



**LOS ANGELES  
COMMUNITY  
COLLEGE DISTRICT  
PROPOSITION A/AA  
AND MEASURE J**

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**BOND PROGRAM  
PERFORMANCE AUDIT  
REPORT**

*Fiscal Year Ended June 30, 2010*

**MOSS ADAMS LLP**

January 4, 2011

Board of Trustees  
Los Angeles Community College District  
770 Wilshire Boulevard  
Los Angeles, CA 90017

Subject: 2001 Proposition A, 2003 Proposition AA and 2008 Measure J  
Construction Bond Performance Audit Report  
For the Fiscal Year ended June 30, 2010

Dear Members of the Board:

This report presents the results of our performance audit for the period July 1, 2009, through June 30, 2010 (FY 2010), for the Los Angeles Community College District's (LACCD or the District) 2001 Proposition A, 2003 Proposition AA and 2008 Measure J construction bonds (Bond Program) as required by California Proposition 39, the "Smaller Classes, Safer Schools and Financial Accountability Act" (Proposition 39), the California Constitution (State Constitution) Article XIII A and California Education Code (Education Code) Section 15272. These California State (State) requirements specify that the proceeds from the sale of school facilities bonds are expended only on the specific projects listed in the proposition authorizing the sale of bonds (Listed Projects). Both the State Constitution and Education Code require an annual independent performance audit to verify Bond proceeds are used on Listed Projects. An annual financial audit is also required by these rules. Finally, Senate Bill 1473, "School facilities Bond proceeds: performance audits" (SB 1473), approved by the Governor on September 23, 2010, amended California Education Code to add Section 15286, which requires that the annual performance and financial audits are conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States for financial and performance audits.

### **Executive Summary**

We conducted this construction Bond Program performance audit in accordance with Government Auditing Standards, 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 findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The performance audit objectives, scope, methodology, conclusions and a summary of the views of responsible District Officials is included in the report body.

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The performance audit procedures applied provided reasonable assurance, in accordance with Generally Accepted Government Auditing Standards (GAGAS) that the Fiscal Year ended June 30, 2010, Bond proceeds were expended only on the projects listed with District 2001 Proposition A, 2003 Proposition AA and 2008 Measure J which authorized the sale of the bonds and were compliant with Article XIII A of the California Constitution and Proposition 39 except as indicated below:

Number	Exception	Summary of Exceptions
1.	District-wide Expenses	Expenses that were allocated to multiple campuses and projects that were found to be noncompliant with Article XIII A of the California Constitution and Proposition 39.

Additionally, we evaluated the effectiveness and efficiency of internal controls to provide to the District an analysis of the School Construction Program so that those charged with governance and oversight could use the information to improve program performance and operations. We identified the following significant internal control deficiencies related to effectiveness and efficiency of operations:

- Close-Out Documentation – One instance of missing all closing documents, including warranties, lien releases, record drawings, Operations & Maintenance and training manuals, was identified for the ten contracts tested. Sufficient controls do not appear to exist to ensure that all required contractual documents are retained. Not retaining close-out documents increases risk related to lawsuits and nonability to recover on valid warranty claims. Additional controls should be instituted to ensure that all applicable close-out documents are retained.
- Board of Trustee Approval of Change Orders – For 27 out of 50 sampled change orders, documentation of Board approval was not located in the BuildLACCD records. In some instances, the Board approval of the base contract included the provision that change orders up to 10% of the base contract could be approved at the college level with subsequent Board of Trustees ratification. These change orders were subject to subsequent ratification by the Board. We found no evidence of subsequent ratification of the sampled change orders.
- District Approval of Change Orders – For 8 of 50 sampled change orders, the change orders lacked evidence of District approval. This indicates that obtaining all required District signatures is not consistently enforced by BuildLACCD. Failure to obtain appropriate District approvals increases the risk of noncompliant change orders and excessive costs. Additional controls should be implemented to ensure that all required signatures are obtained for change order approval.

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- Journal Entry Approval – We observed a journal entry for which Board of Trustees (Board or BOT) approval differed from the journal entry amount. The original BOT approval did not include \$25,000 of closing costs, and we could not locate evidence that an amendment was approved by the BOT that included these closing costs.
- District Citizens' Oversight Committee Compliance – While the District Citizens' Oversight Committee (DCOC) did issue an annual report for Fiscal Year 2009 as required by the California Education Code Section 15282, the DCOC did not issue required reports for Fiscal Years 2004 through 2008. The DCOC 2009 annual report indicates that the DCOC consists of sixteen representatives including a student representative. However it does not appear that there was a student representative serving as a DCOC member for the period from July 01, 2009, through June 30, 2010. The BuildLACCD website reflected that the student representative position was vacant. Additionally, the DCOC meeting minutes did not list a student representative on the list of attendees at three of four quarterly committee meetings. Therefore the committee appears to have been in noncompliance with Section 15282(a) of California Education Code during FY 2010 related to the student representative, and was in noncompliance in FY 2004 through 2008 because an annual report was not issued.
- District Cost Principles Process and Control Gaps – The District adopted Cost Principles (Cost Principles) to determine allowable costs for its Bond Program after the end of Fiscal Year 2010. Processes and controls were not in place during Fiscal Year 2010 to address these additional requirements. To help the District assess its capabilities to apply these additional requirements, we reviewed Bond Program costs for compliance to identify recommended processes and controls for future adherence to the recently adopted Cost Principles.

Our analysis indicated the following improvement areas:

- a. BuildLACCD Labor Hours – Labor hours that BuildLACCD staff incurred on tasks for which control improvements are necessary to provide future adherence to the Cost Principles.
- b. BuildLACCD Expenses – Expenses that BuildLACCD staff incurred on tasks for which control improvements are necessary to provide future adherence to the Cost Principles.
- c. District-Wide Expenses – Expenses that were allocated to multiple campuses and projects that were found to require control improvements to provide future adherence with the Cost Principles.
- d. For the MWW Group Contract 32480, certain areas were identified in the scope of work prior to the scope reduction on May 26, 2010, that appeared to differ from the requirements contained in the Cost Principles. These areas were identified so that control improvements can be implemented to provide future adherence to the Cost Principles.

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- e. For PVJobs Contract 50140, certain Task Order 1 scope areas both before and after the scope reduction on June 29, 2010, appeared to require control improvements to provide future adherence with the Cost Principles.

**We also identified several good practices listed in the following indicated areas:**

Expenditure Controls and Contract Compliance Testing (Internal Control Performance Audit Result)

- Program Touchpoint Handbook. The Program Touchpoint Handbook was developed to serve as a reference guide for interactions between the BuildLACCD Program Manager (PM) and the College Project Managers (CPM). The Handbook organized these interactions across PM groups and the project phases including master planning, programming, design, construction, occupancy, close-out, etc.) The Handbook also outlines core responsibilities for each PM group. This provided clear delineation of roles and responsibilities.

Cost, Schedule and Budgetary Management

- Estimate At Completion (EAC). The EAC was used to provide a realistic view of project costs since it was based on current and future commitments as well as forecasted amounts. As a result, a more accurate variance from budget could be calculated to determine if the project was within budget. The EAC calculation utilized bucket budgeting, Proposed Change Order (PCO) log and commitments on universal inquiry interface (UII) and shown in WIDGET. The EAC schedule provided useful information about project costs incurred and estimates at completion.
- WIDGET Intranet. The implementation of this tool allowed BuildLACCD and colleges to view and print consolidated reports at the project and program level. Data from projects across all nine campuses was gathered from UII and P3 (Project Scheduling) schedules, and then aggregated to a PM view. The PM view provided high level insight into contracts, budgets, schedules, funding sources, encumbrances and expenditures.
- Program Schedule Milestones Utilized on 99% of Projects. As part of the budget and schedule alignment process, BuildLACCD established a baseline from all projects completed and to be completed as of September 2009. Additionally, with the implementation of project classification, BuildLACCD was able to determine the true scope of work remaining at each college. Using these baselines, several exception reports such as "Milestones Missed and Met" were created to QA/QC (Quality Assurance/Quality Control) schedules. These reports kept track of program schedule milestones and generated exception reports indicating whether milestones were missed or met. This, in turn, assisted in quality assurance/control for related projects.

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Change Order Controls

- Contract Management Log. BuildLACCD developed and utilized a contract management log that tracked change order attributes (change order date, approval/rejection, amount, days to approve) and invoice summary information (invoice date, CPM/BuildLACCD received, retention, escrow payment, stop notice, approved/rejected, earned value, value of work, aging, check amount, etc.). This log provided significant contract information and was considered essential for contract management controls.

Management remains responsible for the proper implementation and operation of an adequate internal control system. Due to inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This report is intended solely for the use of District Administration, the District Citizens' Oversight Committee, and the District's Board of Trustees. Moss Adams LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.

We would like to express our appreciation to you and all members of your staff for your cooperation throughout this performance audit. Please contact Curtis Matthews at (503) 704-6943 if you have any questions regarding this report.

Sincerely,

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, slightly stylized font.

Moss Adams LLP



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## **BACKGROUND INFORMATION**

### **Voter Approved Bond Authorization**

The Proposition A Community College Facilities Construction and Repair Bond Program was approved by voters in 2001 to provide \$1.245 billion in improvements to Los Angeles Community College District (LACCD or the District) facilities. The Proposition AA Bond was approved by voters in 2003 to provide an additional \$980 million in improvements, and the Measure J Bond was approved by voters in November 2008 to provide an additional \$3.5 billion in improvements (collectively referred to as Bond or Bonds). The total authorized Bond fund dollars are \$5.725 billion of which the District has issued \$2.650 billion as of June 30, 2010.

The Bond funds are to be used for the renovation, repair and replacement of aging educational facilities and for the construction of new facilities. Bond Programs of this size and complexity require appropriate financial processes and operational controls to ensure compliance, effectiveness, program cost, schedule, quality and efficiency goals are achieved.

In August 2001, the District Board of Trustees 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 that contract, the program management services were recompeted and awarded to URS (Program Management Team or BuildLACCD) in March 2007.

Moss Adams was engaged to provide the required annual Bond Program performance audits for two separate three-year agreements, beginning with the fiscal year ending June 30, 2005.

Moss Adams was also engaged to perform other special audits which focused on specific areas of concern to the District. The scope of these audits was targeted on specific processes and facilities. For FY 2010, the special projects were:

- Chevron Special Project
- Energy Services Special Project
- Assist with Drafting Cost Principles

### **California State Requirements**

A construction Bond Program performance audit is required for LACCD Proposition A, Proposition AA and Measure J construction bonds as required by California Proposition 39, the “Smaller Classes, Safer Schools and Financial Accountability Act” (Proposition 39), the California Constitution Article XIII A (State Constitution) and California Education Code Section 15272 (Education Code). These California State (State) requirements specify that the proceeds from the sale of school facilities bonds are expended only on the specific



projects listed in the proposition authorizing the sale of bonds (Listed Projects). Both the State Constitution and Education Code require an annual independent performance audit to verify Bond proceeds are used on Listed Projects. An annual financial audit is also required by these rules. Finally, Senate Bill 1473, “School facilities Bond proceeds: performance audits” (SB 1473), approved by the Governor on September 23, 2010, and effective January 1, 2011, amended California Education Code to add Section 15286, which requires that the annual performance and financial audits are conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States for financial and performance audits.

Proposition 39, “Smaller Classes, Safer Schools and Financial Accountability Act” (Proposition 39), was passed by the California voters on November 7, 2000. Proposition 39 amended provisions to the California Constitution and to the California Education Code. The purpose and intent of the initiative was “to implement class size reduction, to ensure that our children learn in a secure and safe environment, and to ensure that school districts are accountable for prudent and responsible spending for school facilities.” It provided for the following amendments to the California Constitution and California Education Code.

- a) “To provide an exception to the limitation on ad valorem property taxes and the two-third vote requirements to allow school districts, community college districts, and county offices of education to equip our schools for the 21st Century, to provide our children with smaller classes, and to ensure our children’s safety by repairing, building, furnishing and equipping school facilities;
- b) “To require school district boards, community college boards, and county offices of education to evaluate safety, class size reduction, and information technology needs in developing a list of specific projects to present to the voters;
- c) “To ensure that before they vote, voters will be given a list of specific projects their bond money will be used for;
- d) “To require an annual, independent financial audit of the proceeds from the sale of the school facilities bonds until all of the proceeds have been expended for the specified school facilities projects; and
- e) “To ensure that the proceeds from the sale of school facilities bonds are used for specified school facilities projects only, and not for teacher and administrator salaries and other school operating expenses, by requiring an annual independent performance audit to ensure that the funds have been expended on specific projects only.”



### **Changes for FY 2010**

On March 10, 2010, the District's Bond Counsel (Fulbright & Jaworski L.L.P.) issued a memo entitled "Recommendations to Insure Compliance with Proposition 39." This memo included a number of recommendations regarding the allowability and reasonableness of certain Bond Program expenditures. In response to this memo, several steps were taken by the District as follows:

- a) The District had meetings with Bond Counsel to clarify the issues discussed in the memo. These meetings involved the District's Performance Auditors, Moss Adams LLP.
- b) Bond Counsel provided the information that was utilized in the formulation of the memo. Moss Adams considered this information during its testing of FY 2010 Bond Program expenditures.
- c) The District took steps to reduce the scope of certain contracts with vendors that involved activities that were discussed in Bond Counsel's memo. The scope reductions were intended to address the Bond Counsel's concerns by discontinuing certain activities that the Bond Counsel believed to present a risk of noncompliance with Proposition 39. On May 26, 2010, the Board of Trustees approved scope reductions to the contracts for MWW Group and MBI Media. On June 30, 2010, the scope of the MBI Media contract was further reduced.
- d) The District took steps to eliminate positions at BuildLACCD that were considered to be at risk of performing activities that were noncompliant with the Cost Principles. On May 28, 2010, 11 positions were terminated because the positions were deemed to perform noncompliant (a) grant writing, (b) excessive outreach, (c) development of curricula and (d) public relations.
- e) The District developed a set of Cost Principles for use in defining allowability and reasonableness of specific costs and to provide a framework for making decisions about costs that are not specifically discussed in the Cost Principles. The Cost Principles were delivered to the Board of Trustees on August 25, 2010. The Cost Principles document was not in existence during FY 2010. Therefore, the parties involved in management of Bond Program expenditures did not have these definitions available when making decisions during the year with regard to whether an expenditure would meet the Cost Principle requirements for allowability, allocability and reasonableness. The Cost Principles have been accepted by the District and are considered to be criteria for evaluating Bond Program compliance. These Cost Principles have been used to assess the compliance of FY 2010 costs as discussed in the Objective, Scope and Methodology section of this report.
- f) On September 16, 2010, Bond Counsel issued a memo entitled "Inquiry Concerning Obligations Under Prop 39." This addressed the issue of "...whether a California community college district has any obligation to restore or reimburse its Building Fund in the event that it determines certain past expenditures might not have been qualified for payment with bond proceeds under the terms of Proposition 39..." The conclusion stated "We conclude that nothing in the terms of Proposition 39 requires such action."



