*.
- 7 of 63 COPs included a *CPM Estimate Pricing Sheet Form CP-0300* that did not provide a detailed breakdown of costs that made up the components of the CPM's estimate; the estimate was shown as a lump sum amount.
- 3 of 63 COPs for owner initiated changes were missing an *Owner Initiated Scope Change Directive Form CP-0252*.

Cause: The exclusion of change order level documents for change orders appears to be a CPM oversight since change order level forms were not consistently missing across any one campus or project. We noted that the PBAs for Contract Award could be retrieved separately from DocView; however, the PBAs were not submitted in the change order package as is required by *Touchpoints* and *SOP*.

Contractors across the sampled projects did not consistently provide a *Notice of Change Form CP-0254* to notify the CPM of a change initiating event (owner-requested scope change, unforeseen condition, agency required scope change, or design related scope change) that may involve or require a change in the Work. The CPMs provided the following responses for not including a *Notice of Change Form* in the change order

submittal package:

- The CPM accepted the finding and will not process any future CO's without an accompanying *Notice of Change Form*.
- The Contractor did not submit the form to the CPM, and the CPM was not aware that the form was required for COP processing.
- The *Notice of Change Form* was not provided because it includes redundant information that can be found on other COP forms.

The Contractor provided an equivalent form in lieu of the Contractor completing *Change Order Pricing Sheet Form CP-0280*. The CPM provided an equivalent form in lieu of completing *Change Order Estimate Summary Sheet Form CP-0290* and *CPM Estimate Pricing Sheet Form CP-0300*. The *Change Order Proposal (COP) Checklist CP-0326* states that approved equivalent forms may be provided for *Form CP-0280*, *CP-0290*, and *CP-0300*; however, the SOP does not state that an equivalent form can be submitted in lieu of these forms.

For the 7 of 63 COPs submitted with a *CPM Estimate Pricing Sheet Form CP-0300* that did not provide a detailed breakdown of costs that made up the components of the CPM's estimate, the CPM indicated that the former CPM staff used *Form CP-0300* as a summary of the CPM Estimate. The current CPM was able to provide a copy of the CPM's detailed cost estimate showing a breakdown of the costs summarized on *Form CP-0300*; however, this information was not included in the change order submittal package.

Effect: Change management controls were ineffectively executed by the CPM and Program Manager resulting in approval of change order packages without required documentation.

Recommendation:

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 Response:

- Significant improvement has been implemented in the change order process.
- The larger finding in regards to change orders noted above cite the use of a different industry acceptable substitute form in lieu of the form provided in the procedure.
- The PMO will continue to improve this process.
- The new CPTs (College Project Teams) and CPDs (College Project Directors) are being trained on all SOPs to include change orders. The new team's performance will be audited against adherence to the new SOPs outside of these types of external audits.
- Change order processes and controls within the Program have significantly improved in the last twelve months across all campuses, via:
 - 1) establishment of written SOPs
 - 2) submission of supporting documentation
 - 3) higher compliance with contractual requirements. The PMO will continue to monitor and enforce previously-established written procedures with regard to full execution of change orders and field orders.

LIST OF ACRONYMS

Acronym	Definition
AECOM	Program Manager or AECOM Technical Services, Inc (Program Manager as of April 2013)
AGC	American General Contractors
AIA	American Institute of Architects
AOR	Architect of Record
BOT or Board	Board of Trustees
BuildLACCD	Los Angeles Community College District Program Management Office, a blended program management team consisting of URS or AECOM (after April 4, 2013), other consultants, and members of the District.
CFO	Construction Field Order
CO	Change Order
COP	Change Order Proposal
CPD	College Project Director
CPM	College Project Manager
CPT	College Project Team
DCOC	District Citizens' Oversight Committee
DHQ	District Headquarters
DMJM	Daniel, Mann, Johnson & Mendenhall and Jenkins/Gales & Martinez (Program Manager from August 2001 to February 2007)
DocView	Document records and storage system maintained by Program Manager
DSA	Division of the State Architect (California)
EAC	Estimated Cost at Completion (for a project)
ELAC	East Los Angeles College
ETC	Estimated Cost to Complete (a project)
FF&E	Furniture, Fixtures and Equipment
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GC	General Contractor
IOR	Inspector of Record
KPMG	KPMG LLP
LACCD or District	Los Angeles Community College District
LACC	Los Angeles City College
LAHC	Los Angeles Harbor College
LAMC	Los Angeles Mission College
LASC	Los Angeles Southwest College
LATTC	Los Angeles Trade Technical College
LAVC	Los Angeles Valley College
LLRC	Library and Learning Resource Center from LAVC
Monarch	Monarch Center - Student Union from LAVC
NLLC	New Library/Learning Crossroads Building from Pierce
OIG	Office of Inspector General
PAB	Theatre/Performing Arts Building from Pierce
PBA	Proposed Board Action
PM or PMO	Program Manager or Program Management Office, a role filled by AECOM Technical Services, Inc (after April 4, 2013).

