

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Audit Report

PROPOSITION A/AA AND MEASURE J BOND EXPENDITURES

July 1, 2001, through December 31, 2010



JOHN CHIANG
California State Controller

August 2011



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California State Controller

August 10, 2011

Daniel J. LaVista, Ph.D., Chancellor
Los Angeles Community College District
770 Wilshire Boulevard
Los Angeles, CA 90017

Dear Dr. LaVista:

The State Controller's Office (SCO) audited the Los Angeles Community College District's bond construction program for the period of July 1, 2001, through December 31, 2010.

Attached is the final report of the State Controller's Office (SCO) audit of the Los Angeles Community College District's (LACCD) bond construction program for the period of July 1, 2001, through December 31, 2010. On June 22, 2011, the SCO auditors held an exit conference with your staff to present the draft report findings. We then met with you on June 24, 2011. Your response to the draft report, dated July 14, 2011, is included as Attachment B of this report. In your response, you disagreed with all four audit findings. Of the 12 recommendations, you agreed with eight, disagreed with two, and did not address the two remaining recommendations.

We have reviewed your response and the voluminous documents that you provided electronically and by courier. Our comments to items in your response are included in this report as Attachment C. The following provides a summary of the issues in the report.

Finding 1—Use of Measure J Funds

Our report found LACCD used Measure J funds for projects and activities not on the approved project list. Your response provided interpretations to suggest that the projects and activities were on the list. In addition, you stated that bond counsel reviewed, and where appropriate, revised the Project List language before it went to the voters to ensure that the district "had the flexibility to respond to the inevitable changes in economic, market and education requirements that would be experienced, particularly on a building program with the duration and complexity of the district." In essence, the Project List was intentionally crafted in such way that virtually any expenditures could be construed to be on the list. The intention appears to be a way to circumvent control and avoid accountability. This is contrary to the purpose and intent of Proposition 39.

Although we disagree with your interpretations, we recognize we cannot compel you to change, particularly since the funds in question already have been expended. Please be advised that, under the “School Bond Waste Prevention Action” section of the Strict Accountability in Local School Construction Bond Act of 2000, any citizen who has paid an ad valorem tax on real property within the community college district can pursue legal action against any officer of the district for failure to use bond proceeds in accordance with legal requirements, or who willfully failed to appoint the citizens’ oversight committee.

Finding 2—District Oversight Over Spending Practices

Based on information provided in your response, we have revised the items in this finding (page 15 of the draft report) concerning budget overrun at the South Campus. The draft report finding was based on information supplied to us by the district. The district has included information in their response that they failed to provide SCO during the audit. Based on this additional information, we have revised the finding. In the process of analyzing your response, we identified further use of Measure J funds when the college exhausted its Proposition A and AA funding for the project. Our finding stated that, given the magnitude of its bond construction program, it is essential for LACCD to adopt appropriate control measures to oversee and monitor the colleges’ spending practices. In response, the district indicated that the decentralized oversight was by design as each college is an academically self-contained, individually accredited educational entity, and thus is responsible for maintaining and controlling costs. Even based on this premise, the district presumably has responsibility to ensure the colleges have adequate controls in place to identify and prevent waste, fraud, and abuse of taxpayer funds.

The district disagreed with our statement that oversight of projects by the college was lacking. We based our statement on the following conditions noted in our report:

- Use of \$4.4 million in Measure J funds to complete the Mission College Culinary Arts Center and the P.E. and Fitness Center, and \$6.2 million in Measure J funds (as of November 19, 2010) to complete Trade Tech’s South Campus project. Both projects were originally funded with Proposition A and Proposition AA bond funds. Had the voters not approved Measure J, it is unclear how the colleges would obtain sufficient funding to complete the projects.
- Lack of clarity on what constitutes “cancelled” projects, which you acknowledged in your response. While we were pursuing this issue, we were notified by BuildLACCD staff that the definition of cancelled projects had changed. We then worked with BuildLACCD staff in preparing the analysis to arrive at the figure of \$28.3 million. Your response suggests further clarification is needed on some of the projects. Without clear definition, it would be difficult for the colleges to maintain control and oversight over cancelled projects.
- Lack of accountability over multi-campus expenditures. Control is compromised, as all colleges could incur expenditures for a multitude of functions and activities into a common account that could not be accounted for on a project level. Your response acknowledged this control deficiency.

Finding 3—Appointment of the Inspector General

Based on the additional information you submitted, we are deleting the item under Finding 3 about the interview process for the Inspector General not being properly documented (page 29 of the draft report). In addition, we added language to reflect that a second interview was conducted on August 4, 2011, in the chronology of events.

Your response suggested that we should have requested the documentation from Dr. Adriana Barrera, Deputy Chancellor, who was charged with the review and selection process for the Inspector General. We requested this documentation from Ms. Jeanette L. Gordon, Chief Financial Officer/Treasurer, whom you appointed as liaison for this audit. On November 15, 2010, and again on February 2, 2011, we requested “all back-up documentation for Request for Proposal #10-12 – Establishment of the Office Inspector General – LACCD.” Ms. Gordon referred our questions to Mr. James Watson, which appeared to be logical as he is the LACCD Contract Manager, who also served as one of the panelists for review of the proposals. From an accountability and transparency standpoint, all contract related documents should be contained in the LACCD’s official contract files, which is public information. The fact that Dr. Barrera or other panel members excluded relevant documents from the official files is a matter that merits further attention. The removal of this item in the draft does not change the essence of our finding regarding the selection of the Inspector General. On the contrary, your response further underscored the need for an independent investigation into the selection of the Inspector General.

The essence of our finding questioned how Policy Masters, Inc. became one of the four finalists for interview despite the following:

- The principal of Policy Masters, Inc. did not have any background or experience in conducting audits or investigations or experience working in an Inspector General’s office. The firm was formed shortly before the Request for Proposals was released. At the time of the interview they still did not have any clients, employees, or office space.
- Policy Masters, Inc.’s bid was the second-highest among the four firms interviewed.
- Policy Masters, Inc. had the second-lowest score among the eleven bidders.
- The contract manager, who also served as one of the panel members, could not provide the criteria in the selection of bidders to be interviewed, or how the four bidders were selected for interview.

Your response acknowledged that the panel failed to document the reasons for not considering firms for interview, as well as the criteria for deciding those selected for interview. Yet, you asserted that the process was not flawed because the panel, under the direction of Deputy Chancellor Dr. Barrera, decided to disregard the established process, and instead relied on undocumented criteria that excluded certain firms with higher scores from being interviewed. Mr. James Watson, the contract manager and one of the panelists, could not provide the criteria used for the selection of the firms to be interviewed, which raised further questions about the integrity of the process. Dr. Barrera was the panel member who gave Policy Masters, Inc. the highest mark of “25” while Mr. Watson marked “0” for the cost category of proposal evaluation.

Moreover, based on the undocumented criteria provided in your response, Policy Masters, Inc. apparently should have been excluded from interview consideration. One of the criteria for rejecting firms was “the firm had experience limited only to audits or to investigations, but not both.” According to the documents you provided with your response, Policy Masters’ proposal did not include any individual with investigative background, and thus should have been disqualified. This omission was not discovered until the first interview. For the second interview, Policy Masters, Inc. provided the name of an individual with investigation background. Your response also minimized the importance of audit and investigation functions in the Office of the Inspector General. Yet, in part, the first question in the first interview was:

The role of the Office of Inspector General generally falls into two categories:

- a. Investigations (from whistleblower complaints and code of conduct or conflict of interest)
- b. Audits (Prop. 39 performance audits, special audits and recommendations for changes to policies and/or procedures)

In addition, the Office of Inspector General’s Mission Statement states:

Office of the Inspector General (OIG) will serve the Los Angeles Community College District by providing timely independent and object Bond Program audits and investigations to prevent waste, fraud, and abuse while upholding characteristics and demonstrate integrity, trust, and communication.

Yet, as identified in our report, a majority of the hours in the Inspector General’s contract for “basic services” were allocated to individuals without any audit or investigation background. Furthermore, none of the hours were allocated to the “Chief Investigator” position. You asserted in your response that both the principal and the senior manager of Policy Masters, Inc. are subject matter experts in audits and investigations. This assertion is not supported by any of the documents we reviewed. In a letter dated August 12, 2010, from Dr. Barrera to you, reflecting the interview panel’s assessment of the proposals, the panel identified audit and investigation background of personnel in a firm that was not selected. Nowhere in the letter is it suggested that the two individuals from Policy Masters, Inc. had any audit or investigation background and experience. According to its website, as of July 15, 2011, and more than nine months after it entered into the contract with LACCD, the Office of Inspector General only completed one “financial review.” This was a review of the Van de Kamp Project. We reviewed the report. The report bore little resemblance, if any, to an audit by an independent entity.

We believe the evidence presented in this report raised legitimate questions about the integrity of the process that led to the selection of the Inspector General. It is possible that the process was altered for valid reasons, as noted in your response. It also is possible that the process was altered because a preselected bidder was ineligible under established procedures and new criteria were developed to justify the selection. Given the purpose and mission of the Office of Inspector General, maintaining integrity in fact or in appearance should be of paramount importance to the Office. We urge you to reconsider your decision on this recommendation and initiate an independent investigation to provide transparency and preserve the integrity of the office.

Finding 4—Citizens Oversight Committee

The purpose of the Citizens Oversight Committee (COC) is to provide accountability and transparency over bond expenditures. As stated in our report, which you acknowledged in your response, there was no transparency, as the district's COC failed for seven years to issue the statutorily required report. The one report that was released in 2010 was virtually meaningless. As for accountability, we reviewed the minutes of the DCOC meeting that you provided with your response. Our review of those additional minutes found the DCOC review to be perfunctory at best, as there is no evidence to suggest that the DCOC had engaged in robust and meaningful discussions or questioned any of the bond expenditures.