## **OBJECTIVE, SCOPE AND METHODOLOGY**

The primary objective of this performance audit was to verify that LACCD was compliant with Proposition 39, which required that Bond proceeds be used for specified school-facilities-based projects only. This performance audit included analysis of District Bond Program controls including those related to the District's Cost Principles. Because the District's Cost Principles were put in place after the end of Fiscal Year 2010, we assessed Cost Principles application in Fiscal Year 2010 to analyze the implementation process and controls needs for future year implementation requirements. Identified issues are specified in this report. The District created the Proposition A, Proposition AA and Measure J Bond funds under Proposition 39 and as such, was required to expend these funds only on specific projects that were authorized with the sale of these bonds (Listed Projects), and not for school operating expenses for the District FY 2010. FY 2010 Bond Program expenditures were as follows:

<b>Proposition/Measure</b>	<b>Amount Expended*</b>
Proposition A	\$100,210,171
Proposition AA	172,021,801
Measure J	<u>406,030,334</u>
<b>Total</b>	<b><u>\$678,262,306</u></b>

\*Please note that the amount shown as expended is prior to potential external audit adjustments because the FY 2010 financial audit was not complete as of the date of completion of field work for this performance audit.

We conducted this construction Bond Program performance audit in accordance with GAGAS. As required by GAGAS, we planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. The evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objective. Because GAGAS performance audit procedures require reasonable assurance, and these audit procedures did not require detailed examination of all transactions and activities, there is a risk that compliance errors, fraud or illegal acts may exist and not be detected by us.

Management remains responsible for the proper implementation and operation of an adequate internal control system. Due to inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of



the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We were not engaged to and did not perform an audit, the objective of which would be the expression of an opinion on specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed the additional procedures, other matters might have come to our attention that would have been reported to you.

**To achieve the performance audit objective, we assessed Bond Program risks, controls design, controls operation and tested expenditures for compliance. The performance audit methodology applied included the following:**

#### **Program Risk and Controls Design Assessment**

We observed evidence and conducted interviews to assess the effectiveness of the design of internal controls over the Bond Program expenditure process. We interviewed District and Bond Program personnel and analyzed key documentation to assess the design of controls over Bond expenditures, including review, authorization and oversight of the District's Implementation Plan list of projects, contracts executed, accounting for Bond proceeds issued, and payments made and recorded for Fiscal Year 2010. The documents analyzed to assess Bond Program risk and controls design included:

- Proposition A, Proposition AA and Measure J Bond language and Project Lists
- The District's Master Plan
- District Board of Trustees (Board) Meetings Agendas and Minutes
- Applicable Construction Program contract documentation
- Accounting for Bond Program proceeds and expenditures taken from the District's books and records
- District Citizens' Oversight Committee (DCOC) Meeting Minutes
- Relevant policies, procedures, reports and key correspondence

#### **Review of Bond Program Controls Operation and Expenditures Compliance**

The analysis compared Bond Program activities and results to voter materials and funding source requirements for Proposition A, Proposition AA and Measure J. We evaluated selected Bond Program financial records and expenditure cost support to verify that funds were used for approved Bond Program purposes. In accomplishing this work, we reviewed Bond Program accounting records, contracts, purchase orders, invoices, payment records, and other documentation of current expenditures as needed to determine



whether the funds were being used for Bond Program purposes. We selected a representative sample of expenditures and supporting documentation to validate the performance of internal controls for the total Bond Program funds expended. In accomplishing these procedures, we:

- Documented the use of Bond Program funds and segregation of these funds for Bond Program purposes.
- Traced Bond funds received by the District and reconciled amounts received with amounts expended.
- Verified that these funds had not been expended for non-Bond Program purposes.
- Performed a walkthrough of the Bond funds expenditure cycle and sampled supporting documentation for expenditures and cost controls performance.
- Tested whether Bond Program expenditures were compliant with Bond Program purposes and were made in accordance with ballot language, the project list approved by voters, Bond stipulations and contract terms.
- Expenditure testing also addressed controls related to the LACCD Cost Principles for purposes of identifying areas of needed control improvements. Cost Principles application issues, processes and control improvements have been specified.

We performed a walkthrough of the Bond expenditure cycle and sampled supporting documentation for 1,184 expenditures totaling \$315,744,460 (47%) of the total \$678,262,306 of Proposition A, AA and Measure J funds expended between July 1, 2009, and June 30, 2010. Expenditures reviewed in this report are from the Bond Program books and records maintained by the Program Management Team (PMT) and are subject to completion of the District's financial audit.

In addition to evaluating compliance with the State Constitution, the Education Code and Proposition 39, we evaluated the effectiveness and efficiency of Bond Program internal controls. The results of this evaluation in this report are provided so that those charged with governance and oversight could use the information to improve program performance and operations, to increase program effectiveness and efficiency, to facilitate decision making by Management, to oversee or initiate corrective action, and to contribute to public accountability. District control processes to review and approve Contractor cost charges were analyzed. Interviews were conducted to help ensure accurate understanding of events and circumstances surrounding contract compliance practices. Transaction flow and cost control processes were covered during these interviews. District practices were documented, and testing was conducted in conjunction with interviews to evaluate the events and circumstances surrounding the validation of contract billings compliance practices. The following areas were covered by these performance audit procedures.



○ Expenditure Controls and Contract Compliance Testing

Selected contracts were reviewed to gain an understanding of allowable charges and reimbursable costs. Guaranteed maximum price, time and materials and other cost plus contracts were given specific focus and attention. Processes to review and approve contractor charges were analyzed to prevent excessive charges and overpayments, and payment applications were reviewed to assess the adequacy of supporting documentation. We also reviewed the field methods used to validate progress and percent complete.

○ Facilities Master Planning and Prioritization

We reviewed the reconciliation of actual projects for which Bond funds were expended to projects approved by the Board. We analyzed the reconciliation of projects approved by the Board to projects on the approved Facilities Master Plan. We reviewed the reconciliation of the Facilities Master Plan on the approved Listed Projects for Proposition 39 Bond Measures Proposition A, Proposition AA and Measure J. We followed up on any unreconciled items and reported any expenditure or items in the Facilities Master Plan that did not reconcile to approved Bond Funds and Listed Projects.

○ Procurement Controls and Contract Administration

Procurement controls were evaluated for application of competitive and fair subcontracting practices that prevent excessive expenditures. We conducted interviews and reviewed relevant policies, example bids, and contractor selection files. We selected a sample of subcontracts and identified controls in place with College Project Managers (CPM) to apply competitive subcontracting practices. We documented observed noncompliance with applicable policies and procedures, if any.

We evaluated controls designed to integrate procurement processes with controls that prevent and/or detect excessive materials costs. Materials processes and activities reviewed include the following:

- We evaluated use of the schedule and project status for materials orders.
- We evaluated finance purchase order review and approval.
- We evaluated reconciliation between schedule of values, installations and amounts billed.
- We evaluated inbound quality inspection and work performance/delivery confirmation.
- We evaluated material receipt reconciliation to purchase order and invoice prior to payment.
- We evaluated whether job sites were secure for materials received.
- We evaluated materials storage, controls and inventory counting requirements.



○ Contractor Liens, Stop Notices, Claims and Close-Out Administration

We reviewed the District's project close-out process to obtain lien releases, prevent claims and address other close-out issues. Agreements with the general contractor and subcontractors were reviewed for warranties, operator instructions, permits, certificates and as-built drawings. We reviewed the agreements for procedures to clearly identify the parameters for contractor performance. This included review of the criteria for all relevant parties to determine whether a project was complete. We evaluated the processes to verify full and complete release of contractor liens and any other claims prior to final payment. We compared the District's close-out procedures to best practices. Close-out compliance was evaluated through interviews, observation and testing for selected projects.

This analysis included review of:

- Substantial completion requirements
- Inspection and close-out requirements
- Close-out checklists
- Policies and practices for release of retention
- Proper application of Stop Notices and lien releases
- Contract terms and conditions
- Interaction with Division of the State Architect (DSA) for project close-out
- Equipment and systems training

○ Cost, Schedule and Budgetary Management

This analysis covered current, accurate, and complete measurement and management of costs, schedules and budgets. This included analysis of the controls in place, both at the CPM and PMT levels, to reduce the likelihood of projects not meeting schedule and budgetary requirements, and review of the District-level controls to oversee CPM and PMT schedule and budgetary controls implementation.

○ Change Order Controls

Controls and activities to manage change orders were evaluated. Contracts were reviewed to gain an understanding of allowable charges and reimbursable costs related to change orders. Policies and procedures covering the review and approval



of contractor change orders were analyzed to identify potential exposure. We reviewed policies and procedures at both the CPM and PMT levels to verify documentation existed prior to approval of change orders and that required approvals were applied. Selected change orders were tested for duplicated work scope and compliance with Proposition 39 requirements.

o District Citizens' Oversight Committee Compliance

DCOC compliance with Proposition 39 requirements was reviewed. Specific focus and attention was given to DCOC reporting requirements implementation.

**Expenditure Testing Methodology**

We compared the total claimed expenditures for FY 2010 to BuildLACCD's Project Non-Labor Detail Report and reconciled the expenditures to the project status report. Individual items selected for review were traced to the project non-labor status report. We verified funds were used for approved Bond Program purposes as set forth in the ballot measure and Bond documents. We applied the District's Cost Principles when assessing the allowability and reasonableness of sampled transactions.

Our sample selection for testing was determined by stratifying the District/BuildLACCD general ledger and making a judgmental selection of expenditures. Additionally, we judgmentally reviewed large-dollar journal entries greater than \$50,000, BuildLACCD labor hour and expense transactions and District-wide transactions. We obtained a total sample of 1,184 FY 2010 Proposition A, AA and Measure J expenditures for testing. Documentation sampled included check requests, journal entries, invoices and other documentation. Because judgmental sampling was utilized, results cannot be extrapolated to the entire population.

We traced the sampled items to vendor/payee accounts payable files and examined supporting data, such as:

- o Contracts and/or purchase orders
- o LACCD's Board of Trustees minutes of facilities planning and development actions regarding contract authorizations and ratifications
- o Contractor payment requests
- o Contractor payment certification
- o Detailed schedule of values
- o Release of claims (conditional and unconditional, as applicable)
- o Vendor invoices



- Schedules of contract-approved billing rates and/or prevailing wages (as applicable)
- Invoice payment checklists
- Invoice payment approval
- Journal entries
- Other supporting data

The sampled transactions were verified for the following:

- Expenditure compliance with contracts and Bond requirements
- Proper completion of the payment checklists and other forms required by contractors/vendors for submission of payment requests
- Evidence of approval for contract/purchase order by Board of Trustees
- Evidence of review/approval by General Counsel (where applicable)
- Evidence of approval for payment by the CPM, Inspector, Design Consultant (Architect), BuildLACCD PMT, and District representative
- Evidence that the contract/purchase order was the result of competitive bidding, or proper justification if not based on competition
- Expenditures were tested against the criteria for allowability and reasonableness contained in the Cost Principles
- Expenditures were tested against the criteria for allowability contained in Article XIII A of the California Constitution



### Cost Exception Impact Analysis Methodology

Since not all transactions were tested in the performance audit, we performed analysis to summarize the following:

- **Proposition 39/State Constitution Article XIII A Analysis**

We performed analysis to summarize the likely maximum impact of cost exceptions identified during our performance audit. Likely maximum cost exception exposure is referred to as Maximum Noncompliance Exposure in this report.

- **Cost Principles Analysis**

We performed analysis to identify recommended processes and controls for future adherence to the recently adopted Cost Principles. We have treated variations from the Cost Principles, adopted following the conclusion of FY 2010, as though they comprised exceptions for FY 2010. However, we have not performed a “worst case” analysis of those expenditures because the Cost Principles were not in effect during FY 2010.

As discussed in the Expenditure Testing Methodology section above, sampling performed to determine compliance with Article XIII A was judgmental rather than statistical. Therefore, exceptions identified cannot be projected using statistical methods. However, we have provided Rough Order of Magnitude (ROM) analysis of the maximum likely impact of cost exceptions identified. The ROM impact analysis is expected to be in excess of the actual impact if the entire population of transactions had been reviewed. This is due to the fact that during the judgmental sampling process, high-risk transactions were identified and selected for testing. Because of this, the rate of exception for the sampled items should be significantly higher than rate of exception for the population as a whole. Therefore, this impact analysis depicts the maximum expected impact of exceptions in the population.

The maximum noncompliance exposure is based on our analysis of performance audit sample exceptions and information provided to us to document those exceptions. This analysis considered the nature of exceptions observed, and percentage of exceptions found in our sample, and conservatively applied the information provided to us to identify the apparent maximum possible of observed dollar error impact in FY 2010. This information is provided to indicate perspective on the potential impact of the identified exceptions on the population of expenditures subject to this performance audit. The impact analysis methodology utilized was based on the type of exception or issue observed as follows:



Area	Method of Determining Maximum Noncompliance Exposure
District-Wide Article XIII A Issues	We tested 2.48 percent of the population of District-wide transactions. Noncompliance exceptions were found related to Article XIII A compliance. We computed the Maximum Noncompliance Exposure by applying the ratio of sampled costs to the total population.

### **Control Testing Methodology**

Controls in the areas of expenditures, facilities master planning and prioritization, procurement and contract administration, contractor close-out procedures, cost schedule and budgetary management and change order processing were evaluated through a combination of interviews and sampling of relevant documents to ascertain whether the controls in these areas were sufficient. Samples were selected by applying judgmental sampling to relevant populations of contracts, change orders and other documents.

- Interviews
  - We interviewed key personnel responsible for administering the Bond Program, including senior management and staff from the District and Bond Program Management Team responsible for overseeing the work associated with the Bond Program. The individuals interviewed are listed in Appendix A of this report.



**AUDIT RESULTS**

Exceptions to Article XIII A and opportunities for future compliance with the Cost Principles resulting from compliance and internal controls testing are presented as follows:

**1. Noncompliance with Article XIII A of the California Constitution**

The performance audit procedures applied provided reasonable assurance, in accordance with GAGAS that the Fiscal Year ended June 30, 2010, Bond proceeds were expended on the projects listed with Proposition A, Proposition AA and Measure J which authorized the sale of the Bonds and were compliant with the Article XIII A of the California Constitution except as follows:

Exception	Noncompliant Cost Amount	Maximum Noncompliance Exposure (1)
District-wide Expenses	\$ 13,272	\$535,161
<b>FY 2010 Total Bond Program Expenditures</b>		\$678,262,306
<b>Maximum Noncompliance Percent of Total Expenditures</b>		0.08%

(1) The maximum noncompliance exposure is based on our analysis of performance audit sample exceptions and information provided to us to document those exceptions. This analysis considered the nature of exceptions observed, and percentage of exceptions found in our sample, and conservatively applied the information provided to us to identify the apparent maximum possible of observed dollar error impact in Fiscal Year ended June 30, 2010. This information is provided to indicate perspective on the potential impact of the identified exceptions on the population of expenditures subject to this performance audit.

**Criteria:** Article XIII A, Section 1(b)(3) of the California Constitution was used to determine allowability of sampled District-wide charges. Article XIII A prohibits the use of Bond funds for College and District operational expenditures and for projects that are not approved for use of Bond funds.