Acronym	Definition
PMI	Program Management Institute
PMP	Program Management Plan
PSA	Professional Services Agreement
RFP	Request for Proposal
RFQ	Request for Qualifications
ROM	Rough Order of Magnitude
SEP	Strategic Execution Plan
SOP	Standard Operating Procedures Manual
T&M	Time and Materials
TO	Task Order
Touchpoints	Program Touchpoints Handbook
UII	Universal Inquiry Interface
URS	URS Corporation (Program Manager from March 2007 to April 2013)
WLAC	West Los Angeles College

APPENDIX A - SUMMARY OF MANAGEMENT'S PLANS

(Improvements reported by BuildLACCD, and not subject to audit)¹¹

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

- **Risk Management Program:** A risk management program has been implemented on the program. This consists of a risk management plan and a risk register which has been implemented for every project on the program as well as at the program level. The register is reviewed and updated monthly. There has been extensive training on how to manage risk throughout the district. A KPI was also established to monitor activity on the risk register as well as the quality of the risks being reported. The Risk Management Program identifies and track risks throughout the project life cycle as well as applies risk mitigation strategies to eliminate and reduce risks to the program. This risk management plan will assist in the reduction of unforeseen costs, help align the correct project budgets and contingencies to projects, and will allow for early issue resolution prior to occurrence of the issue.
- **Quality Management System (QMS):** A formal quality management system has been fully implemented on the program, this is also reflected in the *Standard Operating Procedures (SOPs)* as well as extensive training throughout the district on how to manage and support quality. To date, the PMO has implemented two KPIs to monitor the QMS as well as conducted quality audits at all the colleges. AECOM Corporate Quality Auditors have also audited the program. They found that the program was using best practices within AECOM and the program received an above satisfactory score.
- **Standard Operating Procedures (SOPs):** The PMO issued new program SOPs in October 2013 to replace the *Touchpoints* Procedures. These SOPs are comprehensive and cover processes and procedures from project inception through project closeout. The SOPs are web enabled and are available for reference 24/7 to program stakeholders. The October 2013 release was the initial base SOPs and they have been continually added to and enhanced over the last year. The SOPs also contain workflow diagrams which visually allow stakeholders to view processes. These workflows are also tied into the PMOs new Program Management Information System, which is the data warehouse and reporting tool for all the financial and contract data for the program.
- **Procurement Initiatives:** The PMO has implemented an online procurement tool called Planet bids. Planet bids is a tool used industry wide. Plant bids allow the PMO to perform all external communication with industry via one tool that tracks all correspondence and allows superior transparency to all vendors. All vendors see the same information on procurement announcements, RFIs, events, addendums and other critical data. This tool also allows the PMO to track interest on procurements, have visibility on the type of firms that are interested and also saves the district money in terms of man-hours and increased efficiency on doing procurements. This is critical as the PMO enters a period of high procurement activity.
- **Strategic Execution Plan (SEP):** The PMO carried out and delivered a *Strategic Execution Plan* for the District, This plan, which is a critical element in order to complete the program successfully, defines the remaining projects by college in priority order that will be completed with the remaining bond funds. The SEP also included validating the remaining funds for each college, to include validating the EAC for all projects under construction and completing financial closeout for closed projects. This plan did not exist previously and the colleges were unsure what projects they were going to complete by the end of the program. The SEP was done in collaboration with the colleges.

- **Project Validation Process:** The PMO created and implemented a project validation process known as the project initiation form. This process consists of validating scope, schedule, cost, risks, phasing and staging plans and well as technical design and construction challenges for each project prior to going to procurement. This process ensures that all aspects of each project is considered and reviewed prior to going forward for procurement and implementation. This process greatly lowers the risk of the program and the District.
- **Inclusivity Program:** The PMO has created a more robust inclusivity program, especially in light of the board increasing the LSEDV goal from 28% to 30% for the bond program. For the first time in the programs history the PMO applied the LSEDV goal to professional services. The PMO has exceeded the 30% on several professional services procurements. This has created opportunities for firms that have never been able to work for the District. The PMO has defined other measures under this program to increase and strengthen processes to achieve the LSEDV goal.
- **Information Technology Management:** The PMO updated program and the CPM server hardware as well program data back-up and recovery procedures. Servers at the colleges were in a critical end of the life condition prior to this work.