As stated in Education Code sections 15264-15425, the COC is to “actively” review and report on the proper expenditures of taxpayers’ money for school construction and “alert the public to any waste or improper expenditures.” The fact that the District COC had met for ten years and did not identify and/or report any waste or improper expenditures in a construction program of this magnitude, strongly suggests that the COC review was passive, perfunctory, and ineffective.

You mentioned in your response that the DCOC recommended changes before the resolution for public art was presented to the Board of Trustees. The resolution allows the colleges to use cost savings for any project, up to one-half of one percent of the college’s original bond allocation, on public art. In reviewing the meeting minutes, the DCOC recommended a technical change in the resolution language to reflect intent of up to one-half of one percent of the bond allocation. If the DCOC truly engaged in meaningful review activities to ensure that bond funds are properly spent as proposed on the ballot, it should have raised questions, such as whether the college has any unfunded project(s) within its Project List that the cost savings could be used for, or whether the cost savings could be redirected to campus project(s) that had budget overruns. We understand that many projects on the Project List have not been funded. As public art is not specifically identified on any of the Project Lists, projects on the list should merit higher priority.

Observation—Expand Campus Facilities

Based on your response, we have deleted the language in the draft report (page 25) about implementing financial standards for an auxiliary organization. The purpose and intent of this observation was to impress upon LACCD the need to obtain reliable data and make realistic future revenue projections, as it continues to embark on an aggressive campus expansion program. As noted in our report, after spending approximately \$86 million in public funds to acquire and renovate the Van de Kamp site, Los Angeles City College could not use it for the intended purpose of a satellite campus due to insufficient operating funds. Other than potential energy savings that were not quantified, none of the officials interviewed were able to identify how the campuses will be able to fund or absorb the cost increases. The district agreed that it has not developed a comprehensive plan to address all the operational and maintenance costs associated with additional facilities.

LACCD's response suggests it anticipates annual cost savings of \$8.5 million. Even if this cost savings estimate is achievable, the district acknowledged that it could only partially offset the anticipated increase in maintenance and operation costs. LACCD had anticipated additional funding from the State, which does not appear to be realistic, as acknowledged by the district's response. Currently, the district is underfunded by approximately \$30 million for fiscal year (FY) 2009-10 and \$34 million for FY 2010-11. The district's enrollment should continue to grow with the additional buildings and the funding deficit will continue to increase in the foreseeable future. We urge the district to carefully balance the anticipated cost increases against realistic operating revenues projections and make appropriate adjustments as it continues to expand campus facilities in order to avoid similar situations as created at the Van de Kamp site.

If you have any questions, please call Andrew Finlayson, Bureau Chief, State Agency Audits Bureau, at (916) 324-6310, or e-mail her at afinlayson@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB:wm

Audit Report

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Audit Report

Executive Summary

The State Controller's Office (SCO) conducted an audit of the Los Angeles Community College District's use of funds for its bond construction program. Proposition A, Proposition AA, and Measure J bond proceeds were approved by the voters in the Los Angeles Community College District (LACCD), which provided \$1.245 billion, \$980 million, and \$3.5 billion, respectively, in bond funds to construct, repair, improve, expand, and upgrade facilities. In addition, LACCD received \$214 million from the State of California, including \$3 million earmarked for the Van de Kamp site, to assist the district in funding specific capital outlay projects. As of November 19, 2010, expenditures for Proposition A, Proposition AA, and Measure J projects were \$1,371,713,095, \$902,635,272, and \$476,613,084, respectively, for a total of \$2,750,961,452.

The cumulative effect of the three bond measures is an increase of approximately \$123 in annual property tax assessment for a median household within the boundary of LACCD.

The SCO initially conducted a survey of LACCD's use of State funding in its bond construction program that was prompted by concerns over the district's use of \$3 million in seed money to start a satellite campus at the former Van de Kamp bakery site. As a result of the survey, which revealed that approximately \$214 million in State funds have been involved in the various bond construction program projects, the SCO decided to proceed with an audit to ensure proper accountability of project funds.

The SCO audit was conducted pursuant to the State Controller's audit authority under Government Code section 12410.

The SCO audit identified the following concerns:

- LACCD used Measure J bond funds for projects and activities not on the approved list. Proposition A, Proposition AA, and Measure J were approved under provisions of Proposition 39, which amended the California Constitution to enable school bond measures to pass with a 55% vote majority instead of a two-thirds supermajority. LACCD published a list of intended projects that were to be funded through Measure J bond proceeds (see Attachment A). Based on a review of sample transactions, we identified numerous instances where bond funds were used on projects that were not on the list approved by the voters and the Board of Trustees. Schedule 1 provides a list of questionable Measure J expenditures totaling \$42.64 million.
- LACCD did not provide adequate oversight over the spending practices of the colleges. Given the magnitude of the bond construction program, it is essential that LACCD adopt appropriate control measures to oversee and monitor the colleges' spending practices. We found that after bond funds were allocated among the nine college campuses, the colleges decided how the funds were to be used with little oversight or intervention by LACDD management,

which potentially could lead to fraud, waste, and abuse. One issue we found in this area is displayed in Schedule 1 which provides the amounts of cancelled projects, by ballot measure, totaling \$28.31 million, for which the district received little or no value.

- LACCD ignored its internal procurement rules and guidelines in the selection of the Inspector General. At least in appearance, the selection process compromised the integrity of the Inspector General to carry out the essential functions of the office, which is to “plan, direct, and conduct investigations and audits designed to promote accountability to the public and to ensure the economy, efficiency, effectiveness, and integrity of the District’s capital funded program.”
- Oversight by the Citizens Oversight Committee (COC) was passive, perfunctory, and ineffective. LACCD’s COC consisted of a District Citizens’ Oversight Committee (DCOC) and, for each of the nine colleges, College Citizens’ Oversight Committees (CCOCs). Under Proposition 39 and the Education Code, the COC has broad authority to review bond expenditures to ensure that funds are properly spent as proposed on the ballot, and that no funds are spent on district or campus salaries or operating expenses. We found no evidence that the DCOC or the CCOC had engaged in any meaningful review of LACCD’s bond expenditures. The formation of the DCOC and the CCOC seems to be for appearances and failed to accomplish the intent of providing accountability and transparency through scrutiny by interested citizens. One issue of particular interest we found in this area was a budget for the purchase of Public Art (see Schedule 1), in the amount of \$30 million.

In addition to the above concerns, we noted issues during the course of our audit that may be of interest to LACCD’s management. After spending approximately \$86 million in public funds to acquire and renovate the Van de Kamp site, Los Angeles City College determined that it could not use the site for the intended purpose of a satellite campus due to insufficient operating funds. Instead, the college returned the site to LACCD, which is leasing the bulk of the campus to a charter school for five years. Meanwhile, the colleges in LACCD are continuing with an aggressive campus expansion program without empirical data to demonstrate that LACCD has a viable source of revenues to operate the expanded facilities. LACCD has indicated that cost savings efforts on new technology and energy efficiencies will compensate for operating costs associated with new buildings. However, LACCD was unable to provide documentation as to the estimated amount of the projected savings or the basis for the projections. As a result, it is unclear whether the colleges will have sufficient funds to operate the new facilities.

Background

The Los Angeles Community College District is the largest community college district in the United States. It serves more than 250,000 students annually at nine colleges spread throughout 36 cities in the greater Los Angeles area. The nine colleges are: Los Angeles City College, East Los Angeles College, Los Angeles Harbor College, Los Angeles Mission College, Pierce College, Los Angeles Southwest College, Los Angeles Trade-Technical College, Los Angeles Valley College, and West Los Angeles College.

Proposition 39

Proposition 39 amended the California Constitution via Article XIII A and XVI (section 18), and the California Education Code, Part 10, School Bonds, to provide for issuance of general obligation bonds by school districts, community college districts, or county offices of education. Such bonds are issued for the construction, reconstruction, rehabilitation, or replacement of school facilities, including furnishing and equipping of facilities, or the acquisition or lease of real property. In addition, this proposition reduced the then-current approval requirement from a two-thirds voter approval to a 55% voter approval, providing that:

- The bond proceeds are to be used for the construction, rehabilitation, or replacement of school facilities. The money also can be used to acquire school sites and to furnish and equip schools. The bond proceeds cannot be spent for any other purpose, such as teacher and administrator salaries, or other school operating expenses.
- Before holding an election, a school district or a community college must publicize a list of its intended projects, along with certification that it had evaluated “safety, class size reduction, and information technology needs” before preparing the list.
- A school district or a community college must arrange for two independent audits each year until the bond proceeds are spent. One audit, a performance audit, is intended to ensure that the funds are spent only on the specific projects listed. The other is a financial audit of bond proceeds which is required until all of the proceeds are used.

The passage of Proposition 39 triggered accompanying legislation, Assembly Bill (AB) 1908 (codified into Education Code sections 15264-15425), that limits the amount of the bond proposal and the subsequent increase in property taxes. AB 1908 also stipulates that, if the bond election succeeds at the 55% voter approval level, the school district or community college district must appoint a citizens’ oversight committee to “actively” review and report on the proper expenditure of taxpayers’ money for school construction and “alert the public to any waste or improper expenditures.”