**Condition:** In a sample of \$3,836,397 of District-wide expenses, \$13,272 of noncompliant use of Bond funds for recycling operations were identified. Of the total, \$13,272 involves noncompliant costs in accordance with Article XIII A of the California Constitution. The information provided to us indicated a likely maximum exposure for these exceptions of \$535,161. See Appendix B for a detailed listing of recycling operations cost exceptions.

**Cause:** For the year ended June 30, 2010, Controls had not yet been established to ensure that all District-wide charges were allowable in accordance with the California Constitution.

**Effect:** Noncompliant costs in accordance with the California Constitution were included in amounts charged to the LACCD Bond Program.

**Recommendation:** BuildLACCD should establish additional controls to ensure that those District-wide activities which are defined as noncompliant under the California Constitution are not included in any future invoices submitted to LACCD for payment.

- **Management Response:** Management concurs with the exceptions related to recycling and agrees to address the issues of noncompliance with Prop 39 and the recently promulgated Cost Principles and the associated Bond Counsel opinions. BuildLACCD has held training sessions to communicate these new materials to personnel. We have completed training all the PM team and have completed the majority of the CPM teams. This training should be complete by calendar year end 2010. Unclear expenditures are questioned and submitted to District General Counsel for clarification.

## 2. Close-Out Documentation

**Criteria:** We evaluated BuildLACCD and CPM close-out documentation controls against known strong control practices to determine if BuildLACCD and CPM controls were sufficient to ensure close-out documents are obtained and retained.

**Condition:** We observed one instance in which all closing documents were missing, including warranties, lien releases, record drawings, Operations & Maintenance and training manuals. BuildLACCD has personnel assigned the task of ensuring that all required closing documents are retained. However, it appears that this documentation was not consistently retained. Please see Appendix C for additional information.

**Cause:** Sufficient controls do not appear to exist to ensure that all required contractual documents are retained.



**Effect:** Not retaining close-out documents increases risk related to contract performance issues and nonability to recover on valid warranty claims.

**Recommendation:** Additional controls should be instituted to ensure that all applicable close-out documents are retained.

- **Management Response: Close out:** Delivering complete and timely closeout documentation at the completion of bond program projects has been a major focus of the Program Team since the passage of Measure J. Dedicated positions have been established in the Whole Building Commissioning and Warranty groups to ensure the receipt, completeness, formatting, delivery and enforcement of closeout requirements. Document imaging and archiving systems maintain the materials for legacy use, and final payment is held until the closeout obligations of contractors are satisfied. As referred to in the Touch Point Draft Handbook issued in July 2010 and again as Version 10\_22\_10 in October, 2010, BuildLACCD has instituted the following regarding archiving and supplying applicable closeout documentation to the Client.

ARCHIVING (of Closeout documents excerpt from Touch Point Program Handbook (page 113)

- Coordinate **Phase 1** archiving with the CPM at substantial completion (see Phase 1 Checklist, CC-0132), receive design-build team as-built drawings, warranty and M&O binders, etc., coordinate scanning and archiving of District Phase I package, and ensure copies are transmitted to campus facilities. Coordinate as-built reproduction and delivery to e7 Studio.
  - Warranty Team will coordinate with the CPM/PM for receipt of:
    - Design-build team’s (red-line) as-built drawings & specifications.
    - Maintenance & operations manuals.
    - Warranty manual.
    - Whole-building commissioning report.
    - Training videos.
    - DSA approved CD drawings.
  - Warranty team will review Phase I documents and coordinate scanning for inclusion in District record.
  - Warranty team will return original design-build team’s (red-line) as-built drawings & specifications to the CPM for completion and integration into architect’s fully coordinated as-built drawings.



- Warranty team will provide copies of all Phase I documents to campus facilities with copy sent to the CPM.
- Coordinate **Phase 2** archiving with the CPM at final completion with balance of completed project closeout documents (project closeout checklist, CC-0135).
  - Warranty team, when advised by the CPM of project closeout files being prepared and complete, will meet with the CPM to review closeout documentation (index inventory CC-0135A) and (master file index CC-0140).

### 3. **Board of Trustee Approval of Change Orders**

**Criteria:** Board of Trustees policy requires that all change orders be approved by the Board, either before finalization of the change order, or through subsequent ratification if the change order is for a design bid build contract and the cumulative change does not exceed 10% of the base contract. The California Education Code Section 81655 was also used as criteria.

**Condition:** We sampled 50 change orders and found that for 27 sampled change orders, documentation of Board of Trustees approval was not located in the BuildLACCD DocView system. The 27 exceptions all involved change orders for design bid build contracts that allowed for subsequent ratification of change orders if the cumulative value of change orders under the subject contracts was under 10%. For the exceptions related to change orders subject to subsequent ratification, we found no evidence of subsequent ratification of the sampled change orders. BuildLACCD indicated that it is standard practice not to submit change orders for ratification until the 10% limit is reached. This practice appears to differ from the wording in the Board approval that makes no mention of waiting for ratification until the 10% threshold has been reached. The lack of Board of Trustees approval is not consistent with the requirements of California Education Code Section 81655. Please see Appendix D for additional information.

**Cause:** There appears to be a difference of opinion between BuildLACCD and District requirements with regard to the necessity of obtaining Board approval for change orders under certain conditions.

**Effect:** There were 27 change orders that were not submitted to the Board for approval or ratification in a timely manner. This deviates from the District requirement that all contracts and change orders should be approved or ratified by the Board in a timely manner.

**Recommendation:** BuildLACCD should submit all change orders, regardless of dollar value, to the Board for approval.



- **Management Response:** All Design-Bid-Build Change Orders are subject to Board Rule 7100 authorizing the Executive Director of Facilities Planning and Development to authorize Change Orders of up to ten percent (10%), the maximum allowed by law without re-bidding. A previous policy of ratifying Change Orders at the BOT approval of the Notice of Completion has recently been modified. Now all Design-Bid-Build Change Orders are be ratified in a summary BOT action within sixty (60) days of execution. PBA Templates have been developed, along with a revised tabular ratification format to accommodate the large volume of change orders required to be presented to the BOT.

**4. District Approval of Change Orders**

**Criteria:** Change order approval requirements found in BuildLACCD policies and procedures were used as the criteria for determining the correctness of change order approvals. BuildLACCD’s Touchpoint policy document indicates that Change Orders over 5% or \$250,000 require the CPM, College President, Program Manager and District signature approval.

**Condition:** Obtaining all required District change order approval signatures was not consistently enforced by BuildLACCD. In our sample of 50 change orders, we observed 8 instances where the change orders lacked required District signatures. The change orders without evidence of District approval are as follows:

<b>Contract</b>	<b>Change Order</b>
31362	7
31362	9
31763	1
32341	1
32650	1
32794	2
32832	1
70531	2

**Cause:** Obtaining all required signatures is not consistently enforced by BuildLACCD before considering change orders approved.

**Effect:** Failure to obtain appropriate District approvals increases the risk of noncompliant change orders and excessive costs.



**Recommendation:** Additional controls should be implemented to ensure that all required signatures are obtained for change order approval.

- o **Management Response:** District policy as provided in the current College Project Manager contract document provides guidance on required changed order signatures.

The stated contractual criteria are as follows:

- Under 3%: Requires the CPM and college president signature approval.
- Under 5%: Requires the CPM, college president, and program manager signature approval.
- Over 5%: Requires the CPM, college president, program manager and District signature approval.

The Touch Point Handbook will be updated accordingly to reflect this policy.

## 5. **Journal Entry Exception**

**Criteria:** Article XIII A, Section 1(b)(3) of the California Constitution and the Cost Principles were used to determine allowability and reasonableness of sampled accrued invoices. Article XIII A prohibits the use of Bond funds for College and District operational expenditures and for projects that are not approved for use of Bond funds. The Cost Principles provide additional definition of allowability and reasonableness of costs (see the Objective, Scope and Methodology section of this report for further information on Cost Principles).

**Condition:** In a sample of \$187,754,247 of accrued and below-the-line journal entries, \$25,000 of unauthorized costs related to a land purchase transaction for City College were identified. The costs in question represent the difference between the Board authorized amount for land purchase of \$24,625,000 for a property at City College and the amount recorded in the Journal Entry of \$24,650,000. The difference appears to be closing costs that were not included in the Board authorized contract amount. This is considered an isolated incident, as no similar observations were evident.

**Cause:** The cause for the difference between the journal entry amount and the amount of the Board authorization for the land purchase contract amount is unknown.

**Effect:** Unauthorized costs in the amount of \$25,000 were recorded as Bond Program expenditures due to the journal entry.



**Recommendation:** BuildLACCD and LACCD should ensure that all journal entries are supported by adequate authorization to support compliance with Proposition 39 and LACCD Cost Principle requirements.

- **Management Response:** With regards to land /ground lease acquisitions, it is the standard practice of LACCD that all escrow and related fees are implicitly included as part of the Board authorization, since buyer’s costs are a customary part of any property transaction. Future land transactions will include appropriate expenditure authority to support this type of expenditure.

**We also identified the following significant internal control deficiencies related to effectiveness and efficiency of operations as detailed in improvement opportunities below:**

**6. District Citizens’ Oversight Committee Requirements**

**Criteria:** The California Education Code, Sections 15278, 15280, and 15282 applicable to the District Citizens’ Oversight Committee (DCOC) were used as criteria. These sections place a variety of requirements on the DCOC, including requirements for inclusion of student representatives and issuance of annual reports.

**Condition:** The DCOC issued a 2009 annual report that indicates the DCOC consists of 16 representatives including a student representative. However it does not appear that there was a student representative serving as a DCOC member for the period from July 01, 2009, through June 30, 2010, since the BuildLACCD website reflected that student representative position was vacant. Additionally, the DCOC meeting minutes did not list a student representative on the list of attendees at three of four quarterly committee meetings. It was determined that the Board did appoint a student representative but the representative did not attend the meetings and was eventually replaced.

The District Citizens Oversight Committee (DCOC) did not issue annual reports, as required by Section 15282 for Fiscal Years 2004 through 2008.

**Cause:** The cause of not meeting the student representative requirement and of nonissuance of the prior years’ annual reports is unknown.



**Effect:** Lack of a student representative serving as a member on the DCOC will result in lack of communication to the public of the students' opinions and concerns regarding the proper use of Bond funds. Failure to issue prior year reports resulted in noncompliance with Section 15282 of the California Education Code.

**Recommendation:** The DCOC should take steps to ensure that one member of the DCOC shall be a student who is both currently enrolled at the District and active in a community college group, such as student government, as required by the Section 15282(a) of the California Education Code. The DCOC should also ensure that annual reports are issued on an annual basis.

- o **Management Response:** Since the origin of the LACCD Sustainable Building program, and the formation of the initial District Citizen Oversight Committee, as required by Proposition 39, a LACCD student has been designated to serve as a formal member of that body. During the subject audit year of 2009-2010, the audit correctly identifies the fact that a student representative was not a member of the District Citizen Oversight Committee for a short period of time. The Districts student government group was working during that time to find a volunteer for this position, but found the task difficult. That problem was corrected later in the fiscal year with the appointment of the current student representative to the District Citizen Oversight Committee, Ms. Lisa Munoz, a student at LA Trade Technical College. The District has since created a term monitoring process for members of the District Citizen Oversight Committee that will allow adequate notice to assure that gaps in appointments are minimized.

## **7. Processes and Controls for Implementation of Cost Principles**

As discussed in the Objective, Scope and Methodology section of this report, the scope of work for this Performance Audit included analyzing FY 2010 transactions, processes and controls for future compliance with the LACCD Cost Principles. Because the Cost Principles were not published until after the end of FY 2010, the Cost Principles were not yet available to serve as a guide to the District when the FY 2010 Bond Program costs were incurred. Therefore, while we have reported on noncompliance with the Cost Principles in FY 2010, this information is provided only for the purposes of identifying areas for possible implementation of additional controls for FY 2011 and beyond. Costs that were identified in FY 2010 as conflicting with the Cost Principles definitions of allowable and reasonable costs are as follows:

### **7.a. BuildLACCD Labor Hours Issues**

**Criteria:** The Cost Principles were used to determine allowability and reasonableness of sampled BuildLACCD labor charges. The Cost Principles provide definitions of allowability and reasonableness of costs (see the Objective, Scope and Methodology



section of this report for further information on Cost Principles). This criteria was applied to assess the District's readiness for implementation of these Cost Principles in FY 2011.

**Condition:** As discussed above, the Cost Principles were not developed until after the end of FY 2010. Therefore, the purpose of identifying this condition is to provide information to the District on areas where additional controls are required to enable full compliance with the Cost Principles for FY 2011 and beyond. In a sample of 800 BuildLACCD time entries, 95 instances of use of bond funds that were not in accordance with the Cost Principles were identified. If these controls are not modified, the District will not be compliant in the future. The computed impact of this is \$41,457 for the sampled items. Please see Appendix E for additional details on the calculation of the cost impact.

The District terminated 11 BuildLACCD positions on May 28, 2010. Position titles, nature of functions performed and time sheets indicated activities that in the future may have conflicted with the Cost Principles if the positions had not been eliminated. However, timekeeping related cost records were not maintained in sufficient detail to capture current, accurate and complete noncompliant costs. The total amount invoiced by BuildLACCD for these positions during FY 2010 was \$2,423,860. We have not computed an exception amount for these positions because the positions in question have been terminated and the lack of detail maintained in timekeeping records precludes calculation of an accurate impact for those instances when work performed would have conflicted either with the California Constitution or with the Cost Principles.

**Cause:** For the year ended June 30, 2010, BuildLACCD had not yet established controls to ensure that all labor charges were allowable and reasonable in accordance with the subsequently issued Cost Principles.

**Effect:** Costs not in accordance with the Cost Principles were included in amounts charged to the LACCD Bond Program. Therefore, additional controls are needed to prevent these activities from being charged to the Bond Program in FY 2011.

**Recommendation:** BuildLACCD should establish additional controls to ensure that those labor-hour-related activities which are defined as costs not in accordance with the Cost Principles are not included in any future invoices submitted to LACCD for payment.



- **Management Response:** Management has taken steps to stay compliant with the Cost Principles. As MA states in this report, BuildLACCD took action and terminated 11 people all of which worked in questionable positions according to the Cost Principles. As Management became aware of potential issues with the Internship Program, BuildLACCD reduced the scope of services for the contractor supplying BuildLACCD with the people found to be “unallowable.” Four additional people (in addition to the 11 listed in this report) were terminated by the contractor.

Finally, as a preventative measure, BuildLACCD has held training sessions to outline the new Cost Principles and Labor Logs. We have completed training all the PM team and have completed the majority of the CPM teams. This training will be completed shortly.

### **7.b. BuildLACCD Expenses Issues**

**Criteria:** The Cost Principles were used to determine allowability and reasonableness of sampled BuildLACCD expense charges. The Cost Principles provide definitions of allowability and reasonableness of costs (see the Objective, Scope and Methodology section of this report for further information on Cost Principles). This criteria was applied to assess the District’s readiness for implementation of these Cost Principles in FY 2011.