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

APPENDIX B - 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
<p>1. <u>Budgets and Budget Transfers</u></p> <p>1-A: LACCD should develop a procedure related to when and how to re-baseline project budgets.</p> <p>1-B: The PM should review with staff the responsibilities for reviewing budget transfer submissions from CPMs, and conduct periodic training sessions of <i>Touchpoints</i> budget transfer requirements for both CPM and PM.</p> <p>1-C: The PM should closely review and monitor all CPM reported AAC amounts as reported in the monthly <i>Dashboard</i> 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.</p>	<p><u>Management’s October 2014 Update:</u></p> <p>The PMO has completely re-written, with increased detail, the SOPs associated with budgets and budget transfers. This includes clear delineation of roles and responsibilities along with updated workflow processes and diagrams.</p> <p>Status</p> <p>Comment repeated in accompanying report for year ended June 30, 2014.</p>

2012-2013 Observations and Recommendations	Management's Response and Status
<p>2. <u>Project Close-Out</u></p> <p>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.</p> <p>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.</p> <p>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.</p>	<p><u>Management's October 2014 Update:</u></p> <p>The PMO has appointed an internal resource to lead the close-out initiative, and to continue to develop and implement a comprehensive set of processes and procedures to address financial close-out, DSA Certification, Start-up Operations, and Project Archiving.</p> <p>Status</p> <p>Not included in current year scope of procedures.</p>

2012-2013 Observations and Recommendations	Management's Response and Status
<p>2-D: The PM should review <i>Touchpoints</i> 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.</p> <p>2-E: The PM should reconcile the <i>Touchpoints</i> Archive Checklist (form CC-0132) and the Project Close-Out Checklist (CC-0135) to LACCD's Master File Index List.</p> <p>2-F: The PM should require that the CPM maintain project close-out files according to the MFIL.</p> <p>2-G: The CPM should update incorrect MFIL references noted on the Project Close-Out Checklist prior to submitting to the PM/District.</p> <p>2-H: CPMs should review the project files and identify missing documents to be added for document retention.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>2-L: The PM should focus on resolving Projects that are closed without DSA certification as tracked by the Design Liaison and DSA team.</p> <p>2-M: LACCD should consider making DSA certification a requirement for final payment for its Architects and other consultants, as applicable.</p>	<p><u>Management's October 2014 Update:</u></p> <p>The PMO has appointed an internal resource to lead the close-out initiative, and to continue to develop and implement a comprehensive set of processes and procedures to address financial close-out, DSA Certification, Start-up Operations, and Project Archiving.</p> <p>Status</p> <p>Not included in current year scope of procedures.</p>

2012-2013 Observations and Recommendations	Management's Response and Status
<p>3. <u>Project Schedule Delays</u></p> <p>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.</p>	<p><u>Management's October 2014 Update:</u></p> <p>The PMO has instituted in its SOP a requirement for variance reporting. This includes providing on-site and telephonic training at the campuses on topics related to schedule variance reporting, developing recovery schedules and schedule delay documentation. The campuses currently produce monthly variance reports and the PMO convenes monthly schedule variance meetings. The PMO is currently evaluating and developing a strategy to enforce the recovery schedules.</p>
<p>4. <u>Change Orders</u></p> <p>4-A: LACCD should require CPMs and colleges to follow the field order process and enforce this requirement.</p> <p>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.</p> <p>4-C: Similar to recommendations from the previous 2011-12 Performance Audit, <i>Touchpoints</i> 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.</p>	<p><u>Management's October 2014 Update:</u></p> <p>The PMO notes that change order processes and controls within the Program have significantly improved in the last twelve months as described earlier in this report.</p> <p>Status</p> <p>Comment repeated in accompanying report for year ended June 30, 2014.</p>

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:

5-A: The PMO has updated its SOP and has instituted additional training for field staff.

5-B: The PMO has created a new business analyst position that performs this task on a daily basis. This position was designed to assist in complex analyses of vendor invoices, as well as examining invoices for alignment with contract terms.

