

**OFFICE OF THE
INSPECTOR GENERAL
LOS ANGELES COMMUNITY COLLEGE DISTRICT**



REPORT OF AUDIT

**PERFORMANCE AUDIT OF
BOND FUND MANAGEMENT
(REIMBURSABLE COSTS)**

OIG-005

FEBRUARY 11, 2012



LACCD OFFICE OF THE
INSPECTOR GENERAL

INTEGRITY * TRUST * COMMUNICATION

February 11, 2012

Chancellor Dr. Daniel J. LaVista
Los Angeles Community College District
770 Wilshire Blvd.
Los Angeles, CA 90017

Chancellor LaVista:

This is our audit report on the Performance Audit of Bond Fund Management for the LACCD Bond Program.

The audit report addresses the Program Management and Campus Project Management firms' processes in managing their reimbursable expenses.

I appreciate the courtesies and cooperation extended to us by the District and Program Management staff during the audit process and completion of this report.

Sincerely,

Christine E. Marez
Inspector General
Los Angeles Community College District

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EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) has examined the Bond Fund Management's process in managing its reimbursable expenses.

The objective of this audit was to determine whether:

- Program Management (PM) and Campus Project Management (CPM) firms have provided oversight to ensure that Bond Program reimbursable expenses are reasonable and allowable under Proposition 39;
- PM and CPMs established processes to manage reimbursable expenses, their approval and reimbursement, and that these processes are compliant to LACCD procurement policies and procedures;
- PM and CPMs have established the appropriate internal controls to ensure the review and approval of reimbursable expenses and compliance to contractual terms and conditions related to reimbursable expenses;
- PM and CPM firms have followed the Bond Program Cost Principles adopted September 14, 2010, that are applicable to reimbursable expenses; and
- Reimbursable expenses are accurately billed and adequately supported.

To achieve the audit objectives, the OIG performed an extensive sample testing of reimbursable expenses incurred by PM and CPM firms for the period of April 2007 through June 2011; performed walk-throughs of reimbursable expense processing with all PM and CPM firms; and conducted interviews with PM and CPM staff.

Summary of Results

Our examination determined that all PM and CPM firms have established processes to initiate, approve, record, report, and invoice reimbursable expenses. Although there are no uniformed policies and procedures established to manage reimbursable expenses, the process each firm established to track and bill for its reimbursable expenses is similar, and seems to be effective to ensure that:

- The OIG noted no exceptions during the test work related to the District, PM, and CPM compliance for allowable expenses under Proposition 39. In general, Program Management (PM) and Campus Project Management (CPM) firms have provided oversight to ensure that Bond Program reimbursable expenses are reasonable and allowable under Proposition 39.
- PM and CPMs have established processes and internal controls in managing their reimbursable expenses, including the approval and reimbursement of such expenses. These processes are compliant to LACCD's procurement policies and procedures except that they are not in written standard policies and procedures format and the controls are not uniformly applied.

- PM and CPMs generally complied with the contractual terms and conditions related to reimbursable expenses. However, the OIG found exceptions totaling \$12,799, which included items purchased by various CPM firms that were not included in the list of allowable reimbursable expenses provided in the CPM contracts. Items not specifically listed in the contract or items with a unit rate exceeding \$500 both require prior written authorization by the District. We noticed many of the exceptions were billed and reimbursed without accompanying evidence of the contract required pre-approval. Therefore, the OIG questions the reasonableness and the allow-ability of these expenses.
- Beginning in September 2010, PM and CPM firms have followed the Bond Program’s adopted Cost Principles. These Cost Principles were applied to incurring and approving reimbursable expenses.
- CPM firms’ reimbursable expenses were accurately billed. However, there were instances where these reimbursable expenses were not adequately supported with accompanying documentation.

Internal Control Deficiencies

The audit did not note any material weaknesses or significant deficiencies that are reportable under *Government Auditing Standards*. The audit does identify the following internal control deficiencies and views these deficiencies as opportunities for improvement.