In order to achieve its goals, the COC must:

- Ensure that bond funds are properly spent as proposed on the ballot, and that no funds are spent on school district salaries or operating expenses.
- Issue reports, at least annually, on the results of its activities and make the reports available on the Internet.
- In addition, under Education Code section 15278(c), the COC may engage in any of the following activities:
 - Receive and review copies of the annual independent performance audit report.
 - Receive and review copies of the annual independent financial audit report.

- Inspect school facilities and grounds to ensure that bond revenues are expended in compliance with applicable requirements.
- Review efforts by the school district or community college district to maximize bond revenues by implementing cost-saving measures.

Pursuant to the requirements of Proposition 39 and the Education Code, a list of specifically approved projects was incorporated into Propositions A/AA, and Measure J.

By law and pursuant to the voter-approved ballot measures, performance and financial audits will be performed annually, and will have an independent citizens' oversight committee.

In order to implement the bond measure, LACDD formed a District Citizens' Oversight Committee and nine local college citizens' oversight committees. The panels comprise business, labor, education, student, senior, and community leaders.

These committees are formed to ensure that bond revenues are expended only for construction, reconstruction, rehabilitation, or replacement of college facilities and that no bond revenues are expended for any teacher or administrative salaries or other college operating expenses.

State Funding

LACCD applied for State funding on various projects already funded by Proposition A, Proposition AA, and Measure J, by submitting project proposals to the California Community College Chancellor's Office (CCCCO). Once proposals are approved by the CCCCCO, State bond funds are appropriated into the California state budget for the approved projects. The 2000-2001 Budget Act appropriated \$3 million to LACCD to be used for start-up costs for a satellite campus at the former Van de Kamp bakery site. In total, approximately \$214 million in State bond funds have been appropriated to augment the LACCD's Bond Construction Program projects.

Local Bond Measures

From 2001 to 2008, the voters in the LACCD approved a series of three bond measures to expand and make improvements to LACCD campuses. The three bond measures totaled \$5.725 billion, which resulted in an increase of approximately \$123 in annual property tax assessment for a medium household within the boundary of LACCD.

Proposition A

Proposition A was approved by the voters in 2001 for \$1.245 billion. Proposition A states, "The Facilities Projects List proposed for financing with the proceeds of the District's general obligation bonds includes the following projects to be undertaken at each of the nine colleges within the District: acquire related furnishings and equipment for all modernization, renovation, improvement, and/or new construction

project components; install and/or upgrade emergency lighting, fire alarm, and security systems throughout the campus; roadway, walkway, grounds, parking lot, and entrance improvements; signage for safety and public information; modernize and/or construct new restrooms campus-wide; development and implementation of facilities master plans and related requirements such as environmental impact reports and soils testing; demolition of temporary and/or obsolete facilities; the relocation and/or acquisition of temporary facilities during the modernization, renovation, improvement and/or new construction of project components as necessary to maintain educational programs in operation during construction; and acquiring land including but not limited to contiguous parcels, making site improvements thereon and/or constructing additional facilities thereon, for the purpose of expanding instructional programs to meet future educational demands of District students.”

LACDD developed a specific list of projects by campus to be funded with Proposition A bond proceeds, that was approved by the LACCD Chancellor.

Proposition AA

Proposition AA was approved by voters in 2003 for \$980 million. Proposition AA states, “The Facilities Projects List proposed for financing or refinancing with the proceeds of the District’s general obligation bonds includes the following projects to be undertaken at each of the nine colleges within the District: acquire related furnishings and equipment for all upgrades, renovation, improvement, and/or new construction project components; install and/or upgrade emergency lighting, fire alarm, and security systems throughout the campuses; roadway, walkway, grounds, parking lot, and entrance improvements; transportation and accessibility improvements; energy infrastructure improvements; environmentally sustainable design and construction; signage for safety and public information; renovate, conform to the Americans with Disabilities Act and/or construct new restrooms campus-wide; environmental impact reports and soils testing; demolition of temporary and/or obsolete facilities; the relocation and/or acquisition of temporary facilities during the construction; renovation; improvement and/or new construction of project components as necessary to maintain educational programs in operation during construction; restructuring existing lease-purchase obligations of the District to lower annual payments from the general fund and maximize amounts available for educational and student services programs; acquiring and leasing land and/or facilities including but not limited to contiguous parcels, making site improvements thereon and/or constructing additional facilities thereon, to provide administrative offices and expand instructional programs to meet future educational demands of the District students.”

LACCD developed a specific list of projects by campus to be funded with Proposition AA bond proceeds, that was approved by the LACCD Chancellor. This project list also included a list of prior Proposition A projects needing completion.

Measure J

Measure J was approved by the voters in 2008 for \$3.5 billion. Measure J states, “The Facilities Projects List proposed for financing with the proceeds of the District’s general obligation bonds includes the following projects to be undertaken in order to reduce administrative overhead at the District Office and at each of the nine colleges within the District: acquire related furnishings and equipment for all modernization, renovation, improvement, and/or new construction project components; install and/or upgrade emergency lighting, fire alarm, and security systems throughout all of the campuses; make roadway, walkway, grounds, parking lots and structures, and entrance improvements; make transportation and accessibility improvements; construct energy infrastructure improvements; including sustainable design and construction; upgrade of technology systems; construct and install signage for safety and public information; modernize and/or construct new restrooms campus-wide; develop and implement of facilities master plans and related requirements such as environmental; impact reports and soils testing; demolish temporary and/or obsolete facilities; undertake or provide mitigation measures; relocate and/or acquire temporary facilities during modernization, renovation, improvement and/or new construction of project components as necessary to maintain educational programs in operation during construction; restructure existing lease-purchase obligations of the District to lower annual payments from the general fund and maximize amounts available for educational and student services programs; restructure debt by substitution of existing financing for less expensive financing to maximize funds available for educational and student services programs; acquire and lease land and/or facilities including but not limited to contiguous parcels, make site improvements thereon and/or construct additional facilities thereon, including administrative offices and support areas, and expand instructional programs to meet future educational demands of District students.”

The district developed a specific list of projects by campus to be funded with Measure J bond proceeds, that was approved by the LACCD Chancellor.

Program Management Services

In August 2001, the LACCD Board of Trustees approved an award of the contract for program management services to Daniel, Mann, Johnson & Mendenhall and Jenkins/Gales & Martinez, Inc. (DMJM/JGM, or the Program Manager). At the end of that contract, the program management services were re-bid and awarded to URS (Program Management Team, or BuildLACCD) in March 2007. The responsibilities of BuildLACCD include, in part, the establishment of bond program policies and procedures which include, but are not limited to, development and maintenance of a public website for timely dissemination of information about the bond program; the collection and dissemination of program performance measures such as schedule, budget, and cost; Board of Trustees approvals for bond expenses; security measures that support implementation of the bond program; development and implementation of uniform systems of project identification and numbering with document control and filing; and assisting college administrators and

campus project management firms in contracting with consultants and contractors as necessary to successfully execute the bond program at each campus. In addition, BuildLACCD is responsible for all bond-related payments.

Creation of an Office of the Inspector General

In November 2009, the LACCD Board of Trustees authorized bringing in an outside firm, Capstone Advisory Group LLC, to conduct an organizational review of the building program. Capstone recommended that LACCD create an Office of Inspector General and a “whistle-blower” program.

The LACCD Board of Trustees and Chancellor authorized the creation of the Office of Inspector General (OIG) to ensure its capital program funded by Proposition A, Proposition AA, and Measure J bonds is performing with the utmost integrity and efficiency.

The Inspector General shall plan, direct, and conduct investigations and audits designed to promote accountability to the public and to insure the economy, efficiency, effectiveness, and integrity of the Bond Program. The OIG is responsible for the ongoing monitoring of the management of bond-funded projects and appropriateness of related expenditures in compliance with Proposition 39.

In October 2010, the LACCD Board of Trustees voted to hire Policy Masters, Inc. to implement its Office of Inspector General and whistle-blower program. According to the OIG mission statement, “The Office of the Inspector General (OIG) will serve the Los Angeles Community College District by providing timely independent and objective Bond Program audits and investigations to prevent waste, fraud, and abuse while upholding characteristics that demonstrate integrity, trust, and communication.”

Audit Scope and Objectives

Our audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was conducted to determine if LACCD has properly accounted for and expended funds for the bond construction program projects that include State funds. Given the magnitude of LACCD’s bond construction program, it was not feasible for the SCO to conduct a full-scale audit of all bond construction projects. Thus, in addition to the Van de Kamp (VDK) Satellite Campus project, the initial scope of our audit was limited to a sample of two other specific bond construction projects selected on a judgmental basis:

1. Mission College–Culinary Arts Center
2. Mission College–Health, P.E. and Fitness Center

After we initiated the audit, we found many issues involving Van de Kamp are in litigation, and we were only able to verify a limited amount of information on the projects relative to State funds.

In addition, as we proceeded with our audit of the sampled project expenditures relating to Mission College projects, we identified other concerns that necessitated the expansion of the scope of our audit to certain specific issues as noted below:

- We noted some charges to the Measure J bond funds that appeared to be questionable. Thus, we expanded the scope of our audit to include a review of eligibility of all projects charged to Measure J.
- In reviewing the project listing, we found numerous cancelled projects, which required further inquiries as to the reasons for cancellation.
- Our review of the bond construction oversight also included a review of the procurement process that led to the selection of the Inspector General. The Office of the Inspector General was created in October 2010 to plan, direct, and conduct investigations and audits designed to promote accountability to the public and to insure the economy, efficiency, effectiveness, and integrity of the Bond Program.