**Condition:** In a judgmental sample of 75 items totaling \$155,416 of BuildLACCD expenses, \$3,237 of costs not in accordance with the Cost Principles were identified. As discussed above, the Cost Principles were not developed until after the end of FY 2010. Therefore, the purpose of identifying this condition is to provide information to the District on areas where additional controls are required to enable full compliance with the Cost Principles for FY 2011 and beyond. Please see Appendix F for a detailed list of costs included in this calculation.

**Cause:** For the year ended June 30, 2010, BuildLACCD had not yet established controls to ensure that all BuildLACCD charges were allowable and/or reasonable in accordance with the Cost Principles.

**Effect:** Costs not in accordance with the Cost Principles were included in amounts charged to the LACCD Bond Program. Therefore, additional controls are needed to prevent these activities from being charged to the Bond Program in FY 2011.

**Recommendation:** Steps should be taken to differentiate between allowable training costs for employees and consultants to ensure compliance with the Cost Principles.



No materiality threshold is specified in the Cost Principles; therefore, supporting documents are required for all the selected samples.

- **Management Response:** Five of the six exceptions listed by MA in the BuildLACCD Expenditure Test are under \$1,000. The only exception over \$1,000 relates to training of a BuildLACCD team member. Reasonable training costs with a direct benefit to the Build program has been demonstrated by Management.

It is the intent of the Build LACCD team and District management that all transactions in the future regardless of materiality will be compliant with the requirements of Proposition 39 and the Cost Principles. As a preventative measure, BuildLACCD has held training sessions to outline the new Cost Principles. We have completed training all the PM team and have completed the majority of the CPM teams. This training will be completed shortly.

### **7.c. District-Wide Expenses Issues**

**Criteria:** The Cost Principles were used to determine allowability and reasonableness of sampled District-wide expense charges. The Cost Principles provide definitions of allowability and reasonableness of costs (see the Objective, Scope and Methodology section of this report for further information on Cost Principles). This criteria was applied to assess the District's readiness for implementation of these Cost Principles in FY 2011.

**Condition:** In a sample of \$3,836,397 of District-wide expenses, we identified \$3,600 of costs not in accordance with the Cost Principles. As discussed above, the Cost Principles were not developed until after the end of FY 2010. Therefore, the purpose of identifying this condition is to provide information to the District on areas where additional controls are required to enable full compliance with the Cost Principles for FY 2011 and beyond. See Appendix G for a detailed listing of writing services included in this calculation.

During FY 2010, the scope of work for MWW Group Contract 32480 and PVJobs Contract 50140 was revised to remove that scope of work that was believed to potentially be in conflict with the Cost Principles that were under development. We analyzed the scope of work before and after the scope reductions for these contracts as follows:

- **MWW Group Contract 32480:** The scope of work for the MWW Group contract was reduced on May 26, 2010. For the MWW Group contract, we compared the scope before and after the May 26, 2010, scope reduction to the Cost Principles and identified areas of apparent conflict between the scope prior to the reduction with Cost Principles. We did not identify



exceptions with the scope of work after the scope reduction. The identified issues have already been included in the District-wide condition above. The results of our analysis are presented in Appendix H.

- **PVJobs Contract 50140:** The scope of work for the PVJobs contract was reduced on June 29, 2010 with an effective date of April 23, 2010, to reduce certain Task Order 1 scope that in the future would be noncompliant with Cost Principles that were under development. Our analysis indicates that the scope reduction partially addressed this issue but did not fully address the potential future noncompliant scope areas in accordance with the Cost Principles. Sufficient records of compliant and noncompliant costs were not maintained to determine the potential impact of the scope issues. Therefore, we have not computed an exception related to this issue. The total amount expended against Task Order 1 during FY 2010 was \$658,181. The results of our analysis are presented in Appendix I.

**Cause:** For the year ended June 30, 2010, Controls had not yet been established to ensure that all District-wide charges were allowable in accordance with the California Constitution and with the subsequently issued Cost Principles.

**Effect:** Noncompliant costs in accordance with the California Constitution were included in amounts charged to the Bond Program. Therefore, additional controls are needed to prevent these activities from being charged to the Bond Program in FY 2011.

**Recommendation:** BuildLACCD should establish additional controls to ensure that those District-wide activities which are defined as noncompliant under the California Constitution and the Cost Principles are not included in any future invoices submitted to LACCD for payment.

- **Management Response:** With implementation of the Cost Principles, management does not expect to see a repetition of this issue. By way of explanation, \$3,300 of the \$3,600 in expenditures were for the writing services generating articles for the [www.LACCDBuildsGreen.org](http://www.LACCDBuildsGreen.org) website. The material presented on the website is related to ongoing Bond Program projects and has a necessary public notification / campus information component. The website is an integral part of the Bond Program and as such is a “reasonable” Bond expenditure.

Management accepts that a limited amount of the previous scope of services for MWW and PV Jobs would currently be considered unreasonable as they relate to the new Cost Principles.

As noted in this report, on May 26, 2010, MWW’s contract was reduced in scope to comply with the Cost Principles. As a point of further clarification, the following actions were taken with this revised scope:



Tactic: Establish LACCD Speakers' Bureau – this has been eliminated from the scope.

Tactic: Event Related Outreach – Bond Council has detailed three events that are within the reasonable limits and MWW is limited to these three events: topping out, ground breaking and grand opening.

Tactic: Create New Social Media Tools – this has been eliminated from the scope.

Tactic: Build LACCD Buildsgreen Brand – this has been eliminated from the scope.

As noted by MA, the PV Jobs Task Order number 1 was revised on June 29, 2010. Second, Management concurs that the Green Jobs was noncompliant. The scope, as noted, has been removed. Finally, Management concurs that some of the PV Jobs interns' scope of services can be considered recruiting. BuildLACCD will be working with counsel to redefine "noncompliant recruiting."



**Follow-Up on Previous Proposition A, Proposition AA and Measure J Audit Recommendations**

We reviewed the previous years’ Bond Program audit reports by Moss Adams, and open issues from previous Bond Program audits. We interviewed District and Program Management personnel to determine the status of resolving open audit issues. Through inquiry and review of documents, we confirmed 32 of 37 issues from past audits have been resolved. Details for all past audit issues are included in Appendix I. Because the FY 2010 performance audit was conducted under Generally Accepted Government Auditing Standards and prior year performance audits were conducted under consulting standards, we have added a column to Appendix I to indicate which standard was utilized to close individual items to clarify that items closed in prior years were closed under consulting standards. A summary of audit issue status for the FY 2008 and FY 2009 performance audits is below. Since all issues were closed for years prior to FY 2008, those issues are not listed below or in Appendix J.

Source	Issues Identified	Closed Items	Open – Not Yet Addressed*	Open – In Progress / Pending Correction	Open – Correction Implemented, Pending Validation by Auditor
Moss Adams 2009	16	16	0	0	0
Moss Adams 2008	21	19	0	2	0
<b>Total</b>	<b><u>37</u></b>	<b><u>35</u></b>	<b><u>0</u></b>	<b><u>2</u></b>	<b><u>0</u></b>

\*The Open-Not Yet Addressed item is issue 09.MA.2.a. This item is considered to be under District responsibility because BuildLACCD does not have responsibility for college maintenance related items.

The open past audit issues, and the status of solutions implementation, are as follows:

- **08.MA.4.a.** BuildLACCD did not record a receivable for expected State of California reimbursements and did not record amounts received from the State against the receivable. They also did not track, on a monthly basis, whether the State had reimbursed less than the expected amount. At the end of the year, BuildLACCD obtained information from the District regarding State reimbursements received and adjusted their records accordingly. BuildLACCD should develop a method of tracking state reimbursements and should make monthly adjustments to its records based on the actual reimbursements that are received.
  - Current Status: The State reimbursement process is being improved, with the current year reconciled. A process to communicate both payments and rejected amounts has been developed.



- **08.MA.4.b.** Evidence could not be found that the PMT provided LACCD with project allocation of PMT costs. Providing this information would better enable LACCD to capitalize those costs in accordance with Governmental Accounting Standards Board (GASB) 45. BuildLACCD and the District should work together to develop a method of allocation for program management costs.
  - Current Status: A cost allocation model has been developed, delivered to the District, and approved by the District's financial auditor, KPMG LLP. Current year costs are being entered, with plans for past year costs to be entered. All soft costs are to be broken down on a project by project basis.



## **REPORTING VIEWS OF RESPONSIBLE OFFICIALS**

Management concurs with the audit results as they relate to Proposition 39/State constitution Article XIII A.. These audit results are *consistent with the report* Moss Adams has issued under California Government Code Section 53410 and our assertion of compliant use of 2001 Proposition A, 2003 Proposition AA and 2008 Measure J construction bonds. To achieve these ends, we have instituted specific policies, procedures and other internal controls to ensure accurate and compliant approval, recording and reporting of bond-related expenditures. We are committed to strong internal controls in order to deliver the required facilities and infrastructure to support the educational needs of our community, now and in the future, as defined in our current through provide management responses. Management agrees that we will develop an action plan to address the deficiencies identified in this report.

As stated in this report, MA acknowledges in the report that the Cost Principles document was not in existence during FY 2010. Therefore, the parties involved in management of Bond Program expenditures did not have these definitions available when making decisions during the year with regard to whether an expenditure would meet the Cost Principle requirements for allowability, allocability and reasonableness. Any cited “exceptions” to the Cost Principles are actual “opportunities” for control improvements.



## **APPENDIX A – INTERVIEWS PERFORMED**

The following key personnel were interviewed:

The following personnel were interviewed:

- BuildLACCD (Bond Program Management)
  - David Barilotti, Program Controls/Budgeting
  - Kelly Cauvel, Eco Charette
  - Anthony Chiodo, Procurement
  - Mona Garber, Interns Program
  - Joemar Gervacio, Purchasing
  - John Harmer, Program Manager
  - Rick Nolette, Warranty Program
  - Daniel Robb, Construction Contracts
  - Rueben Smith, Warranty Program
  - Werner Wolf, Construction Contracts
- LACCD
  - Larry Eisenberg, Executive Director
  - Tom Hall, Director of Facilities
  - Camille Goulet, General Counsel
  - Arnold Blanshard, Director of Internal Audit
- Campus Project Managers
  - Christopher Dunne, Valley College
  - Deba Mohapatra, Los Angeles Trade Tech College
  - Robert Dieken, Los Angeles Valley College
  - Bob Herman, East Los Angeles College
  - David Tsao, Pierce College
- Other
  - Lisalee Wells, LACCD External Bond Counsel



**APPENDIX B – DISTRICT-WIDE RECYCLING EXCEPTIONS**

We tested expenses that were accounted for as district-wide expenses. These are primarily expenses of consultants that perform work that benefits multiple campuses (District-wide). These costs are then allocated to benefiting campuses. In our sample of \$3,836,397 of District-wide expenses of \$154,443,104, \$13,272 of noncompliant recycling costs in accordance with Article XIII A of the California Constitution were identified. See Observation 1 in the Audit Results section of the report.

Calculation of the maximum potential projection of these findings to the population of District-wide transactions is as follows:

40 J (District-wide) Population (A)	\$154,443,104
40J (District-wide) Sample (B )	\$ 3,836,397
<b>Sample Percent (B/A)</b>	<b>2.48%</b>
Exception Amounts:	
Article XIII A Noncompliant	\$13,272
Projection of Exceptions (maximum potential impact):	
Article XIII A Noncompliant	\$ 535,161



Details of these recycling exceptions are as follows:

RECYCLING OPERATIONS				
No.	Vendor Name	Invoice No.	Issue	Noncompliant Costs
1	Recycling Strategies	1258-R2	The scope appears to include recycling strategies for non-Bond funded facilities. The response provided by BuildLACCD indicates, “Scope of services for this contract is 100% Bond related to construction waste recycling.” The college recycling costs are operational costs and considered noncompliant costs in accordance with Article XIII A, Section 1(b)(3) of the California Constitution.	\$ 741.25
2	Recycling Strategies	1260	The scope appears to include recycling strategies for non-Bond funded facilities. The response provided by BuildLACCD indicates, “Scope of services for this contract is 100% Bond related to construction waste recycling.” The college recycling costs are operational costs and considered noncompliant costs in accordance with Article XIII A, Section 1(b)(3) of the California Constitution.	9,452.50
3	Recycling Strategies	1268	The scope appears to include recycling strategies for non-Bond funded facilities. The response provided by BuildLACCD indicates, “Scope of services for this contract is 100% Bond related to construction waste recycling.” The college recycling costs are operational costs and considered noncompliant costs in accordance with Article XIII A, Section 1(b)(3) of the California Constitution.	<u>3,078.75</u>
<b>TOTAL</b>				<b><u>\$13,272.50</u></b>



**APPENDIX C – CONTRACTOR LIENS AND CLOSE-OUT DOCUMENTATION**

We sampled close-out documentation for 10 of the 15 contracts that were identified as being closed out in FY 2010. We found that contractor close-out documentation was not consistently obtained. We found one instance of missing all closing documents. See Observation 2 in the Audit Results section of the report.

Details on exceptions are provided as follows:

<b>Contract No</b>	<b>Specific Documentation Missing</b>	<b>Notes or Missing Document Attributes</b>
70291	All close-out documentation was missing.	Per inquiry with LACCD personnel, these documents were obtained on October 28, 2010, but have since been lost. We were unable to corroborate this assertion.



**APPENDIX D – CHANGE ORDER APPROVAL EXCEPTIONS**

We sampled 50 change orders and found that for 27, documentation of Board of Trustees’ (BOT) approval was not located in the BuildLACCD DocView system. The lack of Board of Trustees approval is not consistent with the requirements of California Education Code Section 81655. See Observation 3 in the Audit Results section of the report.

The 27 exceptions all related to design bid build type contracts for which BOT policy allowed for subsequent ratification but for which we could not locate documentation of subsequent ratification. A listing of the specific change orders follows.

Contract No.	Change Order	Contract No.	Change Order
30951	13	31514	38
31013	26	31514	39
31125	10	31612	3
31170	6R	31891	1
31226	8	31891	2
31328	4	32264	4
31362	6	32345	2
31362	7	32381	1
31362	9	32596	1
31362	10	32650	1
31453	20	70295	7
31453	21	70462	2
31453	24	70530	9
31514	37		



**APPENDIX E – BUILDLACCD LABOR ISSUES**

In accordance with the scope of work specified in the Objective, Scope and Methodology section of this report, we performed detailed testing of BuildLACCD labor hours to identify instances when tasks performed would in the future represent noncompliant activities in accordance with the Cost Principles. See Observation 7a in the Audit Results section of the report.

We have summarized testing results by cost category as follows:

**Testing Results**

Area	Quantification of Amounts	
	Cost Principle Issue	Note
FY 2010 costs for exceptions identified during testing	\$41,457	1

**Note 1:** We judgmentally tested 800 BuildLACCD time log entries and identified the following 95 instances that would be exceptions from the Cost Principles in the future:

Cost Category	Instances
Conferences	9
Internship Program Costs	61
Other (Cost Category Unknown)	5
Outreach	1
Public Relations	19
<b>Total</b>	<b><u>95</u></b>

In summary, we identified 95 instances when the task or tasks recorded for a day were found to contain activities that in the future would be noncompliant with the Cost Principles. Although we attempted to determine the specific hours involved, the documentation provided was not sufficient to determine the number of hours associated with the exceptions above.