- **Proposition 39 Compliance of Reimbursable Expenses**—All of the reimbursable expenses tested clearly met the Proposition 39 expense requirement. However, there were no written cost guidelines established prior to the September 2010 adoption of the Cost Principles, and therefore the OIG made the determination if reimbursable expenses listed in the PM and CPM contracts were Proposition 39 allowed expenses. Most of the reimbursable expenses included in the review (whether listed or not) are clearly allowable under Proposition 39, although a few items are ambiguous and their Proposition 39 eligibility has been reviewed by the OIG and are further defined in this report.
- **Lack of Uniformed and Written Procedures**—There are no written procedures issued for incurring, recording, approving, and payment of reimbursable expenses by the PM and CPMs. The PM and each CPM firm uses its own process in managing its reimbursable expenses based on the PM or CPM firm’s own interpretation of what expenses are reimbursable and what types of supporting documents are needed in order to obtain reimbursements. Although the current processes used by the PM and CPM firms seems to be effective, they lack uniformity and have inconsistent evidence of support, especially the absence of a mechanism to deal with the approval of any unique item purchased. The PM should design and provide¹ CPM firms with uniform written policies and procedures to manage reimbursable expenses.
- **No Evidence of Written Prior Authorization of Certain Expense not Included in the Contract as Reimbursable or over the \$500 Unit Price Threshold**—Due to lack of cost standards and contract enforcement by the CPM, expenses not included in the list of

¹ The current PM staffing plan does not allow for position(s) for the development of policies and procedures.

reimbursable expenses and/or over the \$500 pre-approval threshold as provided by contract were approved and paid without evidence of prior authorization by the District. The requirement of obtaining written prior authorization for unique or over the \$500 threshold purchases were loosely interpreted by most of the CPM firms and frequently circumvented because the purchases were justified as for “emergency” purposes.

- **Insufficient Documentation to Support Certain Reimbursable Expenses**—Certain expenses such as mileage, meals, coffee, creamer, and tea, etc., were billed and paid as reimbursable expenses, and either did not provide sufficient description to support the amount of claims, or failed to relate the cost to the activities that justifies the reimbursement. Descriptions were usually vague in the voucher packages making it unclear whether the expenses qualified for reimbursement or not. Some of the voucher packages did not include sufficient evidence to prove the receipt of goods and/or validate the purpose of the purchases relating to the bond fund projects.

Although there was a lack of uniformed written policies and procedures in managing reimbursable expenses, several good practices were observed regarding the reimbursable expenses management process:

- CPMs have utilized their extensive construction cost management skills to manage their reimbursable expenses. Some use an internal budgeting process to monitor expenses, and some use a burn rate analysis combined with budgeting to manage their expenses. Although not uniform, these processes seemed effective in controlling the total dollars spent on reimbursable expenses.
- The adoption of the Cost Principles provides the PM and CPM firms a good tool in determining the allow-ability of expenses as reimbursable. The overall results of the audit indicate that there was a significant increase in the review of costs by both the PM and CPM to ensure compliance to both Proposition 39 and contract terms and conditions related to reimbursable expenses after the adoption of the Bond Program Cost Principles.
- The District feels that it should be noted within this audit report that there is a monthly review of the PM’s entire invoice by Vasquez and Company LLP. The Report of Independent Accountants on Applying Agreed-upon Procedures is issued to the Executive Director of Planning and Development. The report performs a detailed line item review of the monthly PM invoice. The PM submits the monthly invoices including all back-up documentation to Vasquez on a quarterly basis upon approval of the PM’s quarterly report submitted to the District. Any errors in billing are immediately resolved.

Recommendations

We recommend that the District implement the following actions to address audit findings and exceptions denoted in the expanded sections of this report. These recommendations are necessary to assure that the Bond Program PM and CPM firms are properly managing their reimbursable expenses so that there is no waste of bond funds and District assets are protected.

In summary, the OIG recommends that the District:

- Require the PM to develop and implement written policies and procedures to standardize the reimbursable expenses management process.
- Enforce contract terms to require written prior authorization before any unique item not listed in the contract and/or over the \$500 unit price threshold is purchased.
- Require PM and CPM firms to provide more descriptive support, and include packing slips indicating supplies and equipment received, terminal points for mileage calculation, transmittals indicating purpose of deliveries, etc., to ensure office supplies, mileage, deliveries and other consumables are reimbursed based on Proposition 39 allow-ability, the educational code cost principles, and the Office of Management and Budget (OMB) Circulars A-21” Cost Principles for Educational Institutions, and A-87 “Cost Principles for State, Local, and Indian Tribal Governments.