Status

Not included in current year scope of procedures.

APPENDIX C - 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
<p>1. <u>Budgeting and Cost Estimating</u></p> <p>1-B: BuildLACCD should further develop the <i>Touchpoints</i> requirements to include sufficient process descriptions for each step in the budget management process, including:</p> <p>a. Budget Establishment – Develop a requirement for the PM to retain all supporting documentation submitted in support of the methods and assumptions used by the CPMs.</p> <p>d. Estimate At Completion – Consider developing a procedure for the CPM to document and retain adequate support for assumptions used to develop AAC's. Support should also include a brief narrative of events that caused the proposed changes. Support should be sufficient to justify the narrative and to allow the process and calculations to be re-performed by a third party.</p>	<p><u>Management's October 2014 Update:</u></p> <p>This issue is discussed and addressed in Section 1 of this report.</p> <p>Status</p> <p>Comment repeated in accompanying report for year ending June 30, 2014.</p>

2011-2012 Observations and Recommendations	Management's Response and Status
<p>3. <u>Close-Out</u></p> <p>3-A: The close-out process should identify BuildLACCD as being responsible to monitor, track and ensure complete and timely close-out by the CPMs. BuildLACCD should consider adding the following to the close-out process in <i>Touchpoints</i>:</p> <ul style="list-style-type: none"> • Use a separate project <i>Close-Out Checklist</i> for each Project • Develop a single close-out checklist that includes instructions for its use by only the CPM and PM. Consider including the following: <ul style="list-style-type: none"> ○ Identification of the party responsible for each item ○ Identification of the process involved and document required /created with each item ○ Columns for the following information: <ul style="list-style-type: none"> ▪ Date process/ document initiated and completed ▪ Initials of person responsible for completing process ▪ Initials of person accepting/ approving the process and documentation ▪ Document name and location <p>It appears that the December 2012 <i>Touchpoints</i> was revised to include more detail regarding the close-out process; the one-page process was expanded to four pages. It also now includes a description of the responsible parties and required forms. The <i>Close-Out Checklist</i> still needs to be revised to follow suit.</p> <p>3-B: BuildLACCD should consider conducting periodic audits of project close-out documentation to ensure compliance with <i>Touchpoints</i>.</p> <p>3-C: BuildLACCD should consider close-out status report updates from the CPMs for applicable projects.</p>	<p><u>Management's October 2014 Update:</u></p> <p>The PMO has appointed an internal resource to lead the close-out initiative, and to continue to develop and implement a comprehensive set of processes and procedures to address financial close-out, DSA Certification, Start-up Operations, and Project Archiving.</p> <p>Status</p> <p>Not included in current year scope of procedures.</p>

APPENDIX D - 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
<p>2. <u>Close-Out</u></p> <p>6-A: LACCD should update the <i>Project Close-Out Checklist</i> to better reflect college project filing structures. LACCD should include a narrative explanation of requirements to satisfy completion of each item in the <i>Project Close- out Checklist</i>, including completion of a process.</p> <p>6-B: LACCD should improve the quality assurance control process on the close-out documentation provided by colleges to help facilitate adequate close-out of projects, including timely receipt of required close-out documentation and an appropriate filing structure.</p>	<p><u>Management's October 2014 Update:</u></p> <p>The PMO has appointed an internal resource to lead the close-out initiative, and to continue to develop and implement a comprehensive set of processes and procedures to address financial close-out, DSA Certification, Start-up Operations, and Project Archiving.</p> <p>Scope Not included in current year scope of procedures.</p>

APPENDIX E – CHANGE ORDER CRITERIA

Criteria 2.1: *SOP, Construction Management Procedures, Section 6.8.1* states: “No changes to the contract are effective until a modification to the contract is agreed to and signed by applicable parties. No work is to commence on a change in scope until specifically authorized in WRITING by either a Field Order or an approved Change Order.”

Construction Contract General Conditions Section 7.5.1 (Purpose) states that the purpose of a field order is to "establish a mutually agreed basis for compensation to Contractor for a Compensable Change under circumstances where performance of the compensable Change needs to proceed in advance of complete substantiation and evaluation of the Contract Adjustment thereof."