We then computed a rough order of magnitude (ROM) estimate of the potential impact of these findings as follows:

Cost Category	Instances	ROM Hour Estimate*	ROM Dollar Estimate**
Conferences	9	54	\$ 7,659
Internship Program Costs	61	366	10,540
Other (Cost Category Unknown)	5	30	5,065
Outreach	1	6	1,147
Public Relations	<u>19</u>	<u>114</u>	<u>17,046</u>
<b>Total</b>	<b><u>95</u></b>	<b><u>570</u></b>	<b><u>\$41,457</u></b>

\* We estimated a maximum potential number of hours per occurrence of six hours.

\*\* Actual pay rates for the personnel involved were applied to determine maximum dollar impact of identified instances.

**Days/Hours Tested**

We sampled a total of 800 days (6,400 hours) charged on monthly invoices from BuildLACCD. We selected hours based on an assessment of those positions which appeared to be of highest risk of performing tasks that would be considered noncompliant with the Cost Principles document.



The specific job areas sampled are as follows:

Job Area	Days Sampled			Total Sample	Hours
	July 09	Aug 09	Mar 10		
Design	40	40	40	120	960
Energy	40	40	40	120	960
Energy – Public Policy	20	20	20	60	480
Energy – Sustainability	20	20	20	60	480
Operations – Administration	20	20	20	60	480
Outreach Programs	120	40	40	200	1,600
PR/Communications	40	40	40	120	960
RPM – Resource Recovery	<u>20</u>	<u>20</u>	<u>20</u>	<u>60</u>	<u>480</u>
<b>Total</b>	<b><u>320</u></b>	<b><u>240</u></b>	<b><u>240</u></b>	<b><u>800</u></b>	<b><u>6,400</u></b>

**Note:** 20 days per month were tested per employee. Multiple personnel were tested in some of the categories above. For example, six employees were tested for July 2009 for Outreach Programs resulted in days tested of 120 (6 X 20).



**Detailed Results**

The sampled time log entries were reviewed, and for those activities where it appeared that tasks that in the future would represent noncompliant activities have been performed, a follow-up request was prepared and provided to BuildLACCD to obtain documentation for the assessment concerning the allowability and reasonableness of the tasks in accordance with the Cost Principles. The tables that follow summarize instances where, if the activity were to occur in FY 2011, the activity would be considered noncompliant with the Cost Principles. Controls will need to be implemented to prevent the charging of the expenditures to the bond program in FY 2011 and beyond.

<b>Category</b>	<b>Job Area</b>	<b>Number of Occurrences</b>	<b>Questioned Task</b>	<b>Build LACCD Comment</b>	<b>Moss Adams Observation</b>
Conferences	Energy	1	Butte College 3rd Annual Sustainability Conference.	Moss Adams (MA) should note that while BuildLACCD still agrees with this exception, it is limited and does not constitute 100% of the person's work. This position was terminated on May 21, 2010.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.
Conferences	Energy	1	Butte College 3rd Annual Sustainability Conference.	MA should note that while BuildLACCD still agrees with this exception, it is limited and does not constitute 100% of the person's work. This position was terminated on May 21, 2010.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.
Conferences	Energy	1	Coordinated travel for Sustainability Conference.	MA should note that while BuildLACCD still disagrees with this exception, it is limited and does not constitute 100% of the person's work. This position was terminated on May 21, 2010.	BuildLACCD has indicated that it agrees that the attendance at the conference is noncompliant. Therefore, the travel coordination for the conference would also be noncompliant.

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Category	Job Area	Number of Occurrences	Questioned Task	Build LACCD Comment	Moss Adams Observation
Conferences	Energy	1	Coordinate 3rd annual sustainability conference travel.	MA should note that while BuildLACCD still disagrees with this exception, it is limited and does not constitute 100% of the person's work. This position was terminated on May 21, 2010.	BuildLACCD has indicated that it agrees that the attendance at the conference is noncompliant. Therefore, the travel coordination for the conference would also be noncompliant.
Conferences	Energy-Sustainability	1	Presented at Butte Community College.	MA should note that while BuildLACCD agrees with this exception, it is limited to 8 hours and does not constitute 100% of the person's work.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.
Conferences	Energy-Sustainability	1	[...] preparation for Butte Sustainability Conference.	MA should note that while BuildLACCD agrees with this exception, it is limited to 8 hours and does not constitute 100% of the person's work.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.
Conferences	RPM- Resource Recovery	1	Mtg. w/ Smith @ Trade discuss recycling proposal for Sustainability conference. [...] Worked on Recycle Mania information for Feb. Information gathered from Consolidated waste hauler summary of collection from campuses [...] Finalized Sustainability conference proposal and submitted to Maynard. PC/E-mail: Maynard re conference proposal, Yanes re conference proposal	MA should note that while BuildLACCD agrees with this exception, it is limited and does not constitute 100% of the person's work.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.

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Category	Job Area	Number of Occurrences	Questioned Task	Build LACCD Comment	Moss Adams Observation
Conferences	RPM- Resource Recovery	1	Winter-Gross Sustainability Conference proposal on District recycling program.	MA should note that while BuildLACCD agrees with this exception, it is limited and does not constitute 100% of the person's work.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.
Conferences	RPM- Resource Recovery	1	Worked on proposal for Sustainability Conference. [...] Sustainability proposal, Maynard Sustainability conference [...].	MA should note that while BuildLACCD agrees with this exception, it is limited and does not constitute 100% of the person's work.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.
Internship Program Costs	Outreach Programs	20	Disney jobs, sales meeting, customer service training, Business development (16 hrs), follow-up calls, Mt St Mary internship, follow-up sales calls, meeting at Goodwill to find job opportunities, intern plan meeting, Westchester chamber event, job fair, sales strategy, T-Mobile store visit for intern opportunities, Nexttrend Job Fair and LA Biggest Expo, Urban meeting discuss paid internships, Venice Chamber Luncheon, PVJOBS Green Biz Think Tank, Mtg. with Ranimaker Network, orientation and followed up with business about job fair, meeting with JVS and business outreach.	MA should note that while BuildLACCD agrees with this exception, it is limited and does not constitute 100% of the person's work. This position was terminated on May 24, 2010.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.

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<b>Category</b>	<b>Job Area</b>	<b>Number of Occurrences</b>	<b>Questioned Task</b>	<b>Build LACCD Comment</b>	<b>Moss Adams Observation</b>
Internship Program Costs	Outreach Programs	1	Performed dally duties/Hosted BBQ event for intern sign-up. Scout various employers @ various locations	BuildLACCD disagrees with this as an exception since it is agreed to be unreasonable not unallowable.	The Cost Principles define exceptions within each cost category for both unallowable and unreasonable costs. Therefore, unreasonable costs do constitute noncompliant costs in accordance with the Cost Principles.
Internship Program Costs	Outreach Programs	20	Gleaned job leads from the EI Segundo Environmental Expo; Met with LACCD Interns Program brochure designer; completed revisions to LACCD Interns Program brochure, Participated in Green LA Coalition meeting in downtown LA, attended LA Chamber event where Eisenberg spoke, Faxed student resumes to employers/Revised job fair filer, met with repo from Adobe Communities re job relationships, met with rep from Jewish Vocational Services.	MA should note that while BuildLACCD agrees with this exception, it is limited and does not constitute 100% of the person's work. This position was terminated on May 24, 2010.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.

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Category	Job Area	Number of Occurrences	Questioned Task	Build LACCD Comment	Moss Adams Observation
Internship Program Costs	Outreach Programs	20	Follow up calls re: jobs to Westfield Shopping Centers and Hornblower, interns to SCE, EL Segundo Sustainability event, Received job lead from Westfield, Sales Calls to Eco-Station, Green LA Coalition Meeting, researched Disney Interns program, outreached to potential employers: Decron prop and Otis College, LA Chamber Green Workforce meeting, Venice Chamber Luncheon, Best Buys Contact fir job skills workshop hosted at PVJOBS, follow up calls for The Foundry, Pacific Bakery, Organic Panificio, followed up on resumes sent to :Westfield and Healthy City	MA should note that while BuildLACCD agrees with this exception, it is limited and does not constitute 100% of the person's work. This position was terminated on May 24, 2010.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.
Other	Outreach Programs	1	Special Project.	This work was never finalized and no report was issued.	This cost is noncompliant with the Cost Principles.
Other	Outreach Programs	1	Work on District special project.	This work was never finalized and no report was issued.	This cost is noncompliant with the Cost Principles.
Other	Outreach Programs	1	Special District Project.	This work was never finalized and no report was issued.	This cost is noncompliant with the Cost Principles.
Other	Outreach Programs	1	Start on special project for District; Green Jobs and Intern meetings at PV Jobs.	This work was never finalized and no report was issued.	This cost is noncompliant with the Cost Principles.

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<b>Category</b>	<b>Job Area</b>	<b>Number of Occurrences</b>	<b>Questioned Task</b>	<b>Build LACCD Comment</b>	<b>Moss Adams Observation</b>
Public Relations	Outreach Programs	1	Green Jobs update with Deborah.	MA should note that while BuildLACCD agrees with this exception, it is limited and does not constitute 100% of the person's work. This Green Jobs program was terminated on May 24, 2010.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.
Public Relations	Outreach Programs	1	Green Jobs update with Deborah Deras	MA should note that while BuildLACCD agrees with this exception, it is limited and does not constitute 100% of the person's work. This Green Jobs program was terminated on May 24, 2010.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.
Public Relations	Outreach Programs	1	Green jobs update and discussion on article of success stories.	MA should note that while BuildLACCD agrees with this exception, it is limited and does not constitute 100% of the person's work. This Green jobs program was terminated on May 24, 2010.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.
Public Relations	PR/ Communications	1	Edit new website, edit various stories, update recycling stories, edits of newsletters and other like tasks.	MA should note that while BuildLACCD agrees with this exception, it is limited to 9 hours for the entire month of August 2009 and Veronica is charged 1/3 to the District as of 11/1/09.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.

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Category	Job Area	Number of Occurrences	Questioned Task	Build LACCD Comment	Moss Adams Observation
Public Relations	PR/ Communications	1	Edit draft of news release on Interim Chancellor.	MA should note that while BuildLACCD agrees with this exception, it is limited to 2 hours and Veronica is charged 1/3 to the District as of 11/1/09.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.
Public Relations	PR/ Communications	1	Review green report cards for Glenda.	Green report cards provided.	The sampled hours appear to include significant elements that are not related to Bond-funded projects. Therefore, this activity is considered noncompliant.
Public Relations	PR/ Communications	1	Send new caption for studio story; edit Steve Paine's e-mail blast; review new videos from Melinda Farrell; fixes to student trustee bio; check status of small business brochure (Mona Garber).	Story provided.	The sampled hours appear to include significant elements that are not related to Bond-funded projects. Therefore, this activity is considered noncompliant.
Public Relations	PR/ Communications	1	Edit Springer's kiosk story; finish edits on recycling stories; finish edits on studio story; edit press release for new Pierce president, finish edits on student trustee bio.	MA should note that while BuildLACCD agrees with this exception, it is limited to 2 hours and Veronica is charged 1/3 to the District as of 11/1/09.	Both BuildLACCD and Moss Adams agree that the task in question includes noncompliant expenses in accordance with the Cost Principles.
Public Relations	PR/ Communications	1	[...] student trustee bio; edit recycling stories with Lynn; write shortened college summaries for new website.	Stories provided.	We reviewed the story and concluded that it does not appear to be related to Bond-funded projects. Therefore, this is considered a noncompliant activity.
Public Relations	PR/ Communications	1	[...] edit recycling stories with Lynn and discuss future stories.	Stories provided.	We reviewed the story and concluded that it does not appear to be related to Bond-funded projects. Therefore, this is considered a noncompliant activity.

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Category	Job Area	Number of Occurrences	Questioned Task	Build LACCD Comment	Moss Adams Observation
Public Relations	PR/ Communications	1	[...] work with Lynn on recycle stories [...].	Stories provided.	We reviewed the story and concluded that it does not appear to be related to Bond-funded projects. Therefore, this is considered a noncompliant activity.
Public Relations	PR/ Communications	1	[...] crisis communication plan review; green courses list.	All items related to the maintenance of the BuildsGreen Website concern the Bond Program. There is no course development involvement. The task was only to research and to list.	The effort to list the courses offered at the campuses is not an allowable use of Bond funds because this relates to the campuses and not to the Bond Program.
Public Relations	PR/ Communications	1	View student videos; review media stories about LACCD; edit LACCD release; editing of small business brochure (Mona Garber) [...].	MA should note that while BuildLACCD agrees with this exception, it is limited to 2 hour and Veronica is charged 1/3 to the District as of 11/1/09.	The sampled activity was performed prior to the date when the employee started being allocated 1/3 to the District. The activity in question does not appear to represent an allowable use of Bond funds in accordance with the Cost Principles.
Public Relations	PR/ Communications	1	[...] finish edits on Cal Green Jobs release [...].	MA should note that while BuildLACCD agrees with this exception, it is limited to 1 hour and Veronica is charged 1/3 to the District as of 11/1/09.	The sampled activity was performed prior to the date when the employee started being allocated 1/3 to the District. The activity in question does not appear to represent an allowable use of Bond funds in accordance with the Cost Principles.
Public Relations	PR/ Communications	1	[...] edit Cal Green Jobs release [...].	MA should note that while BuildLACCD agrees with this exception, it is limited to 1 hour and Veronica is charged 1/3 to the District as of 11/1/09.	The sampled activity was performed prior to the date when the employee started being allocated 1/3 to the District. The activity in question does not appear to represent an allowable use of Bond funds in accordance with the Cost Principles.

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Category	Job Area	Number of Occurrences	Questioned Task	Build LACCD Comment	Moss Adams Observation
Public Relations	PR/ Communications	1	Request web status report from MBI; check on status of student videos; request bio of Tom Hall; review Big Belly photos; shepherded fixes on website; view student videos; send college photos to MBI for new website; work with Lynn on green course list; briefing on new MBI photo naming procedure.	All items related to the maintenance of the BuildsGreen Website concern the Bond Program. There is no course development involvement. The task was only to research and to list.	The effort to list the courses offered at the campuses does not appear to be an allowable use of Bond funds in accordance with the Cost Principles because this relates to the campuses and not to the Bond Program.
Public Relations	PR/ Communications	1	Edit Steve's recycling story; send content for new website to MBI; help Glenda vet numbers in release; PR coordination meeting with Stu et.al.; edit California Green Jobs Release.	MA should note that while BuildLACCD agrees with this exception, it is limited to 1 hour and Veronica is charged 1/3 to the District as of 11/1/09.	The sampled activity was performed prior to the date when the employee started being allocated 1/3 to the District. The activity in question does not appear to represent an allowable use of Bond funds in accordance with the Cost Principles.
Other	Energy	1	Review of sustainability award program and edits, including attachment photos for submission.	BuildLACCD disagrees with this as an exception since it is agreed to be unreasonable not allowable.	The Cost Principles define exceptions within each cost category for both unallowable and unreasonable costs. Therefore, unreasonable costs do constitute noncompliant costs in accordance with the Cost Principles.
Outreach	Outreach Programs	1	Meeting with Diana Ho to review event planning for CalCan and Sustainability.	We do not agree that this is unreasonable. At the time July 2009, the new Bond Measure J still had 3 billion to award. There was still a real need to Outreach to small business to comply with the BOT rule. There was limited awareness of Measure J impact on the community.	The Cost Principles indicate that there is a significant burden of proof for these outreach costs. This burden has not been met. Therefore, the activity is considered unreasonable.