Review of Report

The Draft Audit Report was sent to the District and Program Management (BuildLACCD) as well as CPM representatives for solicitation of comments on October 26, 2011 and revisions in December 2011. BuildLACCD and the District reviewed the report findings at meetings during January 2012. All comments and management responses were incorporated into this Final Report.

BACKGROUND

The Los Angeles Community College District (LACCD) \$5.7 Billion Bond Program is funded by Propositions A, AA, and Measure J, and was approved by voters in 2001, 2003, and 2008, respectively. The Executive Director of Facilities Planning and Development oversees the Bond Program Manager (BuildLACCD/URS).

The Program Manager (PM) is responsible for providing overall program management, budget, and schedule “roll-up” reporting from all nine colleges; establishes overall Bond Program policies; and handles procurement, bidding, contracting, payment, and general ledger accounting for all bond expenditures.

The nine (9) Campus Project Management (CPM) firms report directly to the College Presidents and are responsible for performing services to oversee campus master planning, environmental impact studies, programming, design, construction, closeout, and occupancy; and oversee design consultants, contractors, and vendors.

LACCD has a separate contract directly with the Project Manager (BuildLACCD/URS) and each one of the nine (9) CPM firms. In the contract, the PM and each CPM firm is granted a specific contract amount for reimbursable expenses. The contracted amount of reimbursable expenses can be revised from time to time through contract amendments or renewals.

Under Article 4—Compensation—the CPM contracts define the terms and conditions related to reimbursable expenses. The CPM contracts list all allowable reimbursable expenses under Section 4.2.1—Reimbursable Expenses—and define these as the “Exclusive List” (Section 4.2.2.) The PM contract has an additional exhibit, “Exclusive List of Allowable Reimbursable Expenses”.

Reimbursable expenses are reasonable out-of-pocket expenses incurred and paid by the PM or CPM firms in the furtherance of performance of their obligations under their perspective contracts. LACCD agrees to pay for these reimbursable expenses associated with either the Basic Services or Additional Services defined and covered under contracts or amendments.

SCOPE, OBJECTIVE, AND METHODOLOGY

The objective of this audit was to determine whether:

- Program Management (PM) and Campus Project Management (CPM) firms have provided oversight to ensure that Bond Program reimbursable expenses are reasonable and allowable under Proposition 39;
- PM and CPMs established processes in managing reimbursable expenses including their approval and reimbursement, and that these processes are compliant to LACCD procurement policies and procedures;

- PM and CPMs have established the appropriate internal controls to ensure the review and approval of reimbursable expenses and compliance to contractual terms and conditions related to reimbursable expenses;
- PM and CPM firms have followed the Bond Program Cost Principles adopted September 14, 2010, that are applicable to reimbursable expenses;
- Reimbursable expenses are accurately billed and adequately supported.

Our examination was conducted in accordance with attestation standards established by the *American Institute of Certified Public Accountants* and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Accordingly, it included examining, on a test basis, evidence supporting PM and CPM firms' compliance with the contract provisions. The OIG believes that our examination provides a reasonable basis for our findings and conclusions.

To accomplish our examination objectives, we (i) reviewed and obtained an understanding of the cost provisions of Proposition 39, (ii) reviewed and obtained an understanding of the reimbursable expenses provisions of the PM and CPM contracts, (iii) interviewed key PM, CPM, and LACCD personnel to obtain an understanding of the significant financial and operational control procedures that existed concerning approving, accounting, and billing of reimbursable expenses under the contract, (iv) performed walkthroughs of the PM and CPMs' invoice and voucher package approval and claim processes, (v) verified that reimbursable expenses billings were accurately calculated and properly supported by appropriate purchase records, authorizations, and listed in the contract(s), (vi) reviewed and verified selected PM and CPM voucher packages subsequent to the adoption of the Cost Principles by LACCD, and obtained evidence that reimbursable expenses were reviewed against the allowable costs included under the Cost Principles before being billed to LACCD, (vii) reviewed and verified PM and CPMs' billings to LACCD were accurate and properly supported with delivery and receiving records, and timely collected invoices.