Therefore, our audit made a determination if:

Mission College Projects

- Management could adequately accumulate and segregate allocable and allowable costs.
- The College Project Manager and the Program Management Services contractor in our sample selection adequately managed and monitored the bond programs.
- Bond proceeds were expended in accordance with the provisions of the bond measures as approved by the voters.

Inspector General

The Inspector General was the lowest responsible bidder, whose services were procured in accordance with LACCD's internal policies and procedures.

All Bond Construction Programs

- Costs incurred for Measure J projects complied with the voter-approved measure.
- Whether any projects were cancelled and the reasons for the project cancellation.

Van de Kamp

- The \$3 million LACCD received from the State of California for the purpose of purchasing the Van de Kamp site was used for intended purposes.
- There was adequate planning to determine if the campus has sufficient operating revenue to open.

LACCD is in litigation on issues involving the Van de Kamp project. As a result, LACCD could not readily provide documentation necessary to perform our testing. Therefore, we cannot issue an opinion regarding the Van de Kamp project. Our office may review this project at a later date.

Additionally, we found that after expending approximately \$86 million in public funds to complete the Van de Kamp satellite campus, the site is not being used as a campus because LACCD lacks sufficient operating funds to maintain it as a campus. In July of 2010, the DCOC held a special meeting at the almost-completed Van de Kamp Innovation Center to better understand the nature of the issues being raised by the community. The DCOC noted that questions remain on the appropriateness of funds used to build the Innovation Center. As LACCD is embarking on an intense effort to construct new buildings throughout the campuses, we further reviewed LACCD's ability to open and operate new buildings, given current district funding issues.

Audit Methodology

In order to accomplish our audit objectives, we performed the following procedures:

- Reviewed Proposition A, Proposition AA and Measure J, and other pertinent documents related to these bond measures.
- Reviewed Proposition 39 and other pertinent state statutes related to the issuance of bonds and use of bond proceeds.
- Reviewed the audit reports prepared by LACCD's independent auditors pursuant to the annual financial and performance audit requirements.
- Reviewed consultants' memos and reports related to the bond construction program.
- Reviewed the minutes of the LACCD Board of Trustees meetings.
- Reviewed the minutes of the DCOC meetings.
- Interviewed various officials and staff at LACCD, BuildLACCD, and the College Project Manager at Mission College to gain an understanding of relevant policies, procedures, and processes.
- Reviewed written manuals and documents related to policies, procedures, and processes to account for bond expenditures.

- Examined various financial records including, but not limited to, general ledgers, journals, chart of accounts, payable journals, and project cost records.
- Reviewed and examined contracts, purchase orders, invoices, and other related documents.
- Performed tests of transactions as deemed necessary to verify the accuracy and reliability of accounting records and reports.
- Reviewed LACCD's Request for Proposal (RFP) evaluations and contract for the position of Inspector General. Interviewed the Inspector General concerning personal qualifications, staff qualifications, work plan, and professional standards to be followed and utilized.

Conclusion

- Our audit disclosed that LACCD used \$42.64 million in Measure J bond funds for projects and activities not on the approved list.
- LACCD did not provide adequate oversight over the spending practices of the colleges. This led to more than \$28.3 million in cancelled projects.
- LACCD incurred more than \$39.2 million in expenditures for numerous activities that are common throughout the campuses. These expenditures were primarily operating costs not allowable under Proposition 39.
- LACCD has spent \$2.75 billion for the bond construction program to date but has been unable to provide support for Proposition A, Proposition AA, and Measure J ballot amounts with a district-wide facilities master plan list that includes the associated project cost estimates.
- LACCD ignored its internal procurement rules and guidelines in the selection of the Inspector General which—at least in appearance—compromised the integrity of the Inspector General to carry out the essential functions of the office.
- Oversight by both the District's Citizens Oversight Committee and the Colleges' Citizens Oversight Committee was passive, perfunctory, and ineffective. This led to the Colleges' Citizens Oversight Committee proposing a budget for \$30 million in Public Art and the District's Citizens Oversight Committee approving it without any questions or discussion.

In addition, we noted that LACCD continues to expand campus facilities without empirical data to demonstrate that it has a viable source of revenues to operate the expanded facilities.

The SCO could not render an opinion on the Van de Kamp Satellite Campus due to items in litigation.

**Views of
Responsible
Officials**

We issued a draft audit report on June 22, 2011. Daniel J. LaVista, Ph.D., Chancellor, responded by letter dated July 14, 2011 (Attachment B), disagreeing with all four audit findings. Of the twelve recommendations, Dr. LaVista agreed with eight, disagreed with two, and did not address the two remaining recommendations.

Restricted Use

This report is solely for the information and use of the Los Angeles Community College District, Los Angeles Community College District Board of Trustees, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

August 10, 2011

Schedule 1— Schedule of Questioned Costs July 1, 2001, through December 31, 2010

Project Name	Campus	Amounts Questioned	Reference ¹
Questionable Measure J Expenditures:			
General Classroom Building	East	\$ 28,469	Finding 1
Campus-wide Retro Commissioning	City	332,743	
Master Planning	Harbor	381,557	
Health and P.E., Fitness Center	Mission	3,395,720	
Family and Consumer Studies Building	Mission	1,045,875	
Child Development Center (CDC) SMART Classrooms	Southwest	168,143	
Swimming Pool Covering	Southwest	69,947	
Public Arts	Valley	323,535	
Public Arts	Valley	8,832	
Public Arts	Valley	4,876	
Science and Math Building	West	16,184,134	
Science and Math Building	West	2,918,471	
Temporary Facilities—Relocation, Acquisition—Campus	West	259,816	
New Education Building	Northeast	3,180,810	
Central Plant	Northeast	350,309	
San Fernando Road Street Widening	Northeast	11,749	
Bakery Building (Van de Kamp)	Northeast	5,157,903	
Land Acquisition	Northeast	8,500	
Campus Program Management—Project Management Services	Northeast	655,117	
Campus Program Management—Contingency	Northeast	538,986	
New Learning Resource Center	Harbor	427,519	Finding 2
Trade Tech South Campus	Trade Tech	6,172,512	
Trade Tech South Campus	Trade Tech	4,631	
Site Improvements—Campus-wide Perimeter Fence	Southwest	1,014,202	
Subtotal		<u>42,644,356</u>	
Cancelled Projects:			
Proposition A		14,181,840	Finding 2
Proposition AA		9,126,551	
Measure J		<u>5,009,584</u>	
Subtotal		<u>28,317,975</u>	
Multi-Campus Unallocated Project Costs by Category:			
Program Management		22,087,090	Finding 2
Specialty Consulting		9,463,719	
Asset Management		<u>7,662,219</u>	
Subtotal		<u>39,213,028</u>	
Public Art Purchases		<u>30,000,000</u>	Finding 4
Total		<u>\$ 140,175,359</u>	

¹ See the Findings and Recommendations section.

² Amount currently budgeted.

Findings and Recommendations

FINDING 1— LACCD used Measure J bond funds for projects and activities not on the approved project list

Pursuant to Proposition 39 requirements, the Los Angeles Community College District (LACCD) published a list of intended projects that were to be funded through Measure J bond proceeds (see Attachment A). The list appears to be very comprehensive and provided LACCD with considerable discretion to use bond funds for a broad array of projects and activities. Nevertheless, based on review of sample transactions, we identified numerous instances where bond funds were used on projects that were not on the list approved by the voters and the Board of Trustees. Schedule 1 provides a list of expenditures totaling \$42.64 million determined to be questionable/ineligible Measure J expenditures. The projects are as follows:

- \$427,000 in Measure J funds was used for the construction of a New Learning Resource Center at Harbor College, which is not included in the project list.
- Measure J funds were used for budget overruns of projects approved under Proposition A and Proposition AA. Proposition AA contains a provision that specifically allows LACCD to use Proposition AA bond funds for incomplete Proposition A projects. Measure J contains no such provision. Nevertheless, LACDD used \$1.045 million in Measure J funds to complete the Mission College Culinary Arts Center and \$3.4 million to complete the Mission College Health, P.E. and Fitness Center because the college had exhausted its Proposition A and Proposition AA funding.
- \$19.4 million in Measure J funds was used for a Science and Math building at West Los Angeles College, which was not on the approved project list. Officials from BuildLACCD asserted that the Measure J project list includes construction of an Allied Health/P.E., Recreation and Wellness Center and two Allied Health classrooms to be contained within the Science and Math building. Under this rationale, LACCD essentially has unlimited discretion to construct any building simply by designating a portion of the building to an activity on the approved project list. We believe this to be circumvention of the purpose and intent of the requirement for an approved project list.
- The approved project list included a Technology Building at Trade Technology Community College (Trade Tech). During our site visit, we were informed that the campus had decided to keep technology classes in the old technology building and, instead, use the new building for general classrooms and teacher offices. General classrooms and teacher offices are not on Trade Tech's approved project list and the estimated costs of this building are approximately \$63 million. Of the \$63 million, \$6.1 million of Measure J funds were used for the completion of Trade Tech College's South Campus Project.

- \$1.01 million was used for a perimeter fence at Southwest College, which is not included in the list of Measure J projects.
- \$9.9 million was used for completing portions of the Northeast Satellite Campus (Van de Kamp), which is not included in the list of Measure J projects.

Recommendation

LACCD should:

- Adopt policies and procedures to ensure bond proceeds are spent in accordance with the intent of voters as specified in the bond measures.
- Clearly document, and make available to the public, its rationale or basis for any material deviation from the project list included in the ballot measure approved by the voters.

**FINDING 2—
LACCD did not provide
adequate oversight over
the spending practices of
the colleges**

Given the magnitude of the bond construction program, it is essential that LACCD adopt appropriate control measures to oversee and monitor the colleges' spending practices. This will ensure prudent use of bond funds and help in safeguarding assets. Good internal controls require the safeguarding of assets.