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<b>Category</b>	<b>Job Area</b>	<b>Number of Occurrences</b>	<b>Questioned Task</b>	<b>Build LACCD Comment</b>	<b>Moss Adams Observation</b>
Public Relations	Outreach Programs	1	Green Jobs Fair at Biltmore Lunch with Green Jobs program at Nextech.	We do not agree that this is unreasonable. At the time July 2009, the new Bond Measure J still had 3 billion to award. There was still a real need to Outreach to small business to comply with the BOT rule. There was limited awareness of Measure J impact on the community.	The Cost Principles indicate that there is a significant burden of proof for these outreach costs. This burden has not been met. Therefore, this is considered an unreasonable activity.
Public Relations	PR/ Communications	1	Research Green website (per Larry); green courses list; facilities planning meeting at LACCD; [...] recycling I stories; edit CalCon Expo ad [...].	The idea of exploring the latest technologies is an important component of the Bond's energy program. The idea of reducing the carbon footprint of a "green" website is within the Bond and BOT guidelines and reduces the energy used by a "green" website.	The explanation provided does not provide enough information to substantiate that the time sheet reported activities are compliant with the Cost Principles.
		<b>95</b>			



**APPENDIX F – BUILDLACCD EXPENDITURE TESTING RESULTS**

In a sample of \$155,416 of BuildLACCD expenses, there were instances totaling \$3,237 where, if the activity were to occur in FY 2011, the activity would be considered noncompliant with Cost Principles. Controls will need to be implemented to prevent the charging of the expenditures to the Bond Program in FY 2011 and beyond. See Observation 7b in the Audit Results section of the report. Results are provided as follows:

<b>Pay Req.</b>	<b>Vendor</b>	<b>Date</b>	<b>Expense Detail</b>	<b>Instance Amount</b>	<b>Sampled Amount</b>	<b>BuildLACCD Comment</b>	<b>Moss Adams Observation</b>
29	TBI Associates	7/20/2009	G. Buchanan – Lunch meeting with George Pierce – Mentor/Protégé Program	\$ 56.17	\$ 56.17	Under \$1,000 and not material.	No materiality threshold is set by the Cost Principles. Unsupported costs are considered noncompliant in accordance with the Cost Principles.
30	Wright Express	1/8/2009	Fuel – District Vehicles	\$421.50	\$421.50	Under \$1,000 and not material.	No materiality threshold is set by the Cost Principles. Unsupported costs are considered noncompliant in accordance with the Cost Principles.
31	PSC	9/30/2009	J. Marshall – Parking	\$ 44.00	\$ 44.00	Under \$1,000 and not material.	No materiality threshold is set by the Cost Principles. Unsupported costs are considered noncompliant in accordance with the Cost Principles.
32	SASM	10/20/2009	A. Yeager – Various Expenditures	\$411.20	\$538.70	Under \$1,000 and not material.	No materiality threshold is set by the Cost Principles. Unsupported costs are considered noncompliant in accordance with the Cost Principles.

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Pay Req.	Vendor	Date	Expense Detail	Instance Amount	Sampled Amount	BuildLACCD Comment	Moss Adams Observation
32-C	Summit	10/27/2009	E. Christopoulos – Various Expenses	\$2,008.88	\$ 2,008.88	<p>Relates to the Bond renewable energy program and should be considered reasonable training costs for one of the lead consultants. Training relates to the new federal funding available for renewable energy systems. As this technical training directly relates to new central plants and possible experimental energy systems being investigated at the time for installation on all campuses, it is deemed reasonable.</p> <p>\$899 relates to lodging – IRS per diem lodging rate is \$318 for Manhattan 6/22/09 through 6/26/09. The hotel bill per diem of lodging is \$319 without tax. Difference is not material.</p> <p>All other charges which relate to the \$2,009 were for food and flight which are not material.</p>	BuildLACCD has not provided sufficient support for the allowability of paying for consultants to attend the renewable energy conference.
35	AECOM	1/10/2010	R. Rojas – Cell	<u>\$ 295.17</u>	<u>\$ 385.74</u>	Under \$1,000 and not material	No materiality threshold is set by the Cost Principles. Any exceptions must be reported. No additional support was provided.
<b>TOTAL</b>				<u>\$3,236.92</u>	<u>\$ 3,454.99</u>		



## **APPENDIX G – DISTRICT-WIDE EXPENDITURES**

We tested expenses that were accounted for as District-wide expenses. These are primarily expenses of consultants that perform work that benefits multiple campuses (District-wide). These costs are then allocated to benefiting campuses. In our sample of \$3,836,397 of District-wide expenses of \$154,443,104, there were instances totaling \$3,237 where, if the activity were to occur in FY 2011, the activity would be considered noncompliant with Cost Principles. Controls will need to be implemented to prevent the charging of the expenditures to the Bond Program in FY 2011 and beyond. See Observation 7c in the Audit Results section of the report.

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Details of these writing service instances are as follows:

<b>WRITING SERVICES (PERFORMED BY MWW GROUP)</b>			
No.	Writing Services (Story)	Issue	Noncompliant Costs
1	Sustainability media studios and director Melinda Farrell	The story on “Sustainability media studios and director Melinda Farrell” does not appear to be related to the Bond projects and therefore is not considered allowable costs. These costs represent unreasonable public relations costs in accordance with the LACCD Cost Principles.	\$600
2	Food waste compactor at Mission College	The story on “Food waste compactor at Mission College” is about a new machine at Mission college that turns food scraps into a soil additive. It appears that a private donor paid for the machine and as a result, these costs represent unreasonable public relations costs in accordance with the LACCD Cost Principles.	600
3	Steve Jacobson, architect designing eight new buildings and two parking structures at West Los Angeles College	This is a story about an architect for the Science and Math building in WLA campus. This story focuses on the architect. These costs represent unreasonable public relations costs in accordance with the Cost Principles.	600
4	BUILDLACCD Green Job Fair	This story is about a job fair that was co-hosted by LACCD Sustainable Building Program. These costs are unreasonable public relations costs in accordance with the Cost Principles.	600
5	Revisions, meetings, and other follow-ups on various recycling assignments	Compliance with the Cost Principles was not evident These costs appear to represent unreasonable public relations costs.	300
6	Visit of Australian Deputy Prime Minister Julia Gillard to Trade Tech	Compliance with the Cost Principles was not evident. These costs appear to represent unreasonable public relations costs.	600
7	Installation of Trade Tech sign	Compliance with the Cost Principles was not evident. These costs appear to represent unreasonable public relations costs.	<u>300</u>
<b>TOTAL</b>			<b><u>\$3,600</u></b>



**APPENDIX H – SCOPE OF WORK FOR MWW CONTRACT**

We identified areas where the scope of work, prior to the scope reduction on May 26, 2010 included aspects that conflicted with the Cost Principles for MWW Group Contract 32480 as discussed in the details that follow. See Observation 7c in the Audit Results section of the report.

**MWW Group Contract Scope Review**

On May 26, 2010, the Board of Trustees approved a scope reduction to MWW Group Contract 32480. We reviewed the scope of work prior to the change and the scope after the change. We identified areas where the scope of work prior to the reduction included certain tasks that could have included activities that were not compliant with the Cost Principles. We reviewed the scope of work reduction and considered whether the potentially noncompliant activities were removed from the amended scope. Our analysis indicated that the noncompliant scope areas were removed as part of the scope reduction. The results of our analysis are presented as follows:

MWW Group Original Base Contract Scope of Work	Analysis Results
<p><b>Tactic: Establish LACCD Speakers’ Bureau</b>  <i>Development of database:</i>                      In order to create a foundation for our speakers’ outreach and build on our LACCD database, we are researching organizations and local government representatives that serve the District’s cities. Currently, we have put together databases on local government leaders, service organizations, chambers of commerce and neighborhood councils. As we outreach these organizations, we will use the information and contacts to build our outreach lists and create additional opportunities for communication to our stakeholders.</p>	<p>The scope of service appears to conflict with Cost Principles for Outreach Costs because it includes researching organizations and local government representatives that serve the District’s cities, to create a foundation for speakers’ outreach and build on LACCD database.</p> <p>At this stage of the Bond Program significant burden of proof is required to show that outreach activities are necessary.</p> <p>The noncompliant aspects of this scope appear to have been removed as part of the May 29, 2010 scope reduction.</p>



<b>MWW Group Original Base Contract Scope of Work</b>	<b>Analysis Results</b>
<p><b>Tactic: Event-Related Outreach</b>  <i>Coordinate events on the college level:</i>                      As we have done over the course of several years, MWW Group will continue to work closely with college faculty and staff to promote events and initiatives related to the Sustainable Building Program. Working with the District, we will strive to create unique events that garner the maximum return on investment; promote the individual nature of each college while showing its valuable role as part of the LACCD; and that achieve tangible goals established in our initial planning sessions.</p>	<p>The scope of service appears to conflict with Cost Principles related to Outreach Costs because it includes activities related to working with District, college faculty/ staff to promote events and initiatives related to the Sustainable Building Program.</p> <p>At this stage of the Bond Program significant burden of proof is required to show that outreach activities are necessary.</p> <p>The noncompliant aspects of this scope appear to have been removed as part of the May 29, 2010 scope reduction.</p>
<p><b>Tactic: Create New Social Media Tools</b>  <i>Create LACCD channel on YouTube:</i>                      By having its on designated channel on YouTube, the LACCD can create a virtual landing pad for video content related to the Sustainable Building Program, the Renewable Energy Plan, green building efforts happening on a college level and related campaigns (e.g., District representatives presenting at conferences, fly through videos, etc.). Not only would this channel serve to “feed” the video content on www.LACCDBuildsGreen.org, but it would also help encourage site visitors to check out additional District content.</p>	<p>The scope of service appears to conflict with Cost Principles related to Outreach Costs/ Public Relations Costs because it includes activities related to designated channel on YouTube related to the Sustainable Building Program, the Renewable Energy Plan, and green building efforts happening on a college level and related campaigns.</p> <p>At this stage of the Bond Program significant burden of proof is required to show that outreach/ public relations activities are necessary. As a result we deem this activity to be unreasonable.</p> <p>The noncompliant aspects of this scope appear to have been removed as part of the May 29, 2010 scope reduction.</p>
<p><b>Tactic: Build the LACCD Builds Green Brand</b>  <i>General branding efforts:</i>                      As we progress with our work on behalf of the LACCD, we are focusing on strengthening the LACCD Builds Green brand identity. We have been working with the team that put together the new LACCD visual identity and we will be using this to increase awareness of the overall brand; increase understanding about the District and its nine colleges; create a stronger identity for the Sustainable Building Program and the Renewable Energy Plan and promote key messages.</p>	<p>The scope of service appears to conflict with Cost Principles related to Outreach Costs/ Public Relations Costs because it includes activities related to strengthening the LACCD Builds Green brand identity.</p> <p>At this stage of the Bond Program significant burden of proof is required to show that outreach activities are necessary. As a result we deem this activity to be unreasonable.</p> <p>The noncompliant aspects of this scope appear to have been removed as part of the May 29, 2010 scope reduction.</p>



We also reviewed invoices submitted after the scope change and found that there were no invoices included in FY 2010 expenditures that included work performed after the scope changes became effective. Therefore, no invoices were available to review for the period after the scope reduction to confirm whether noncompliant activities were included in monthly invoices under the subject contract. Our sampling of District-wide transactions included 19 MWW Group transactions. Our exceptions summarized in Appendix D include 7 “writing services” items that were performed by MWW Group. Because we have already quantified the impact of those issues of noncompliance, no additional quantification is necessary for MWW Group.



**APPENDIX I – SCOPE OF WORK FOR PVJOBS CONTRACT**

We identified areas where the scope of work both prior to and after the scope reduction on June 29, 2010 included aspects that conflicted with the Cost Principles for PVJobs Contract 50140 as discussed in the details that follow. See Observation 7c in the Audit Results section of the report.

**PVJobs Contract Scope Review**

Contract 50140, effective January 15, 2009, provided for “Apprenticeship, Interns and Green Jobs Outreach.” The contract included a total amount of \$17,000,000 over a five-year period. The contract was structured as a task order type contract where individual task orders would then be submitted to authorize specific scope of work. We reviewed documentation available as of November 16, 2010, and found that as of that date, \$15,000,000 of task orders had been approved and \$7,018,592 had been expended against these task orders. We reviewed the scope of work for each task order in effect during FY 2010 and found that Task Order 1 contained certain scope areas which appeared to conflict with the Cost Principles. We observed that \$658,181 was expended against Task Order 1 during FY 2010. It should also be noted that while there was a scope reduction, there was no corresponding reduction to the Task Order value. Excerpts from the scope areas that would appear to conflict with the Cost Principles are presented as follows:

Task Order 1 Scope Area	Moss Adams Observation
<p><b>Apprenticeship/Construction Worker Outreach (LACCD Jobs)</b>                      Outreach to local communities – conduct and/or organize and/or attend job fairs to explain construction career opportunities for local and at-risk individuals and instructional opportunities at LACCD, operation of a hot line to provide information to individuals about LACCD construction opportunities, and to develop information materials.                      Outreach to LACCD students – work with faculty and staff to identify and present apprenticeship opportunities to students in conventional and unconventional majors.</p>	<p>The tasks in question appear to include recruiting efforts that are considered noncompliant with Cost Principles for Internship Program and/or Outreach Costs.                      This scope of work was not removed as of part of the June 29 scope reduction.</p>



Task Order 1 Scope Area	Moss Adams Observation
<p><b>Intern Outreach (LACCD Interns)</b>                      Outreach to LACCD students – conduct and organize career fairs to educate students about internships available as a result of bond projects, work with faculty and staff at each college to identify and present internship opportunities to students in conventional and unconventional majors, and develop informational materials.                      Outreach to local communities – conduct and/or organize and/or attend career fairs to explain internship opportunities and instructional opportunities at LACCD to local residents, operation of a hot line to provide information to individuals about LACCD internship employment opportunities.</p>	<p>The tasks in question appear to include recruiting efforts that are considered noncompliant with Cost Principles for Internship Program and/or Outreach Costs.                      This scope of work was not removed as of part of the June 29 scope reduction.</p>
<p><b>Green Jobs Outreach</b>                      Outreach to LACCD students and faculty – conduct and organize career fairs to educate students about employment opportunities in sustainable industries, work with faculty, career centers and staff at each college to identify and present employment opportunities to students in conventional and unconventional majors, and develop informational materials for promotional purposes.                      Outreach to local communities – conduct and/or organize and/or attend career fairs to explain sustainable industry employment opportunities and instructional opportunities at LACCD to local residents, operation of a hot line to provide information to individuals about LACCD sustainable industry employment and educational opportunities.</p>	<p>The tasks in question appear to include recruiting efforts that are considered noncompliant with Cost Principles for Internship Program and/or Outreach Costs.                      This scope of work was removed as of part of the June 29 scope reduction.</p>

We reviewed invoices submitted during FY 2010 for Task Order 1 and found that the invoices provided information on the amount invoiced relative to each of the major scope areas of “LACCD Jobs, LACCD Interns and Green Jobs.” However, the invoices did not provide sufficient information to determine how much was invoiced for only those scope areas discussed above that appear to be noncompliant with Cost Principles.