To achieve the audit objectives, the OIG performed an extensive sample testing of audit evidential matters related to the PM and CPM firms' incurred reimbursable expenses; conducted interviews with District, PM, and CPM staff; and performed "walk-throughs" of reimbursable approval, billing, and payment cycles.

The OIG sampled 60 selected vouchers encompassing approximately 16.6% (a total of \$602,105) of all reimbursable expense invoices submitted by PM and CPM firms and paid by LACCD from April 2007 through June 2010. It also tested 10 selected vouchers that represent 11.11% of all reimbursable expense invoices submitted and paid from October 2010 through June 2011.

The audit results may include exceptions defined as deviations from standards, statutory regulations, contracts, or policies and procedures; exceptions note the condition, criteria, effect, and management response. Observations are included when the audit identifies a possible (a) opportunity for operational improvement; (b) discrepancy; (c) error; (d) irregularity; (e) weakness; or (f) deviation from internal control standards.

The audit reviews the processes that PM and CPM firms used to manage their perspective reimbursable expenses incurred by PM and CPM firms for the period of April 2007 through June 2011.

EVALUATION OF INTERNAL CONTROLS

In accordance with *Government Auditing Standards*, we obtained an understanding of internal controls that are material to the contractors' compliance with the terms and conditions of their contract, so that we could comply with the requirement to report any significant deficiencies in internal control and identify those considered to be material weaknesses.

A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material non-compliance by LACCD will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. During our examination, we did not note any material weaknesses or significant deficiencies that are reportable under *Government Auditing Standards*.

AUDIT RESULTS

The audit results include specific findings related to issues noted during our test work. The audit results report observations and exceptions to criteria established in each of the following objective areas:

- Compliance to Proposition 39 Requirements
- Compliance to LACCD Policies and Procedures Related to Reimbursable Expenses
- Compliance to Terms and Conditions Provided by PM and CPM Contracts
- Internal Control Deficiencies

Overview of LACCD Policies and Procedures

The audit noted that the District has no formally adopted detailed policy or procedure documents for the management of reimbursable expenses, except for the LACCD designed "Reimbursable Expense Approval Form". There is a draft *Program Touchpoints Handbook* (revised October 22, 2010) developed by the PM, including related checklists and forms, which were developed by outside counsel. The *Program Touchpoint Handbook* is intended to provide guidelines for interactions between the PM and CPM staff during various phases of a project, but not intended to provide detailed step-by-step instructions for performing any specific tasks. Although the *Program Touchpoint Handbook* includes a Section titled "Accounting", it only describes the PM's process and procedures related to invoice approval, cash disbursement, bond fund drawdown, closing process, reconciliation between BuildLACCD and LACCD and capitalization of assets. The handbook does not specifically address reimbursable expenses.

The only other document that provides detailed procedures related to managing reimbursable expense was identified as the *Program Management Plan* (PMP) last revised July 2006;

however, only one out of the nine CPM firms stated that it follows these PMP procedures; the other CPMs follow their own cost review procedures.

For the purpose of this audit, the OIG utilized the following information as the test criteria for procedure compliance: (i) process flow charts of the PM and CPMs' reimbursable expense management processes developed out of interviews and walk-throughs with the PM and CPM representatives, and (ii) the general guidelines set by Proposition 39, the California Education Code and OMB Circulars A-21², A-87, and the LACCD Bond Fund Cost Principles, and (iii) the list of reimbursable expenses, and the related terms and conditions in the PM and CPM contracts.

Compliance to Proposition 39 Requirements

The OIG determined if reimbursable expenses listed in the PM and CPM contracts were Proposition 39 allowed expenses, since there were no cost guidelines established prior to the September 2010 adoption of the Cost Principles.

The OIG noted no exceptions during the test work related to the District, PM, and CPM compliance to requirements as to what costs are qualified as allowable expenses, including "reimbursable expenses" under Proposition 39.

Finding 01

Condition: All items tested that were included in the PM or CPMs' invoices as reimbursable expenses are allowed under Proposition 39, as determined by the OIG.