In interviewing officials from LACCD and the colleges, we learned that LACCD management typically was involved in the decision to allocate bond funds among the colleges. However, once funds were allocated, the colleges have considerable discretion over how the funds are to be used, with little oversight from LACCD management. The following are issues identified during the audit:

- LACCD intervention on project budget overruns was lacking. For example, in the aforementioned projects, where Mission College ran out of funds for the Culinary Arts Center and the P.E. and Fitness Center, Mission College simply used \$4.4 million in Measure J funds to complete the projects. When questioned, neither LACCD's Chief Financial Officer nor BuildLACCD (LACCD's Program Manager) seemed aware of this practice. Had the voters not approved Measure J, it is unclear how the college would have obtained sufficient funds to complete this project.

Another example is the South Campus project at Trade Technology Community College (Trade Tech), which is the second-largest construction venture for LACCD's Proposition A and Proposition AA Bond Construction Program. Two media releases were issued related to this project, one describing contract awards for \$77.8 million while another described \$126 million. According to LACCD, the \$77.8 million was the original construction contract award, whereas the \$126 million included land acquisition, construction and design costs. Yet, according to its website "Dashboard," Trade Tech actually budgeted \$146.6 million for the project and incurred \$139 million in expenditures as of May 2011, or \$13 million above the original estimate. The college apparently exhausted all Proposition A/AA bond funds allocated to the project and had to resort to using Measure J funds to complete the project. According to its "Fixed Asset Spreadsheet," the college allocated \$11.5 million in Measure J funds to this project, of which \$6.2 million had been spent as of November 19, 2010.

- Oversight over projects cancelled by the colleges was lacking. In a review of project expenditures, we found the college campuses cancelled numerous projects after incurring substantial expenditures during the design or construction phase of the projects. The reasons for the cancellations were not documented. In reviewing the list of cancelled projects with staff from LACCD and its Program Management Team, BuildLACCD, neither LACCD nor BuildLACCD could explain why these projects were cancelled or what, if any, value was received, which raised further questions about LACCD's oversight effort of the projects. Our review found that, had LACCD exerted proper oversight over the college campuses' spending practices, unnecessary costs could have been avoided. For example, the Student Admissions Center project at City College was cancelled

because of budget issues, after \$921,548 had been incurred during the pre-design and programming phase. The Renewable Energy at Southwest College panel installation project on Parking Lot 1 was cancelled with no benefit received, after expending \$2,231,934. The cancellation of this project was for two reasons:

1. The campus reassessed its master plan with the passage of Measure J.
 2. The campus determined that its one megawatt limit was already being met. Therefore, the project was cancelled and the district did not receive any benefit from the more than \$2.2 million already expended.
- In total, the cancelled projects consisted of \$28.3 million in expenditures from the following ballot measures:

Proposition A	\$ 14,181,840
Proposition AA	9,126,551
Measure J	<u>5,009,584</u>
Total	<u>\$ 28,317,975</u>

- Accountability among the college campuses for expenses incurred under “multi-campus: cost categories” was lacking. Under Measure J, the colleges collectively incurred more than \$39.2 million in expenditures for numerous activities that are common throughout the campuses. We identified the following cost categories to be primarily operating expenses and thus are not allowable expenditures under any of the Proposition 39 bond measures:

Multi-Campus Unallocated Project Costs by Category	
Category	Amount
Program Management	\$ 22,087,090
Specialty Consulting	9,463,719
Asset Management	<u>7,662,219</u>
Total	<u>\$ 39,213,028</u>

We found “Program Management” to be related to LACCD’s costs for accounting and invoice processing of bond funds which typically is an operating expense, and therefore, is an unallowable category under Measure J.

“Specialty Consulting” included miscellaneous expenditures that do not fit into any other another cost category which appear to be ongoing operating costs of LACCD for contracted amounts such as:

Copying and binding services	\$2,000,000
Public relations, conducting facility tours, coordinating project special events such as project completions and administrative support for the bond program	\$1,517,624
Photography of campus construction and public relations events as well as maintaining the photo library for the BuildLACCD website (LACCD’s website for construction projects that gives information to contractors and the public)	\$1,500,000

Data gathering for LACCD's Schedule Maintenance and Space Inventory	\$1,375,000
Developing manuals and other items for the BuildLACCD website	\$ 750,000
Operational audit/review which only resulted in a memo for the public	\$ 175,624
Marketing and communication services related to the BuildLACCD website	\$ 400,000
Public Outreach and Public Relations	\$ 156,000
Purchasing transit passes for students attending campuses that had ongoing projects and impacted parking	\$ 566,742

“Asset Management” involved the costs of tagging equipment which typically is treated as an operating expense, and therefore, is ineligible under Measure J.

As a requirement of Proposition 39, each ballot initiative—Proposition A, Proposition AA, and Measure J—is required to develop a list of intended projects. LACCD indicated that in the planning out for each of the bond measures, these project lists were costed out to approximate the amount of the bond measure. These master plans were to provide the basis for the ballot measures that were to be voted on by the people of Los Angeles County. However, after numerous requests, LACCD could not provide a facilities master plan for any of the ballot measures.

The absence of a district-wide master plan is a significant internal control deficiency that could result in inappropriate or wasteful spending practice among the college campuses. As noted previously, once bond funds are allocated, each college campus has considerable discretion over how funds are to be spent, with minimal oversight from LACCD. Without the original Facilities Master Plan documents and cost estimates to provide overall parameters for use of bond funds, it is even more difficult to hold the college campuses accountable. To date, LACCD spent approximately \$2.75 billion in bond funds under a flawed planning/budgeting process that lacks accountability and led to the questionable use of funds such as those described in the previous findings. It is imperative that the LACCD take appropriate actions to install proper control and oversight governing the use of the remaining \$3 billion in bond funds.

Recommendation

In order to properly safeguard LACCD's assets and provide taxpayers reasonable assurances on the appropriateness of Proposition 39 bond expenditures, LACCD should:

- Develop a Facilities Master Plan with associated costs that are documented and available to the public.
- Suspend use of any unobligated bond funds until a Master Plan is fully developed and approved.
- Establish a process to closely monitor the college campuses' spending practices by using an approved district-wide Facilities Master Plan.

**FINDING 3—
LACCD ignored its
internal procurement
rules and guidelines in
the selection of the
Inspector General which,
at least in appearance,
compromised the
integrity of the Inspector
General to carry out the
essential functions of the
office**

The following is a chronology of events relative to the creation of the Office of Inspector General (OIG) and the selection of the contractor for the OIG function:

- In November 2009, LACCD retained the Capstone Advisory Group, LLC (Capstone Group) to conduct an organization review of the building program. In a memorandum dated March 10, 2010, the Capstone Group made a series of recommendations, one of which was to create an OIG for the Bond Construction Program.
- On March 10, 2010, the Board of Trustees adopted a resolution calling for the establishment of the OIG.
- On April 26, 2010, LACCD issued Request for Proposal (RFP) #10-12 to “solicit offers from a qualified and interested individual or firm or joint venture to provide those services required to plan, direct, and conduct investigations and audits designed to promote accountability to the public and to ensure the economy, efficiency, effectiveness, and integrity of the District’s capital funded program.”
- On May 14, 2010, a panel of four LACCD officials reviewed and evaluated the proposals. Each of the panel members prepared a score sheet by assigning a numerical score for each bidder in five different categories including qualifications, staffing, work plan, fees, and miscellaneous. The highest possible score was 100 points.
- On May 20, 2010, the panel of LACCD officials interviewed four of the bidders.
- On August 4, 2010, the same panel conducted a second interview of the same four bidders.
- On October 6, 2010, the Board of Trustees approved a five-year contract, covering the period of October 7, 2010, through October 6, 2015, with Policy Masters, Inc. to carry out the functions of OIG. The contract is for \$701,680 for “basic services.” The contractor may bill for “additional services” upon approval by LACCD.
- On January 12, 2011, the Board of Trustees adopted Board Rule 17300 defining the authority and responsibilities of the OIG.

LACCD’s Business Operations Policies and Procedures (PP-04-08) includes a policy for procurement of special and professional services. The inspector general procurement falls under this policy. This policy requires that the RFP specify the professional standards to be followed and that the evaluation criteria should utilize qualitatively objective standards for determining whether a vendor should be selected. It also states that “the proposal receiving the highest score will be deemed the offer most advantageous to the District and be recommended for contract award.”

We found that LACCD ignored its internal guidelines and procedures in procuring the position of Inspector General. The selected bidder had the lowest score among the four bidders interviewed and the second lowest score among the 11 bidders that were reviewed. In addition, Policy Masters, Inc. exceeded the lowest cost proposal from an international auditing firm by about \$250,000, or more than 50%, annually. Specifically, we identified the following discrepancies:

- The RFP failed to identify the professional standards to be followed, without which the evaluators could not determine whether the bidder qualified for the position.
- LACCD disregarded qualitative measures and objective standards under the RFP process. LACCD established an evaluation team and each team member was to rate each bidder on a score sheet. We reviewed the score sheets and found numerous errors and inconsistencies. Specifically, we found the following:
 - Some score sheets were incomplete.
 - Some score sheets had inaccurate tallying.
 - The four scores from evaluators were not combined to determine a final score for each bidder.
 - Some of the evaluators ratings were inconsistent. One evaluator marked a “0” for cost while another gave the highest mark of “25” for the same bidder.