**APPENDIX J – AUDIT RESOLUTION LOG**

We interviewed District and Bond Program personnel and reviewed relevant documentation to determine the status of improvement opportunities identified in previous audits. Previous year audits were performed under American Institute of Certified Public Accounting (AICPA) Consulting standards. The final column to the right indicates whether issues were resolved under GAGAS standards (during this year’s audit) or during prior years when consulting standards were applied.

No.	Source	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Confirmed By	Planned Resolution Date	Resolved Under GAGAS or Consulting Standards
09.MA.1.a	Moss Adams Audit FYE 2009	Compliance with Ballot, Bond, State and Other Funding Source Requirements	High	One duplicate payment was identified during FY 2009 expenditure testing. An invoice for the total amount of \$139,911.50 was approved and paid twice.	The Program Management Team should implement controls to ensure that duplicate payments do not occur. The PMT should adjust FY 2009 expenditures to remove the duplicated transactions.	PMT is creating an automated duplicate invoice payment warning in the voucher system that will alert accounting staff if a payment of the exact amount was made in the previous six months.	Build LACCD	Closed	MA (Moss Adams)	June 2010	GAGAS



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No.	Source	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Confirmed By	Planned Resolution Date	Resolved Under GAGAS or Consulting Standards
09.MA.1.b	Moss Adams Audit FYE 2009	Compliance with Ballot, Bond, State and Other Funding Source Requirements	High	<p>Questioned costs identified in the LACCD performance audit report for FY 2008 were either not corrected or were corrected to the incorrect fiscal year as follows:</p> <p>Reversal of prior year duplicate accrual errors (Finding 08.MA.1.a.) totaling \$1,099,578 were made in FY 2009 rather than FY 2008. The reversing journal entry for the prior year error was posted to the current fiscal year of 2009. Since the reversal should have occurred in FY 2008, current year Bond expenditures were understated by the above mentioned amount.</p> <p>Lease costs posted to the wrong fiscal year (Finding 08.MA.1.d.) totaling \$111,006 were not corrected in FY 2009, resulting in understated expenditures for FY 2009.</p> <p>A voided payment (Finding 08.MA.1.g.) totaling \$55,404 was not corrected in FY 2009, resulting in understated expenditures in FY 2009.</p>	Reversing or correcting entries for prior period errors should be posted to the correct period, when possible. The PMT should adjust FY 2009 and FY 2008 expenditures so that costs are assigned to the correct period.	PMT accepts the recommendation and, when possible, will reverse or correct entries in the proper fiscal year.	BuildLACCD	Closed	MA	June 2010	GAGAS
09.MA.1.c	Moss Adams Audit FYE 2009	Compliance with Ballot, Bond, State and Other Funding Source Requirements	High	Eight duplicate accruals recorded in two journal entries were identified during expenditure testing. These duplicate accruals resulted in an overstatement of FY 2009 expenditures of \$95,611.26.	The BuildLACCD Program Management Team should implement controls to ensure that duplicate accruals do not occur and that corrective reversing entries are posted to the proper period when possible.	PMT is investigating duplicate accruals in FY 2009. PMT can create a data validation query that will look for duplicate accruals prior to posting.	BuildLACCD	Closed	MA	June 2010	GAGAS



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No.	Source	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Confirmed By	Planned Resolution Date	Resolved Under GAGAS or Consulting Standards
09.MA.1.d	Moss Adams Audit FYE 2009	Compliance with Ballot, Bond, State and Other Funding Source Requirements	High	BuildLACCD has implemented a procedure of paying honorariums to unsuccessful Design-Build bidders. This procedure does not identify controls for determining when an honorarium is needed or not and for documenting this determination. The standard honorarium amount is .2% of the construction contract amount to each unsuccessful bidder. This amount was determined based on Design-Build Institute of America benchmarks. Section 2.1.3 of LACCD's "Request for Project-Specific Pre-qualification of Design-Build Entities" document indicates that "Subject to the terms of the Request for Proposals, an honorarium will be given to the Proposers who do not receive the Award of the Design-Build Contract." The Request for Proposals (RFP) specifies the amount of the honorarium. During the period November 19, 2008 through September 9, 2009, the Board of Trustees approved \$1,578,074 of honorariums.	Due to the significant number of Design-Build projects planned, LACCD should consider implementing additional controls to ensure that amounts paid as honorarium are necessary for companies that were not awarded the Design-Build contract. A policy should be developed to indicate in what circumstances an honorarium should be paid and what the amount should be.	Payment of Honoraria to unsuccessful Design-Build proposers was researched by the PMT and verified as a standard and best practice with similarly situated agencies including the University of California system and other large public entities. As stated, the Design-Build Institute of America aggregated honorarium amounts and recommended two tenths of a percent of the total design-build cost as the industry standard. At the inception of the project delivery, the College Project Manager is advised of this guideline and is able to advise adjustment based on their familiarity of the complexity and features of the program for the project. The PMT will further refine additional guidelines for establishment of a project honorarium.	BuildLACCD	Closed	MA	June 2010	GAGAS
09.MA.1.e	Moss Adams Audit FYE 2009	Compliance with Ballot, Bond, State and Other Funding Source Requirements	Medium	A pattern of CPM miscoding of invoices subject to partial State of California (State) funding was identified. Both the CPM and BuildLACCD erroneously coded the State reimbursable portion as Bond funded expenditures on invoices submitted to	Controls should be improved at both the CPM level and at BuildLACCD so that State reimbursable expenditures are identified and coded correctly on invoices submitted to LACCD.	Additional training of campus accounting analysts will include proper booking of State reimbursable expenses. PMT is coordinating with the District on coding protocol for State and	BuildLACCD	Closed	MA	June 2010	GAGAS



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				<p>LACCD. LACCD identified the invoices and made adjustments to correct the coding so that the expenditures would be subject to State reimbursement procedures. While the District's detective control did identify the miscoding, correct initial coding of invoices will reduce inefficiencies in correcting errors and will reduce the risk of using local Bond funds for projects that could be paid from State funds. The following are examples of the miscoding:</p> <p>For contract 31514 (Scheduled Maintenance Project), invoices with State reimbursable expenditures totaling \$1,162,650 were coded as Bond funded expenditures.</p> <p>For contract 70355 (Bailey Library), invoices with State reimbursable expenditures totaling \$798,581.63 were coded as Bond funded expenditures</p> <p>For contract 70498 (Learning Resource Center), invoices with State reimbursable expenditures totaling \$1,134,853.26 were coded as Bond funded expenditures.</p>		local reimbursements.					



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No.	Source	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Confirmed By	Planned Resolution Date	Resolved Under GAGAS or Consulting Standards
09.MA.1.f	Moss Adams Audit FYE 2009	Compliance with Ballot, Bond, State and Other Funding Source Requirements	Medium	Two payment packages totaling \$93,242.50 did not include invoices as a support.	The CPM should ensure that the support attached to invoices matches the detail provided. In addition, BuildLACCD should withhold payment for invoice packages submitted without adequate support.	The two invoices identified in this finding are scheduled lease payments for the Santa Fe Firestone property. Penalties are imposed if payments are not received by the first of the month. As such, PMT pays a month in advance. For these two invoices, an invoice was not received by the program office. PMT will coordinate with the vendor more closely to ensure proper invoice documentation is received.	BuildLACCD	Closed	MA	June 2010	GAGAS
09.MA.1.g	Moss Adams Audit FYE 2009	Compliance with Ballot, Bond, State and Other Funding Source Requirements	Medium	Five invoices from one CPM had CPM time cards attached to the invoices that were not signed by Supervisor. The total amount related to unapproved time cards was \$593,853.92.	The Program Management Team should ensure CPM invoices have adequate support.	PMT has implemented a new time card system this year with initial training completed. PMT continues to refine the time card system as CPM staff become familiar with the new process.	BuildLACCD	Closed	MA	June 2010	GAGAS



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No.	Source	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Confirmed By	Planned Resolution Date	Resolved Under GAGAS or Consulting Standards
09.MA.2.a	Moss Adams Audit FYE 2009	Facilities Programming and Master Plan Approach	High	For those colleges and sites that have completed Bond funded building projects, a comparison of custodial and maintenance staffing to Association of Physical Plant Administrators (APPA) standards indicates that current staffing levels and Bond funded college and site buildings are significantly lower than required to meet the APPA standards.	Colleges and sites should provide sufficient staffing to meet the custodial and maintenance needs of Bond funded buildings.	The District is currently performing a comprehensive analysis of staffing requirements for maintenance and operations using the APPA standards. Upon completion, the District will identify possible alternative strategies for meeting what is expected to be a staffing deficit at each College. It is expected that alternate sources of funding will need to be identified to meet forthcoming maintenance and staffing needs created by Bond funded building projects.	District	Closed	MA	No Date Set	GAGAS
09.MA.2.b	Moss Adams Audit FYE 2009	Facilities Programming and Master Plan Approach	High	Facilities Master Plans (FMPs) and Environmental Impact Reports (EIRs) should be updated to include changes due to the passage of Measure J and the establishment of satellite campuses.	After the update, EIRs and zoning contracts should be executed.	FMPs and EIRs are being updated to include Measure J and satellite campuses.	BuildLACCD	Closed	MA	No Date Set	GAGAS



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No.	Source	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Confirmed By	Planned Resolution Date	Resolved Under GAGAS or Consulting Standards
09.MA.4.a	Moss Adams Audit FYE 2009	Cost, Schedule and Budgetary Management and Reporting	High	As discussed in the Assetek Special Project Report dated April 23, 2009, Furniture, Fixture and Equipment (FF&E) data in the Assetek fixed asset system was neither complete nor accurate. The contract with Assetek was subsequently terminated. As of June 30, 2009, a solution had not been implemented to correct the data accuracy and completeness issues. As a result, for the year ended June 30, 2009, LACCD did not have adequate data on FF&E assets for purposes of determining capitalizable amounts by asset type. In the circumstances, LACCD had to estimate the amount of the FF&E addition specific to individual asset classes. LACCD is currently working towards implementation of FF&E inventory through SAP.	LACCD should proactively monitor completion of the SAP inventory integration project to ensure that expected completion dates are met.	District and PMT have crafted and advertised a request for proposals for asset management services and an inventory of existing assets. District IT anticipates that the new SAP module will go live in March or April 2010. In the interim, PMT resources have been assigned to manage the tagging and tracking of District assets.	District	Closed	MA	June 2010	GAGAS
09.MA.4.b	Moss Adams Audit FYE 2009	Cost, Schedule and Budgetary Management and Reporting	Medium	BuildLACCD is currently using a seven percent escalation rate to determine budgets for Bond funded construction projects. Actual escalation experienced this year is much lower than seven percent. The continued use of seven percent escalation may result in excessive budgets and weaker financial controls.	BuildLACCD should consider revising the escalation rate utilized for preparing college and site level project budgets to more accurately reflect the current level of escalation.	Projects are currently being programmed against budgets identified in the Measure J project list. CPMs are programming buildings against established budgets using the best available and current data. Any deviation since the establishment of the Measure J budgets based on market changes will be captured in the programming and design process as project scope.	BuildLACCD	Closed	MA	June 2010	GAGAS



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No.	Source	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Confirmed By	Planned Resolution Date	Resolved Under GAGAS or Consulting Standards
09.MA.5.a	Moss Adams Audit FYE 2009	Change Management and Control	Medium	<p>A change order log maintained by BuildLACCD indicates that as of June 30, 2009, there were 310 approved change orders that had not been sent to the DSA) for approval as required by DSA. In many cases, change orders had been approved prior to the fiscal year ended June 30, 2009, but were not forwarded to DSA as of June 30, 2009. In accordance with Architect contracts reviewed, the Architect is responsible for preparing DSA required change order approval documentation. In accordance with CPM contracts, the CPM is responsible for ensuring Architects are meeting their responsibilities. In this case, both Architects and CPMs were not meeting their responsibilities related to submission of DSA required change order documentation. Management has indicated that it plans to (i) institute retainage on Architects contracts and (ii) enforce a policy of not allowing Architects to bid on additional projects if they do not meet their responsibilities on existing projects.</p>	<p>In addition to management's plans, we recommend that colleges and sites implement additional controls over Architects and CPMs to ensure that requests for DSA documentation for change orders are handled expeditiously. The back log of non-submitted change orders should be identified and proactively managed by BuildLACCD to ensure the Architects and CPMs meet their responsibilities in this area. A DSA change order back log report should be issued by BuildLACCD to the District and College Presidents monthly.</p>	<p>PMT has implemented the recommended measures above. Items (i) and (ii) were implemented in Q1 2008 and additional approval requirements regarding contractor retention and project completion have been implemented to ensure deferred approval requirements have been met. A mandatory, collaborative DSA training session was provided to CPMs, architects and contractors in conjunction with State and local DSA officials to outline this process.</p>	BuildLACCD	Closed	MA	June 2010	GAGAS



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09.MA.6.a	Moss Adams Audit FYE 2009	Procurement Controls and Contract Administration	Medium	A significant percentage of invoices sampled required adjustment by BuildLACCD so that the account coding and amounts were correct.	Additional controls should be implemented by the CPM level for those locations with high levels of corrections required.	This issue is to be addressed in additional training being developed for campus accounting analysts.	BuildLACCD	Closed	MA	June 2010	Consulting
09.MA.6.b	Moss Adams Audit FYE 2009	Procurement Controls and Contract Administration	Medium	Policies and procedures for annual CPM evaluations were not finalized.	Policies and procedures for annual CPM evaluations should be finalized. The finalized policies and procedures should then be implemented through annual evaluation of all CPMs.	BuildLACCD is revising the CPM review forms. The annual evaluation will be reinstated.	BuildLACCD	Closed	MA	June 2010	GAGAS
09.MA.8a	Moss Adams Audit FYE 2009	Contractor Liens, Claims and Other Close-Out Issues	High	Budget to the rate of construction program funds consumption should be monitored more formally. An analysis performed by BuildLACCD indicates that at six colleges and sites the CPM Measure J budget would be expended before projects are completed if the current level of CPM fees were to continue. The analysis estimated 1,063 unfunded days across the six colleges and sites by completion of Measure J funding. This is a recurring issue that was identified earlier in our Fiscal Year 2006 Performance Audit Report (Issue 9).	Steps should be taken to reduce CPM expenditures at these six colleges and sites so that the budget is not expended prior to project completion. With help provided by BuildLACCD to assist colleges and sites in addressing this matter, the colleges and sites should provide a detailed written plan to address this budget shortfall. This detailed action plan should be implemented by the colleges and sites. Progress on actions to prevent budget overruns should be issued to BuildLACCD. A quarterly report of budget-to-burn-rate analysis should be provided by BuildLACCD to measure college and site management of CPM funds.	CPMs have committed through revised burn rate calculations that they will complete requisite scope within the established budget for such services as a result of burn rate projection.	BuildLACCD	Closed	MA	June 2011	GAGAS