Criteria: Proposition 39 provides amendments to the California Constitution and California Educational Code. Parts of the amendments define allowable Bond Program costs as those expended "*for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities...and not for any other purpose, including teacher and administrator salaries and other school operating expenses.*"

The audit found reimbursable expenses of \$785 from CPM invoices and \$4,663 from PM invoices for lunch/meals, coffee/tea, coffee filters, creamer, and sugar. These items were determined by the OIG to be reasonable allowable expenses under Proposition 39, since several items were expended prior to the Cost Principles and the current Cost Principles allows for these items in limited instances. However, under the OIG's proposed revisions of the Cost Principles, these items will not be eligible bond expenses. The recommended revised Costs Principles excludes the use of bond funds for **any** type of food expenses except for groundbreaking ceremonies, "topping off" ceremonies, ribbon-cutting ceremonies, and events for safety promotion. Food expenses for these events will be limited to a reasonable amount and require the advance, written approval of the Chancellor, Deputy Chancellor, or Executive Director of Facilities Planning and Development when they will exceed \$10,000 for any one day on any one campus.

² Office of Management and Budget (OMB) Circular A-4 provides guidance to agencies on the regulatory accounting statements that are required under the Federal Regulatory Right-to-Know Act.

Views of Responsible Officials and Planned Corrective Action

The District agrees with the finding. As the revised Cost Principles are completed and approved, we will begin to incorporate the changes into the contracts and the review procedures. Additionally, the BuildLACCD will incorporate the changes into their training material.

Compliance to LACCD Procedures Related to Reimbursable Expenses

Based on our interviews of responsible LACCD, PM, and CPM officials regarding procedures related to the management of reimbursable expenses, the OIG ascertained that no standard written procedures were established.

Finding 02

Condition: Although the PM has developed procedures for the review and processing of invoices in the Touchpoint Handbook, there is no specific process or procedure for the incurring, recording, approving, and payment of reimbursable expenses by the PM and CPMs. The PM and each CPM firm uses its own process in managing its reimbursable expenses based on the PM or CPM firm's own interpretation of what expenses are reimbursable and what types of supporting documents are needed in order to obtain reimbursements.

Criteria: The LACCD PM contract with BuildLACCD specifically states in Section 4.2.6—Records—*“Accurate and detailed records of Reimbursable Expenses pertaining to the Project shall be maintained in an orderly manner on the basis of generally accepted accounting practices and shall be available at Project Manager’s office (or at District’s request, shall be brought by Program Manager to the District’s offices) for inspection, audit and/or copying...”*

Effect: Lack of standard written procedures to help PM and CPM firms in managing their reimbursable expenses can result in expenses being paid even though they fall outside allowed expenses.

Views of Responsible Officials and Planned Corrective Action

The District agrees with this Finding that there are no specific procedures for reimbursable expenses, however the District feels that no specific procedure is required as the existing Touchpoints Handbook does outline procedures for invoice review. The District does agree to instruct BuildLACCD to develop a check list for all the firms to highlight some of the areas of concern related specifically to the language applying to acceptable reimbursable costs. The District will also instruct BuildLACCD to enhance the existing procedures for invoice review within the Touchpoints Handbook to include more information regarding the specifics of reimbursable charges and to update the training on invoice submittal for the CPM firms on an annual basis.

The District feels that it should be noted within this audit report that there is a monthly review of the PM’s entire invoice by Vasquez and Company LLP. The Report of Independent Accountants on Applying Agreed-upon Procedures is issued to the Executive Director of Planning and Development. The report performs a detailed line item review of the monthly PM invoice. The PM submits the monthly invoices including all back-up documentation to Vasquez on a quarterly basis upon approval of the PM’s quarterly report submitted to the District. Any errors in billing are immediately resolved.

Compliance to Terms and Conditions Provided by PM and CPM Contracts

Under Article 4—Compensation—the CPM contracts define the terms and conditions related to reimbursable expenses. The CPM contracts list all allowable reimbursable expenses under Section 4.2.1—Reimbursable Expenses—and define these as the “Exclusive List” (Section 4.2.2.) The PM contract has an additional exhibit, “Exclusive List of Allowable Reimbursable Expenses”.