Moreover, LACCD apparently ignored the score sheets in determining which of the bidders were to be interviewed. Of the eleven bidders, four were selected for interview. We found the four bidders with the highest scores of 75, 74, 73.5, and 70 were not selected for interview. Meanwhile, among the five bidders with the lowest scores, four bidders with scores of 59, 56, 55.5, and 44.35 were selected for interview with no documentation or explanation for their selection. We questioned the Contracts and Purchasing Manager of LACCD, who could not provide the criteria in the selection of bidders to be interviewed or how the four bidders were selected for interviews.

In addition, we question the qualifications of the Inspector General to carry out the essential functions of the office. Principles and Standards of the Association of Inspectors General (standards) lists the qualifications needed to be an inspector general (IG):

either

- IG must attain and maintain appropriate professional licensure and certification and have knowledge of IG statutory requirements and applicable directives, rules, and regulations.
- IG must have demonstrated experience in accounting, auditing, law, investigations or criminal justice administration.

- IG should hold at appointment, or be required to obtain within a certain time after appointment, certification as a Certified Inspector General.
- IG must currently serve or have served as a senior-level staff member in an inspector general's office.
- IG must have a Bachelor's degree from an accredited college or university.
- IG must have ten years of public sector experience performing or managing audits, investigations, or directly related legal functions.
- IG must have at least three years experience as a senior-level staff member in an inspector general's office managing and overseeing audits or investigations.

or

- IG must currently serve or have served as a senior-level staff member in an inspector general's office.
- IG must have earned a graduate degree in Public Administration, Law, or a related field from an accredited college or university.
- IG must have seven years of public sector experience performing or managing audits, investigations, or directly related legal functions.
- IG must have at least three years experience as a senior-level staff member in an inspector general's office managing and overseeing audits or investigations.

Our review found that:

- Policy Masters, Inc. was formed as a company in January 2010, shortly before the RFP was released in April 2010. The firm did not have any clients prior to its contract with LACCD.

Prior to contracting with LACCD, Policy Masters, Inc. consisted solely of one individual, who did not have any background or experience in conducting audits or investigations or experience working in an Inspector General's office. In its proposal, Policy Masters, Inc. included resumes of numerous individuals, some with background and experience in conducting audits and investigations. However, none of the individuals had a formal relationship with Policy Masters, Inc. until after the contract with LACCD had been executed.

We have discussed our concerns with management of LACCD. In a letter dated March 18, 2011, the Chancellor of LACCD stated that:

- The qualifications and skills for an Inspector General are inherently tied to the purpose of the establishment of the office and, given the goal of review of capital construction program, it is appropriate to select someone with strong construction experience to assume the leadership role.

- Recognizing the different activities of the OIG, the Inspector General will assign different staff members for particular project.
- Under standards, qualifications relate to the collective knowledge, skills, and experience of the OIG and not necessary to any one staff member.

Upon further review, we question the qualifications of the Inspector General to carry out the essential duties of the office for the following reasons:

- Under Exhibit 1–Scope of Work of the LACCD’s contract with Policy Masters, Inc., an overwhelming portion of work is either conducting audits, investigations, or related activities. The principal of Policy Masters, Inc. had no audit or investigation experience. Furthermore, there is no indication in Policy Masters, Inc.’s proposal that the principal has had any experience in directing and supervising others in completing audit or investigation projects.
- Under Exhibit B–Schedule of Payments, Policy Masters, Inc. is to be reimbursed in accordance with the following hourly rates for performing “basic services”:

Position	Hourly Billing Rate	Estimated Hours	Annual Total
Inspector General	\$150	1,900	\$277,500
Senior Manager	\$125	1,040	\$130,000
Senior Auditor/Project Manager	\$100	1,200	\$105,000
Auditor/Whistleblower Manager	\$75	1,800	\$120,000
Administrative Support	\$30		

Excluding the Whistleblower Manager and the administrative position, Policy Masters, Inc. allocated a total of 4,140 hours for “basic services.” Approximately 46% (1,900 of 4,140) of the hours were allocated to the Inspector General who has no audit or investigation experience. In addition, in reviewing the staff resumes, an unspecified portion of the hours allocated to the Senior Manager’s position is for an individual with no audit or investigation experience. As previously noted, an overwhelming portion of the work of the OIG consists of audits, investigations, and related activities. With fewer than 50% of the hours allocated to individuals with audit or investigation experience, we question the OIG’s ability to “collectively” meet the qualification standards.

Under Exhibit A–Scope of Work, contracting process and bidding process are identified as priority audits by the Inspector General for FY 2010-11. The fact that the Inspector General, whose qualification is questionable and may have been selected through a flawed bidding process, raised questions, at least in appearance, about the ability of the OIG to carry out these functions. These circumstances led to questions about possible malfeasance in the selection of the Inspector General.

Recommendation

The LACCD Board of Trustees and the LACCD Chancellor should:

- Adopt control measures to ensure procurement of special and professional services by fully complying with internal rules and guidelines.
- Develop documentation requirements for the evaluation and selection of bidders.
- Adopt other measures to provide transparency and accountability in procurement of special and professional services as well as for other services.
- Request an independent investigation into the process and circumstances that led to the selection of the Inspector General and take appropriate administrative or legal actions.

**FINDING 4—
Oversight by the
Citizens Oversight
Committee (COC)
was passive,
perfunctory, and
ineffective**

In accordance with AB 1908 (codified into Education Code sections 15264 through 15425), LACCD's COC consisted of a District Citizens' Oversight Committee (DCOC) and, for each of the nine colleges, a College Citizens' Oversight Committee (CCOC). The committees comprise business, labor, education, student, senior, and community leaders to ensure that "bond revenues are expended only for construction, reconstruction, rehabilitation, or replacement of college facilities and that no bond revenues are expended for any teacher or administrative salaries or other college operating expenses."

Under Proposition 39 and the Education Code, the citizens oversight committees have broad authority to review bond expenditures to ensure that funds are properly spent as proposed on the ballot, and that no funds are spent on district or campus salaries or operating expenses. In addition, AB 1908 stipulates, in part, "[the] community college district must appoint a Citizens Oversight Committee (COC) to actively review and report on the proper expenditure of taxpayers' money for school construction and alert the public to any waste or improper expenditures."

We found that neither the DCOC nor the CCOC engaged in any meaningful review of bond expenditures. Specifically we found the following:

- Neither the DCOC nor the CCOC complied with the Education Code's annual reporting requirement. For transparency and accountability, Education Code 15280 provides that the COC must issue reports, at least annually, on the results of its activities, and make the reports available on Internet. We found that none of the nine CCOCs issued any annual report since their formation in 2001. For the DCOC, the committee apparently had not issued the required annual report since 2003. It issued an undated report that covered the period of 2003 to 2010, which stated:

This is the second formal report of Propositions A/AA and Measure J by the Citizens' Oversight Committee since its formation in June 2001. It is the intent of the District Citizens' Oversight Committee (DCOC) to issue reports annually, consistent with the requirements of Proposition 39.

- Contrary to the requirements of AB 1908, the DCOC report provided no evidence to demonstrate that the committee had "actively" reviewed the bond expenditures. The report appeared to be a publicity document produced by the district rather than a report by an independent entity to account for its oversight activities and present its findings and conclusions.
- The oversight activities of the CCOC appear to be perfunctory at best. We reviewed the minutes of Mission College and the Los Angeles Technical Trade Colleges CCOC and found no documented deliberation regarding the colleges' expenditure proposals.

- For example, the minutes of the DCOC meeting of May 15, 2009, contained a discussion to procure public art. Previously, the Board of Trustees did not wish to expend bond funds on public art. At this meeting, it was noted that the Board of Trustees would “now like to move forward with a \$30 million project to purchase public art” and the DCOC members did not question the proposed expenditure. As acquisition of public art is not included on the listing of voter-approved projects, we do not believe this is an appropriate expenditure under Measure J.
- Los Angeles Technical Trade College (Trade Tech) was approved to complete two buildings, one for Technology classrooms (66,228 square feet) and one for Student Services (56,302 square feet) for \$77.8 million. The final cost of the project was \$126 million. This amount exceeded the approved budget by \$48.2 million (62%). A review of Trade Tech’s CCOC meeting minutes did not reflect any discussion of what caused the budget overrun, including such things as who was responsible for the overrun, and possible alternatives or measures to be taken to prevent reoccurrences in the future. The CCOC is responsible for ensuring that the bond moneys are spent as intended. Although the bylaws state that notices and agendas regarding the Trade Tech COC shall be posted in the same location as the location where notices and agendas regarding the College Academic Senate and LACCD Board of Trustees meetings are posted, only three months worth of minutes are posted on the website.

Recommendation

We recommend that:

- The Board of Trustees review the College Citizens Oversight Committee and District Citizens Oversight Committee bylaws to ensure compliance with statutory requirements, and verify that the committees are using their authority and responsibility diligently, as well as have appropriate bylaws that allow them this authority and responsibility. In addition, the CCOC should ensure that bond moneys are spent appropriately.
- The Legislature should adopt legislation to improve accountability and transparency over the use of bond funds by more clearly delineating the role and responsibilities of the citizens’ oversight committees and provide the committees greater independence from the colleges’ governing bodies.

**OBSERVATION—
LACCD continues to
expand campus facilities
without empirical data
to demonstrate it has a
viable source of
revenues to operate the
expanded facilities**

After spending approximately \$86 million in public funds to acquire and renovate the Van de Kamp site, Los Angeles City College determined that it could not use it for the intended purpose of a satellite campus due to insufficient operating funds. Instead, City College returned the site to LACCD, which is leasing the bulk of the campus to a charter school for five years. Meanwhile, as ample Measure J bond funds are available, the colleges in LACCD appear to be continuing to pursue an aggressive campus expansion program. It is unclear whether the colleges will have sufficient funds to operate the new facilities.