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No.	Source	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Confirmed By	Planned Resolution Date	Resolved Under GAGAS or Consulting Standards
09.MA.8b	Moss Adams Audit FYE 2009	Contractor Liens, Claims and Other Close-Out Issues	Medium	End users of Bond fund related technologies (building systems and high-tech instructional systems) installed in college and site buildings did not have adequate resources available to assist the users in understanding how to operate the equipment. Near the end of the fiscal year, BuildLACCD resources began to be deployed to colleges and sites from both the Commissioning Group and the IT Group to address this issue.	BuildLACCD should monitor the performance of the Commissioning Group and the IT Group through feedback from end users to ensure that training needs are being adequately addressed.	PMT will continue to monitor the performance of the Commissioning Group and the IT Groups. In addition, a designated warranty enforcement team is in place to ensure training of facilities management and faculty, and to address any workmanship for performance problems with completed projects.	BuildLACCD	Closed	MA	June 2010	GAGAS
08.MA.1.a	Moss Adams Audit FYE 2008	Compliance with Ballot, Bond, State and Other Funding Source Requirements	High	Three duplicate accruals were identified during FY (Fiscal Year) 2008 expenditure testing. These duplicate accruals resulted in an overstatement of FY 2008 expenditures of \$1,099,578. The duplicated accruals were entered in the Costpoint System (the system of record) and were also included in the UII data warehouse. This data was utilized to prepare the CAFR.	The Program Management Team (PMT) should implement controls to ensure that duplicate accruals do not occur. These controls could include an additional review of proposed journal entries to ensure that they do not duplicate previous journal entries or invoiced amounts. The PMT should adjust FY 2008 expenditures to remove the duplicated transactions.	Next fiscal closing will include an additional data analysis validation step, where all proposed accruals will be analyzed and checked for duplicates and data entry errors.	BuildLACCD	Closed	MA	Aug 2009	Consulting



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08.MA.1.b	Moss Adams Audit FYE 2008	Compliance with Ballot, Bond, State and Other Funding Source Requirements	High	One contract included a clause that indicated the construction project was not subject to Bond Program requirements. The clause appeared to have been included in the contract by mistake.	The inclusion of this clause could have had negative consequences. In this case, it does not appear that it did. Additional controls should be implemented to ensure that contract language is thoroughly reviewed prior to approval, and only District standardized contracts are used.	No change to contract language occurred. This finding refers to a check box feature in the District standard form contract. The check box, in this case, was mistakenly checked "no." All contract requirements were included and enforced. The PMT will request removal of this from District General counsel. Prior to contract issuance, a two-tier review process is required by the contracts group: contract administrator prepares the contract and contract manager provides a QA/QC review.	BuildLACCD	Closed	MA	Aug 2009	Consulting



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No.	Source	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Confirmed By	Planned Resolution Date	Resolved Under GAGAS or Consulting Standards
08.MA.1.c	Moss Adams Audit FYE 2008	Compliance with Ballot, Bond, State and Other Funding Source Requirements	High	There were 12 instances in the sample wherein the approval date on the invoice payment checklist was later than the check date. In most cases, this was due to the back dating of checks as June 30 checks when checks were actually issued in subsequent months. It appeared that the actual date when some checks were prepared was up to 60 days after June 30. BuildLACCD indicated that this was necessary for expenditures to be captured in the correct fiscal year. It is important that the information on the document be factually correct. In this case, the date is not factually correct. It also makes it more difficult to determine whether approvals are obtained prior to check preparation.	BuildLACCD's accounting system does have the capability to accrue expenditures. This can be done using journal entries, as is evidenced by the significant amount of accrual journal entries that were entered for FY 2008. The Accounts Payable system may also allow for other methods of accruing expenditures. BuildLACCD should use one of the methods available for accruing these expenditures.	The year-end accrual process is under review and areas of improvement will be identified. PMT disagrees that approvals cannot be verified, as it is possible to report in the actual print date of the check from Costpoint and confirm that the check was indeed approved before printing. We are unable to confirm that this poses any legal risk to the District.	BuildLACCD	Closed	MA	Aug 2009	Consulting
08.MA.1.d	Moss Adams Audit FYE 2008	Compliance with Ballot, Bond, State and Other Funding Source Requirements	High	Two significant invoices related to lease payments were recorded in the wrong fiscal year. The lease expenditure should have been recorded in FY 2009 but was recorded in FY 2008. This resulted in an apparent overstatement of expenditures of \$111,006.50 in FY 2008.	In accordance with Generally Accepted Accounting Principles (GAAP) BuildLACCD should ensure that lease expenditures are recorded in the year that benefits from the lease, not the year when the lease expenditure is paid.	In addition to the current multi-layered QA measures, an additional review will be required at the change of the fiscal year with regard to lease payments.	BuildLACCD	Closed	MA	Aug 2009	Consulting
08.MA.1.e	Moss Adams Audit FYE 2008	Compliance with Ballot, Bond, State and Other Funding Source Requirements	High	One invoice in the sample had an invoice summary that did not agree to the detail attached to the invoice. The total difference was \$17,000.	The CPM should ensure that the support attached to invoices matches the detail provided.	A standardized electronic invoicing module (SEIM) is being developed in UII.	CPMs	Closed	MA	Aug 2009	Consulting



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08.MA.1.f	Moss Adams Audit FYE 2008	Compliance with Ballot, Bond, State and Other Funding Source Requirements	High	Four invoices under one construction contract were approved by the CPM even though the architect disagreed with the contractor's claimed percentage complete. The first invoice had a short annotation to indicate there was a disagreement but sufficient detail was not provided to explain why the contractor's claimed percentage was used. The remaining three invoices had no annotation to explain the situation.	In any instance where the architect disagrees with the contractor's claimed percentage complete, the CPM should fully document any decision to process payment on the invoice without adjusting for the disagreement with regard to percentage complete.	The CPM has contractual authority to override a disagreement with the design consultant, and detailed project correspondence and reports are kept in the field record prior to archiving at project completion. PMT considers CPM approval of an invoice which lacks design consultant approval as the override described above.	BuildLACCD	Closed	MA	Aug 2009	Consulting
08.MA.1.g	Moss Adams Audit FYE 2008	Compliance with Ballot, Bond, State and Other Funding Source Requirements	High	An invoice payment in the amount of \$55,404 was later voided and a stop payment was issued. The expenditure was recorded in FY 2008 and the void happened in FY 2009. An adjustment was not made to reduce FY 2008 expenditures. Therefore, FY 2008 expenditures are overstated by \$55,404.	When possible, BuildLACCD should adjust the fiscal year where the expenditure was entered when the expenditure is later voided.	In the future, any stop payment will have an additional validation to determine original fiscal year.	BuildLACCD	Closed	MA	Aug 2009	Consulting



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08.MA.1.h	Moss Adams Audit FYE 2008	Compliance with Ballot, Bond, State and Other Funding Source Requirements	Medium	One check over \$50,000 in the sample had only one signature This does not comply with the BuildLACCD dual signature requirement for checks over \$50,000. The root cause of this appears to be that a control does not exist to ensure that each and every check has two signatures for approval. While it is apparent that other checks in the sample had two signatures when appropriate, this does not prevent the need for a control to ensure that the requirement is consistently met.	BuildLACCD should implement an additional control to ensure that checks have two signatures when over the \$50,000 threshold. This would involve giving someone the responsibility for checking for the dual signature on the checks prior to mailing the checks.	The check signing process has been changed since this occurred with an additional post signing QA check.	BuildLACCD	Closed	MA	Aug 2009	Consulting
08.MA.1.i	Moss Adams Audit FYE 2008	Compliance with Ballot, Bond, State and Other Funding Source Requirements	Medium	One check for \$893,051 was issued to the District for OCIP reimbursement, without any approval on the invoice payment checklist other than the A/P department. Given the dollar value of the check, additional approvals should have been required per District policy.	The fact that the check was issued to LACCD does not provide rationale for failure to obtain approvals. The current policy should be strengthened to require approval of individuals outside the A/P department for high dollar value checks.	This check represents a reimbursement generated internally for the District, and was not a payment to any outside service or vendor. OCIP reimbursement is being handled differently, so these inter-account payments no longer occur.	BuildLACCD	Closed	MA	Aug 2009	Consulting
08.MA.1.j	Moss Adams Audit FYE 2008	Compliance with Ballot, Bond, State and Other Funding Source Requirements	Low	On the LACCDBuildsGreen website, some of the campus District Citizens' Oversight Committee (DCOC) member lists were not updated since 2003. The DCOC list listed Ken Ashford twice.	The DCOC website should be updated and maintained, and DCOC members' affiliations listed.	New website has been launched.	MWW	Closed	MA	Aug 2009	Consulting



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08.MA.2.a	Moss Adams Audit FYE 2008	Facilities Programming and Master Plan Approach	Medium	The District expected that, due to recent legislative changes, future projects would use a design-build delivery method.	The PMT and District should work together to teach end-users and shared governance groups about the new delivery method, and explain the timing of the process, expected participation, and the costs associated with change.	PMT has conducted presentations to the campuses presenting the design build delivery process, the sequence of events, and the differences and similarities to traditional design/bid/build. In addition, a comprehensive presentation has been made to the DCOC as well as the BOT infrastructure committee.	BuildLACCD and District	Closed	MA	Aug 2009	Consulting
08.MA.4.a	Moss Adams Audit FYE 2008	Cost, Schedule and Budgetary Management and Reporting	High	BuildLACCD did not record a receivable for expected State reimbursements and did not record amounts received from the State against the receivable. They also did not track on a monthly basis whether the State had reimbursed less than the expected amount. At the end of the year, BuildLACCD obtained information from the District regarding State reimbursements received and adjusted their records accordingly.	BuildLACCD should develop a method of tracking state reimbursements and should make monthly adjustments to its records based on the actual reimbursements that are received.	The State Reimbursement process is being improved, with the current year reconciled. A process to communicate both payments and rejected amounts has been developed.	BuildLACCD	Open - In Progress / Pending Correction		June 2011	Not Resolved
08.MA.4.b	Moss Adams Audit FYE 2008	Cost, Schedule and Budgetary Management and Reporting	Medium	Evidence could not be found that the PMT provided LACCD with project allocation of PMT costs. Providing this information would better enable LACCD to capitalize those costs in accordance with GASB 45.	BuildLACCD and the District should work together to develop a method of allocation for program management costs	A cost allocation model has been developed, delivered to the District, and approved by KPMG. Current year costs are being entered, with plans for past year costs to be entered. All soft costs are to be broken down on a project by project basis.	BuildLACCD and District	Open - In Progress / Pending Correction		June 2011	Not Resolved



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08.MA.4.c	Moss Adams Audit FYE 2008	Cost, Schedule and Budgetary Management and Reporting	Medium	Because the District's fee schedule set architectural and other professional services (A/E) fees as a percentage of construction cost, and construction costs escalated over time since the development of the fee schedule, it was possible that A/E fees were overstated and the District was overpaying for A/E services.	The District should review the fee schedule for professional services, and revise it if necessary.	Previously deferred design responsibilities (deferred approval items) have been added to the basic services of the A/E agreement without an increase in the fee calculation. In addition, construction escalation has plateaued and declined in the last fiscal year resulting in a more proportional fee calculation under the fee guidelines.	District	Closed	MA	Aug 2009	GAGAS
08.MA.5.a	Moss Adams Audit FYE 2008	Change Management and Control	Medium	Additional controls were required in design and construction, to define the roles of key team members. Users group's members may have been circumventing the shared governance process and discussing potential changes directly with the CPM, the architect, and/or the contractor.	The District should develop guidelines which set the expectations for user group participants, explaining their role in the process related to decision making, the design process, the construction process, and close-out. Additional guidelines drafted from the opposite perspective, for architects and contractors, may also help to define role limitations for the architects, engineers, and constructors (A/E/Cs).	A resource (Chet Wisdom) has been added to the PMT to address this issue. Meetings are being facilitated with design consultants and user groups.	District	Closed	MA	Nov 2009	Consulting
08.MA.6.a	Moss Adams Audit FYE 2008	Procurement Controls and Contract Administration	High	PMT burn rate analyses indicated that the PMT had overspent their fee and will likely exhaust their available funds before construction on the campuses is completed, unless remedial action is taken.	The District should revise the PMT contract to include a cash flow analysis and burn rate cap by month.	Amendment 3 of the program management contract includes a requirement for quarterly forecasting and tracking.	District	Closed	MA	Nov 2009	Consulting



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08.MA.6.b	Moss Adams Audit FYE 2008	Procurement Controls and Contract Administration	Medium	The Program Management Plan (PMP) developed by DMJM-JGM was no longer being utilized; instead, the procedures in practice have evolved as the Bond Program has matured.	The PMT should document and issue key Bond Program procedures as practiced, and officially retire the PMP.	Procedures are being developed on an as-needed basis.	BuildLACCD	Closed	MA		GAGAS
08.MA.6.c	Moss Adams Audit FYE 2008	Procurement Controls and Contract Administration	Low	Invoices prepared by CPMs did not follow a standardized format.	Invoice standardization will streamline the review and approval process for CPM expenditures.	A standardized electronic invoicing module (SEIM) is being developed in UII.	BuildLACCD	Closed	MA	Aug 2009	Consulting
08.MA.6.d	Moss Adams Audit FYE 2008	Procurement Controls and Contract Administration	Low	The invoice payment approval form contained checkboxes for Procurement, Construction, Inspection, and Safety.	The invoice payment approval form should be updated to reflect pertinent categories such as design and FF&E.	Accounting analysis at the CPMs now follows a standardized process.	BuildLACCD	Closed	MA	Aug 2009	Consulting
08.MA.8.a	Moss Adams Audit FYE 2008	Contractor Liens, Claims and Other Close-out Issues	Medium	Several buildings were occupied, but the projects were not completely closed out or lacked documentation required to close out.	Gathering documentation as it is generated, at the start of the project and during construction, will assist in the timely close-out of projects, resolution of punch lists, and DSA close-out documentation.	A/E involvement in the close-out process has improved, and the District's goal is to close out projects within 90 days of occupancy. The District has a new policy in place, if DSA close-out does not occur within 90 days of occupancy, the A/E will not be awarded any new work with the District or any amendments to existing work.	BuildLACCD	Closed			Consulting
08.MA.8.b	Moss Adams Audit FYE 2008	Contractor Liens, Claims and Other Close-out Issues	Medium	Commissioning agents lacked authority to effect change or enforce implementation of their recommendations.	A management process should be implemented for resolution of commissioning agent comments, especially for mechanical/electrical/plumbing (MEP) and contractor issues.	A commissioning process improvement has been identified and funded in Measure J. PMT is retaining the services of a specialist to address this issue at each campus.	BuildLACCD	Closed	MA	Aug 2009	Consulting