Finding 03

Condition: Compliance to the contract terms and conditions related to reimbursable expenses were based on each individual firm’s interpretation of what needs to be included in order to incur, approve, account, and submit for reimbursement of reimbursable expenses. The OIG noted items without prior purchase authorization such as storage fees, fencing, giveaways, a temporary facility rental, signs, work done on a damaged T stand and line posts, and a fence rental, that were not listed per the contract “Exclusive List” or were over the \$500 unit price threshold.

Criteria: The CPM contracts expressly state in Section 4.2.1 #15—Reimbursable Expenses—*“...other equipment (including ordinary service and repair costs) necessary for performance of this Agreement if and to the extent approved in advance by Program Manager, which approval may be granted or withheld in the reasonable discretion of Program Manager.”*

The CPM contracts expressly state in Section 4.2.4—Approval Limitations—that *“Any Reimbursable Expenses wherein a single item exceeds \$500 in value, whether leased or purchased, must be approved in writing in advance by Program Manager. Failure to obtain such approval shall result in the cost of such item being borne by College Project Manager without reimbursement by District.”* The Program Management contract language is similar regarding advance approval requirements and spending limitations.

Effect: Noncompliance to contract terms and conditions can cause unallowable expenses incurred by PM and CPM firms to be reimbursed by the Bond Program.

Views of Responsible Officials and Planned Corrective Action

The District agrees that noncompliance to contract terms may cause unallowable expenses to be erroneously paid with Bond funds. The District feels that the minimum audit findings have proven that there is enforcement. The District also feels that the new CPM contracts and the revised Cost Principles enhances the reviewing procedures and, therefore, the enforcement of the reimbursable expenditures

Internal Control Deficiencies

Based on OIG’s test work performed on selected voucher packages and their supporting documentation of the CPM’s claims for reimbursable expenses, we report the following deviation from internal control standards and report the following observations.

The OIG found that insufficient documentation to support certain CPM reimbursable expenses. The OIG observed an increase in the inclusion of supporting documentation for expenses and the level of review by the PM and the District since the adoption of the Cost Principles.

Expense Description	Number of CPMs with Condition	Condition Apply to PM	Number of Occurrences		Dollar Value	Type of Exception
			CPM	PM		
Expense items not listed per Contract "Exclusive List"	8	Y	29	37	\$11,733 ³	Items such as meals/coffee (non-District meetings), late charges, mileage, fencing, and other reimbursable expenses that were not allowed per Contract "reimbursable expenses" requirements.
Expense items over the \$500 unit price threshold not included in the contract or not approved in writing in advance by the District	1	N	2	0	\$1,066	(Fence Rental ⁴)

Table 1 - Summary of Findings 03

³ Late Fees – The PM (URS) included a credit on its November 2011 invoice to LACCD in the amount of \$102 for the late fees charged in September 2007 and November 2008; Fed Ex Charges -- URS included a credit on its October 2011 invoice to LACCD in the amount of \$2,828 for courier charges from June 2007 through August 2011.

⁴ The Facilities Executive reported to the OIG that CPMs have been notified that fence rentals or related construction items may not be submitted as reimbursable expense; CPMs now submits all like items to the Board for approval.

Finding 04: Insufficient Documentation to Support Certain Reimbursable Expenses

Condition: Certain PM and CPM expenses that did not provide sufficient description or supporting documentation in the invoice to support the amount of claims, or failed to relate the cost to the activities that justifies the reimbursement per the contract.

Criteria: The LACCD PM and CPM contracts specifically include requirements for maintaining accurate and detailed records of Reimbursable Expenses.

Effect: Inaccurate and/or summary records may not be enough justification to incur, approve or request reimbursement for expenses. Expenses that do not qualify for reimbursement due to their unallowable nature and/or failing the reasonable and allocable tests, may be erroneously billed by PM and CPM firms and paid by LACCD.

Views of Responsible Officials and Planned Corrective Action

The District agrees with this Finding. While the auditor's requested back-up was 100% sent to the OIG, the back-up was not attached to the pertinent invoice. The OIG does acknowledge that there were no incidents where inaccurate information was supplied by a CPM or the PM.