The Chancellor's Office has Procedures and Standing Orders for the Board of Governors, dated January 2010. The section on accounting and reporting requires the Board of Governors to "Implement financial standards which will assure the fiscal viability of the auxiliary. Such standards should include proper provision for the professional management, adequate working capital, and adequate reserve funds for current operations, capital replacements, contingencies, and adequate provisions for new business requirement."

It is unclear as to what action the district has undertaken to implement the financial standards. We interviewed LACCD's Deputy Chancellor; the Director of Facilities, Planning and Development; the Chief Financial Officer; and various campus management staff regarding operating funds to support new bond construction. None of officials interviewed were able to identify the process by which each campus plans for and ensures they have sufficient operating funds for new bond construction projects.

LACCD has indicated that cost savings efforts on new technology and energy efficiencies will compensate for operating costs associated with new buildings. However, LACCD was unable to provide documentation as to the estimated amount of the projected savings or the basis for the projections.

In addition, Mission College's Culinary Arts Center was slated to open in February 2011 for the new semester. Even though the building is complete, fully furnished, and has been turned over to the college, it is not in use and is sitting vacant. These types of situations may continue to occur and multiply as LACCD continues to build while enrollment is growing, without full reimbursement for their full-time equivalent students, and State funding is decreasing.

Recommendation

LACCD should develop formal policies and procedures for accounting for operating costs, including staffing, for new construction. In addition, they should document projected savings due to energy efficiencies and determine if this is sufficient to cover additional operating costs.

**Attachment A—
Los Angeles Community College District's Board of
Trustees Resolution on Adopting Measure J Project List**



Board of Trustees

Los Angeles Community College District

ACTION

Com No. CH1

Division: CHANCELLOR

Date: June 11, 2008

Subject: ADOPT PROJECT LIST FOR NOVEMBER 2008 BOND MEASURE

Adopt the attached resolution (Attachment 1) and specify the list of projects which may be performed (Exhibit A) for the November 2008 bond measure.

Background: On April 23, 2008, the Board voted to place a proposed bond measure on the ballot for November 2008. As a result of Proposition 39, the Board is required to adopt a project list prior to the election. The attached list includes projects necessary for the build-out of the colleges' master plans, land acquisitions and the buyout of energy contracts.

Approved by

Marshall E. Drummond
Marshall E. Drummond, Chancellor

Chancellor and
Secretary to the Board of Trustees

By: *Jamie Green* Date: *6/11/08*

Candaale	<input checked="" type="checkbox"/>	Reddock	<input checked="" type="checkbox"/>
Field	<input checked="" type="checkbox"/>	Santiago	<input checked="" type="checkbox"/>
Mercer	<input checked="" type="checkbox"/>	Scott-Hayes	<input checked="" type="checkbox"/>
Pearlman	<input checked="" type="checkbox"/>	Bustos	<i>Aye</i>

Student Trustee Advisory Vote

Page 1 of 1 Pages Com. No. CH1 Div. CHANCELLOR

Date 6-11-08

ATTACHMENT "1"
**RESOLUTION APPROVING PROJECT LIST WITH RESPECT TO NOVEMBER 4,
2008 ELECTION TO AUTHORIZE GENERAL OBLIGATION BONDS OF THE
DISTRICT, INCLUDING CERTAIN FINDINGS WITH RESPECT THERETO**

WHEREAS, the Board of Trustees (the "Board") of the Los Angeles Community College District (the "District"), within the County of Los Angeles, California (the "County"), has heretofore called for an election within the District for the purpose of considering, *inter alia*, a bond measure to meet the ongoing capital improvement needs of the District (the "Bond Measure"), pursuant to the Constitution of the State of California (the "State") and Section 15264 *et seq.*, of the Education Code of the State (the "Education Code"); and

WHEREAS, the cited provisions of the Education Code (collectively, "Prop 39") provide for a methodology by which the District may call for an election and, upon approval by 55% or more of the qualified voters voting on the bond measure, issue its general obligation bonds (the "Bonds") and cause the County to levy an *ad valorem* property tax to pay debt service on said bonds; and

WHEREAS, this Board has determined that the election be consolidated with the Statewide general election to be conducted on November 4, 2008 (the "Election Date"); and

WHEREAS, the Board now wishes to specify the capital projects (the "Projects") which it would undertake in the event that the Bond Measure receives the necessary percentage of favorable votes;

NOW, THEREFORE, be it hereby resolved, determined and ordered by the Board of Trustees of the Los Angeles Community College District as follows:

Section 1. Recitals. All of the foregoing recitals are true.

Section 2. Consolidation of Bond Election; Services of County. Pursuant to Section 1258 of the Education Code, the Chancellor of the District is hereby authorized to contract with the Registrar, who is hereby requested and authorized to perform such duties as may be required by law, necessary or useful, or customary and appropriate in the conduct of said Bond Election, including the consolidation of the Bond Election with the general primary election within the territory of the District being conducted on the Election Date.

The precincts, polling places for said precincts in the County of Los Angeles (the "County"), and persons appointed and designated to serve as election officers for said Bond Election will be those determined, designated, and appointed pursuant to state law by the Registrar of Voters (the "Registrar"). The County is hereby requested to tally and canvass the returns of the election, in accordance with Section 10411 of the Elections Code. The District agrees to reimburse the County for all services related to the Bond Election, such services to include the publication of the Formal Notice and a

Tax Rate Statement (described in Section 9401 of the Elections Code) pursuant to the terms of 5363 of the Education Code and Section 12112 of the Elections Code.

Section 3. Approval of Project List: Accountability Safeguards. The District has developed a list of certain capital projects which are a priority in order to meet the obligations of the District to provide education to area residents, which are more particularly identified on Exhibit A hereto, which is incorporated herein by this reference. Exhibit A is hereby certified by this Board as the Project List (the "Project List") for funding, either in whole or in part, with the proceeds of the Bonds. This certification of the Project List shall not be interpreted by and does not constitute an official approval of any listed project for the California Environmental Quality Act ("CEQA") or other purposes, but only as a statement of present intention of this Board. Furthermore, the listing of a capital improvement on the Project List does not imply any particular prioritization among such improvements, which remains the province of the Board by subsequent action. Notwithstanding the foregoing, only those acquisitions and other capital improvements included on the Project List may be funded, in whole or in part, with the proceeds of the Bonds. Additional moneys may be obtained for listed projects, in supplementation of the Bond proceeds, from any lawful source of moneys, including, without limitation, matching funds provided by the State and contributions from other public agencies for joint use projects.

The Board hereby confirms that it has, in the development of the Project List appended hereto, evaluated and taken into consideration safety, class size reduction and information technology needs.

Pursuant to Section 15278 *et seq.* of the Education Code, within 60 days following the certification by this Board of the official results of the Bond Election by the County, this Board is required to appoint a citizens oversight committee to insure the District's compliance with the foregoing restrictions and to perform the duties established under the Education Code for such committees. In connection with its previous general obligation bond authorizations from the District's voters, the District already has in place a citizens' oversight committee (the "District Committee") meeting the standards and requirements set forth in Prop 39. If and when the official results of the Bond Election are certified by this Board, demonstrating that more than 55% of the qualified voters at the Bond Election voted to approve the Bond Measure, then this Board shall appoint the existing District Committee to perform that function under the Bond Measure, as well as under its other existing bond authorizations. To assist the District Committee in its statutory obligations, the District shall cause to be conducted an annual independent performance audit and an annual independent financial audit on the expenditure of Bond proceeds; the audits shall be performed under contract with appropriate persons or firms as shall be subsequently brought for approval before this Board. The financial audit may be consolidated with the annual audit of the District's financial statement and may be performed by the same accounting firm, without further approval by this Board.

The results of the annual audits performed hereunder shall be reported to the Board and to the District Committee at least annually, and more often, if the Board shall so direct.

Section 4. No Administrators' or Teachers' Salaries to Be Paid from Bond Proceeds. In accordance with Prop 39, the Board hereby confirms that no administrators' or teachers' salaries shall be paid or reimbursed, in whole or in part, from Bond proceeds, nor shall such proceeds be used to pay any other operating expenses of the District. Notwithstanding the foregoing, costs of administering the Bond Election and costs of issuance of the Bonds shall be lawful charges against Bond proceeds.

Section 5. Other Terms of the Bonds. Terms of each series of Bonds issued following the Bond Election shall be established at the time of sale thereof, based on then-prevailing market conditions. The Bonds shall bear or accrete interest at rates not to exceed the legal maximum, presently being 12% per annum, and shall mature and be paid at various dates no later than 40 years following their date of issuance. The Bonds may be sold at a premium or discount consistent with law and shall be sold pursuant to negotiated or competitive sale.

Section 6. Delivery of Order of Election. The Clerk of the Board is hereby directed to deliver, no later than August 8, 2008, which is a date no less than 88 days prior to the date of the Bond Election, one certified copy of this Resolution to the Registrar, together with the Tax Rate Statement to be prepared by the District's Underwriter or Financial Advisor and executed by the Treasurer of the District (the "District Treasurer"), and shall file a certified copy hereof with the Clerk of the Board of Supervisors of the County.

Section 7. Ballot Arguments. The members of the Board, or any one member or group thereof, are hereby authorized, but not directed, to file a formal Argument in Favor of the Bond Measure with the Registrar within the time limits established for such arguments by the Registrar.