CPM Contract Section 2.5.11 (Change Orders, Unilateral Change Orders, Field Orders), "When additions, changes or deletions in the Work of a Contractor become necessary, College Project Manager shall Manage the process of submittal, review, approval and performance thereof as set forth in the Contract Documents." Section 2.5.11 further states that if proposed changes in work involve a construction contract price adjustment that would cause the "gross aggregate total" of all price adjustment under the construction contract to exceed 3% of the original contract price, "the CPM shall not approve or recommend such change for approval or allow such change in work to be performed by the Contractor without first obtaining the requisite written authorization(s) required by the terms of the construction contract... In addition and without limitation to the foregoing, CPM shall: (A) Monitor each contractor's work to prevent changes and deviations from the original scope of the work from being performed without a properly executed field order, unilateral change order or change order."

Criteria 2.2: *Design-Build Contract, General Conditions Section 7.7.5.1 (Self-Performed Work)* states: “With respect to all or that portion of a Compensable Change involving Self-Performed Work, the Allowable Markup to Design Build shall be not more than fifteen percent (15%).”

Construction Contract #33748, General Conditions Section 7.7.3.8 (Bonds) states: “Cost of bonds required to be furnished by Contractor (not Subcontractors) under the terms of the Contract Documents; provided, however, that such additional costs chargeable for Extra Work or credited for Deleted Work shall not exceed two percent (2%).”

CPM Contract Section 2.5.11 (Change Orders, Unilateral Change Orders, Field Orders), "When additions, changes or deletions in the Work of a Contractor become necessary, College Project Manager shall Manage the process of submittal, review, approval and performance thereof as set forth in the Contract Documents, including, without limitation, the following:...(6) review and evaluate the Contractor's proposal for entitlement, pricing and/or schedule impact and schedule meetings for review, negotiation and settlement of unresolved issues."

Touchpoints, Contract Change Order Procedures, Section F (Program Manager Review) states: “Upon receipt of a Change Order submittal, the PM will initially review the information to confirm that all documents have been included and all signatures provided. The CPM will be advised to provide missing forms, supporting material and signed documents. Errors discovered in the representation of cost or schedule data of the appropriateness of the documentation within a change order will be referred back to the CPM for correction or explanation before the Change Order can be processed further.” *SOP, Construction Management Procedures, Section 6.8.13(RPL Review)* supersedes the above mentioned *Touchpoints* Section beginning on 10/18/2013 with the same requirement.

Criteria 2.3: Effective until 10/17/2013, *Touchpoints, Change Management Procedures, Section C (Change Order Processing Forms)* identifies documents that the CPM shall complete with appropriate signatures in order to obtain change order approval by the PM and the District. *Section C(a)* lists “Change Order Level” documents required for each change order and *Section C(b)* lists “Change Order Proposal Level” documents required for each COP.

Effective beginning 10/18/2013, *SOP, Construction Management Procedures, Section 6.8.14* superseded the above mentioned *Touchpoints* requirements. Similar to *Touchpoints*, the SOP identified change order and COP level documents required to be completed by the CPM to obtain change order approval by the PM and District.

Touchpoints and *SOP* require the following for CO level documentation:

- *Proposed Board Action (PBA) for Contract Award.*
- *CO Processing Checklist: (Form CP-0325) is prepared and signed by the CPM to record that all documents necessary for approval of a CO have been prepared and are included in the CO package.*

Touchpoints and *SOP* require the following for COP level documentation:

- *Notice of Change: (Form CP-0254) provided by the contractor to inform the CPM of a possible change. If this form was provided by the contractor, it must be included.*
- *CO Proposal: (Form CP-0270) including the CO Pricing Sheet Summary: (Form CP-0280)*
- *CO Estimate Summary Sheet: Form (CP-0290) including CO Estimating Pricing Sheet: (Form CP-0300)*
- *For Owner initiated changes in scope the Owner Initiated Scope Change Directive: (Form CP-0252) is to be used in lieu of the Scope Change Reason Code Verification: (Form: CP-0253).*

The SOP provides further instruction regarding the *Notice of Change Form CP-0254*:

“Change Order Response Forms: The following forms are to be completed by the contractor in response to one of the initiating events above.

- *Notice of Change: (Form CP-0254) is used by the contractor to notify the CPM if any instruction, request, drawing, specification, action, condition, omission, default or other circumstance occurs that constitutes a Compensable Change, Deleted Work, Compensable Delay or other matter that may involve or require a change in the Work (additive or deductive). Such notice shall be provided prior to the commencement of the performance of the Work and no later than five (5) days after the discovery date or occurrence of a Request for Proposal (Form CP-0250).”*