RECOMMENDATIONS AND COMMENTS

Recommendation 1.0

The OIG recommends that the District direct the PM to enhance its current procedures to include specific written procedures for reimbursable expenses that include controls to enforce the Cost Principles. The procedures should include the strictures in incurring, approving, recording, and billing for reimbursable expenses, and that the responsible District, PM, and CPM staff be educated on these restrictions. Written guidelines and rules should be circulated and verbal instruction shall be given to all employees affected by these rules. Acknowledgement of receipt and education in these rules should be in written form and kept on file for each staff member.

Views of Responsible Officials and Planned Corrective Action

The District agrees with this recommendation and will instruct BuildLACCD to enhance the current procedures regarding reimbursable invoice payments. Specifically, the District will instruct BuildLACCD to develop a check list for all the firms to highlight some of the areas of concern related specifically to the language applying to acceptable reimbursable costs. The District will also instruct BuildLACCD to enhance the existing procedures for invoice review within the Touchpoints Handbook to include more information regarding the specifics of reimbursable charges and to update the training on invoice submittal for the CPM firms on an annual basis.

The District notes that additional due diligence includes the monthly review of the PM's entire invoice by Vasquez and Company LLP. The Report of Independent Accountants on Applying Agreed-upon Procedures is issued to the Executive Director of Planning and Development. The report performs a detailed line item review of the monthly PM invoice. The PM submits the monthly invoices including all back-up documentation to Vasquez on a quarterly basis upon approval of the PM's quarterly report submitted to the District. Any errors in billing are immediately resolved.

Recommendation 2.0

The District should review the contract "Reimbursable Expenses" list included in the existing PM and CPM contracts and consider amending the contracts at some point to remove items that are not allowable per the proposed revisions to the Cost Principles.

The District should establish written procedures to address the reimbursement of items that are unique in nature or require bond counsel interpretation. These procedures should, at a minimum, help determine:

- Whether an item meets the requirements of the Cost Principles, and
- Whether an item should be included in the list of "Reimbursable Expenses", and
- Whether an item is an integral part of the PM's or a CPM's services to fulfill its deliverables to the LACCD Bond Program.

The following expenses identified in the audit as un-allowable per the revised Cost Principles should be excluded from future District reimbursement:

Expenses Description	Observations
Bottled water or vendor provided water coolers	The proposed revisions to the Cost Principles exclude the purchase of bottled water, except to sites that where potable water is not available.
Meals, coffee, coffee filters, creamer, tea, etc.	The proposed revisions to the Cost Principles exclude the use of bond funds for <u>any</u> type of food expenses except for groundbreaking ceremonies, “topping off” ceremonies, ribbon-cutting ceremonies and events for safety promotion.
Late Fees	Cost Principles and OMB Circular A-87 consider Fines and Penalties not allowable costs.
Water bottle/mugs/drawstring bag/pens with webpage/drawstring bag/Key rings/T-Shirts	Per the Cost Principles: Outreach Costs ... <i>conference "take-aways" such as water bottles, carry sacks, or other items, or similar "branding" activities</i> are considered to be unreasonable regardless of amount.
Mileage/MetroLink fare for transit between residence and PM, CPM's home of field office.	Per the Cost Principles: Travel cost between residence and home/field office are not allowable costs.
AASHE, CCFC, UC/USC/CCC conferences	Per the Cost Principles: Travel to or attendance at... <i>conferences of any kind, other than conferences for companies to learn about Bond Program contracts coming up for bid "Bidder's Conferences</i> are not allowable costs.

The following expenses should be re-evaluated, and if considered reimbursable, should be included in the PM and CPM contracts.

Expenses Description	Observations
LACCD Brochure, Employee Parking, Office Expenses Related to Field Office Operations, Safety Banners, Storage, Office Cleaning, LEED Reference Guides, Temporary Labor, Paper Shredding Service, Office Furniture Purchase or Lease, Membership Fees	Per the Cost Principles: Expenses should be allowed when the activities or positions are related to the PM and CPMs in carrying out their obligations to administering and managing the Bond Program by which the District has and will continue to construct, install, equip and furnish a volume of capital improvements.
PM and CPM Sub-consultant Cell Phone Charges	Per the contract "Reimbursable Expenses" list, the PM's and CPMs' cell phone bills are allowable costs, however, not the cell phone charges of their sub-consultants. Since the PM and CPMs' sub-consultants were proposed and contracted by the District as project management teams, the sub-consultants are carrying out their Bond Project Management duties as per the PM's and CPMs' contracts requirements, therefore effectively connecting these cell phone activities directly with the PM's and CPMs' responsibility to discharge their obligations in administering and managing the Bond Program by which the District has and will continue to construct, install, equip and furnish a volume of capital improvements. Sub-consultant cell phone costs meet the requirement of proposition 39 and the Cost Principles, and should be allowable as "Reimbursable Expenses".

Views of Responsible Officials and Planned Corrective Action

The District agrees that there should be a review of the listed contractual reimbursable items in light of the revised Cost Principles. Additionally, upon any changes to the Cost Principles, Facilities and BuildLACCD will work with District Legal to address any conflicts and make any necessary contractual changes.

ANNEX

Annex A – Report Distribution

Annex B – Audit Team

Annex C – Interviews Performed

ANNEX A – REPORT DISTRIBUTION

Board of Trustees
Chancellor Dr. Daniel J. LaVista
Deputy Chancellor, Dr. Adriana Barrera
Office of General Counsel
Facilities Planning & Development
Program Manager (BuildLACCD)

ANNEX B – AUDIT TEAM

Samuel Qiu, CPA, Managing Director
Dulce Kapuno, CPA, Senior Manager
Leanna Ngo, CPA, Supervising Auditor
Tess Anson, Senior Auditor
Sophia Wang, Auditor

ANNEX C – INTERVIEW LIST

Interviews were conducted with the following staff:

Yahya Siddiqui, BuildLACCD Controls & Finance Group Manager
Mona Garber, BuildLACCD, Compliance Manager

Los Angeles City College

Christopher Dunne, Harris and Associates, Project Director
Grace Yuvienco, Harris and Associates, Project Control Manager

East Los Angeles College

Robert Herman, Jacobs Facilities, Project Director
Maria Carvajal, Jacobs Facilities, Project Deputy Director
Rose Marie Kolisar, Jacobs Facilities, Office Manager
Deborah Leister, Jacobs Facilities, Project Control Manager

Harbor College

Tom Johns, Arcadis (Pinnacle One), Project Director
Robin Haller, Arcadis (Pinnacle One), Project Control Manager
Jon Hudson, Arcadis (Pinnacle One), Project and Financial Control Manager

Mission College

Christine Valenzuela, Gateway Science & Engineering, Director of Operations (Corporate)

Marisela Avila, Gateway Science & Engineering, Executive Adm. Assistant (Corporate)

Claudia Velasco, Gateway Science & Engineering, Payroll/Billing Specialist (Corporate)

Pierce College

Ed Cadena, Swinerton Management, Project Director

Rosemarie Maranan, Swinerton Management, Document Control Technician

Suzanne Soto, Swinerton Management, Sr. Financial Controls Manager (Corporate)

Tatiana Zhiltsova, Swinerton Management, Controls Engineer II

Southwest College

Edward Bilezikjian, CCG (Cummings), Project Director

Zoe Ann Karg, CCG (Cummings), Document Control

Deirdre Margolias, CCG (Cummings), Scheduler/Document Controls Manager

Valerie Mudegoren, CCG (Cummings), Project Controls Manager

Trade-Tech College

Lena Ly, Associate, Anil Verma Associates, Accounts Manager (Associate-Corporate)

Jesse Quitlig, Anil Verma Associates, Project Controls Manager II

Rick Rye, Anil Verma Associates, Project Manager

Valley College

Eloy U. Retumal, Yang Management, Project Director

Hau-Wen Feng, Yang Management, Deputy Director

Tanya Roton, Yang Management, Office Manager

West College

James Walker, Turner Construction, Project Director

Edward Pacer, Turner Construction, Peckar & Aramson, PC (Corporate Attorney)

Raphael Villegas, Turner Construction, Project Control Manager