Section 8. Reimbursement of Qualified Project Expenditures. The Board presently intends and reasonably expects to have tax-exempt obligations (the "Obligations") issued on its behalf within 18 months of the date of the expenditure of moneys on the Projects outlined in the foregoing Bond Measure or the date upon which a Project is placed in service or abandoned, whichever is later (but in no event more than 3 years after the date the original expenditure of such moneys is paid), and to allocate an amount not to exceed 10% of the proceeds thereof to the reimbursable expenditures in connection with the Project, as may be qualified under the provisions of Section 1.150-2 of the Treasury Regulations of the Internal Revenue Service (the "Reimbursable Expenditures"). All of the Reimbursable Expenditures covered by this Resolution were paid not earlier than 60 days prior to the date of this Resolution. The Board intends to allocate within 30 days after the date of issue of the Obligations the proceeds therefrom to reimburse the District for the Reimbursable Expenditures. With respect to the proceeds of the Obligations allocated to reimburse the District for prior expenditures, the Board hereby covenants not to employ an abusive device under Treasury Regulation Section 1.148-10, including using within one year of the reimbursement allocation, the funds corresponding to the proceeds of the Obligations in a manner that results in the creation of replacement proceeds, as defined in Treasury Regulation Section 1.148-1, of the Obligations or another issuer of tax-exempt obligations.

The above provision is made solely for the purpose of establishing compliance with the requirements of said Section 1.150-2 of the Treasury Regulations. This provision does not bind the District or the Board to make any expenditure, incur any indebtedness, or proceed with the financing, acquisition or construction of the Projects.

Section 9. Ratification. All actions heretofore taken by the officers, or their respective designees, employees and agents of the Board and the District in connection with the financing of the facilities on the Project List are hereby ratified and confirmed. The officers and their designees, the employees and agents of the Board and the District are hereby authorized to take any and all actions in connection with the financing of said facilities and as may be necessary and consistent with the purposes of this Resolution.

Section 10. Authorization of Further Acts. The members of this Board, the Chancellor, the District Treasurer, any assistant thereto, and all other staff or officers of the District are hereby authorized and directed, individually and collectively, to do any and all things necessary or advisable in order to effectuate the purposes of this Resolution.

Section 11. Effective Date. This Resolution shall take effect immediately upon its adoption by the Board.

PASSED AND ADOPTED this 11th day of June, 2008, by the Board of Trustees of the Los Angeles Community College District, at Los Angeles, California, by the following vote:

AYES: 7
NOES: 0
ABSENT: 0
ABSTAIN: 0

By: Carol L. Justiniano
Secretary to the Board of Trustees

EXHIBIT "A"

PROJECT LIST

The Facilities Projects List proposed for financing with the proceeds of the District's general obligation bonds includes the following projects to be undertaken in order to reduce administrative overhead at the District Office and at each of the nine colleges within the District: Acquire related furnishings and equipment for all modernization; renovation, improvement, and/or new construction project components; install and/or upgrade emergency lighting, fire alarm, and security systems throughout all of the campuses; make roadway, walkway, grounds, parking lots and structures, and entrance improvements; make transportation and accessibility improvements; construct energy infrastructure improvements, including sustainable design and construction; upgrade of technology systems; construct and install signage for safety and public information; modernize and/or construct new restrooms campus-wide; develop and implement of facilities master plans and related requirements such as environmental impact reports and soils testing; demolish temporary and/or obsolete facilities; undertake or provide mitigation measures; relocate and/or acquire temporary facilities during the modernization, renovation, improvement and/or new construction of project components as necessary to maintain educational programs in operation during construction; restructure existing lease-purchase obligations of the District to lower annual payments from the general fund and maximize amounts available for educational and student services programs; restructure debt by substitution of existing financing for less expensive financing to maximize funds available for educational and student services programs; acquire and lease land and/or facilities including but not limited to contiguous parcels, make site improvements thereon and/or construct additional facilities thereon, including administrative offices and support areas, and expand instructional programs to meet future educational demands of District students.

Specific projects will also include:

Los Angeles City College: Renovate and modernize Holmes Hall for use as a Center for the Study of Human Behavior; renovate and modernize Jefferson Hall for use as a Language and Literacy Training Institute; renovate and modernize Franklin Hall for use as a Basic Skills and Matriculation Partnership Building; renovate and modernize the Chemistry Building; renovate and modernize the Life Sciences Building;; demolish the existing Martin Luther King Library building and replace with a Student Services Center building; construct a Green Technology Student Union; modernize and renovate Clausen Hall for use as a Performing Arts Training Center; modernize and renovate DaVinci Hall for use as a Job Training and Workforce Readiness Academy; modernize the Cesar Chavez Administration Building; build a Physical Plant/Maintenance and Operations facility; demolish the Cafeteria Building and replace it with a Learning Support Center building; renovate and modernize the South Gymnasium; demolish the Men's Gym Pool, Maintenance & Misc. Bungalows once a new Health, Fitness, and Physical Education Building is constructed; construct up to six tennis courts; and construct a parking structure with an energy system.

East Los Angeles College: Renovate and modernize Bailey Library Learning Center; construct a Campus Student Center; construct a Science Career and Mathematics Building; construct a Public Service Careers Building; construct Parking Structure 4 / Facilities Maintenance Operations Center (Northeast) structure; renovate and modernize the Health and Fitness Center; construct a Book Store Complex; construct a Healthcare Career Center; rehabilitate the Health and Wellness Center; construct a Student Success and Retention Center; renovate and modernize the stadium; renovate and modernize the Aquatic Center; construct an Environmental Technology and Sciences Building; restore the athletic fields; and add an energy system to Parking Structure 3.

Los Angeles Harbor College: Construct a new Physical Sciences Building; construct a new Culinary Arts Kitchen and Restaurant Laboratory, Disabled Students Programs and Services, Bookstore, Health Center, Business Office and Student Union building; construct a Sustainable Design & Ecological Studies, Life Sciences and Nanotechnology building; renovate and modernize the Fine Arts Theater; renovate and modernize the existing administration building; build a satellite uplink dish to support the Emergency Broadcast System; renovate and modernize the Astronomy Building for future scientists; renovate and modernize the Basic Education - General Classroom Building; construct two new parking structures; upgrade all existing building exteriors; repair and upgrade campus fencing; renovate and modernize the old Nursing Building to house Public Safety and Fire Science programs; construct a new Nursing and Allied Health Laboratory and Classroom building; and construct athletic facilities.

Los Angeles Mission College: Construct a Media Technology & Arts Building; construct a Student Services and Administration Building; convert the Student Services Annex to a Career and Job Placement Complex; modernize the Campus Center building; construct a Plant Facilities building; modernize the Library/Learning Resource Center ; convert the Culinary area to a Business Technology Laboratory in the Instructional Building; construct a Professional Health Sciences building; construct a Center for Applied Sciences & Technology building; construct Parking Structures B1 and B2; implement the Eldridge Ave. Extension facilities; implement pedestrian access improvements; remodel the Campus Services Building; build a community recreational, equestrian, and multi-purpose athletic facilities complex; construct a Career Technologies Academy.

Los Angeles Pierce College: Install parking lot energy systems; construct a Green Technologies Building; construct a Digital Arts and Media Building; construct a Library Learning Crossroads Building; renovate and modernize classroom technology, student study areas and faculty offices; perform adaptive reuse of the existing library; implement campus-wide landscape improvements; construct a Maintenance Facility building; implement accessibility improvements for the Performing Arts building; rehabilitate, improve and expand existing parking lots and roadways; construct an Agricultural Education Center; renovate horticulture, animal science and agricultural facilities; construct infrastructure and central plant extensions; construct a Partnership/Business/Biotech Incubation building; make land acquisitions and

Los Angeles Southwest College: Modernize and renovate the Lecture Laboratory Building; construct the Visual, Communications and Performing Arts Training Complex; construct a career and applied technology building; construct a parking structure; renovate and modernize the Fitness and Wellness Center; renovate and modernize the Tech Education Center; renovate and modernize the Little Theater; renovate and modernize the Cox Building; and construct a Normandie Avenue campus entrance;.

Los Angeles Trade-Technical College: Renovate and modernize the Library, Digital Arts and Media Center; renovate and modernize the Culinary and Hospitality Arts Center; construct a new athletic field; construct a parking structure and facilities management and operations headquarters building; renovate and modernize the Environmental, Allied Health and Science Center; renovate and modernize the Fashion & Fine Arts Center; renovate and modernize the Performing Arts & Entertainment Center; implement hazardous material abatement for existing buildings; update the Central Plant; renovate and modernize the Career Technical Education Building including developing an Alternative Fuel / Technology Facility; build a Construction Trades Center; renovate and modernize the Physical Education Sports Center, and build new twin Career Technology Education buildings - south campus.

Los Angeles Valley College: Construct a Media Arts Building; construct a Los Angeles Valley College Community Work Force Development Center; construct an athletic training facility; expand the Planetarium Building; construct a Performing Arts Center; construct a Multi-purpose Community Services Center; construct a new parking structure; renovate and modernize the Cafeteria/Bookstore; construct a Business Technology building; and construct an Environmental Center.

West Los Angeles College: Construct an Allied Health/PE, Recreation and Wellness Center; construct a Safety and Security building; construct an Entertainment Industry Complex & Media Arts project; construct a technology learning center; construct a parking structure and energy system; construct athletic fields; construct a plant facilities center; upgrade campus entrances; construct a performing arts center; and renovate and repair existing buildings.

Multi-Campus Projects: Renovate and modernize the Educational Services Center; upgrade communications systems, data transfer hardware, smart classrooms, and remote learning systems; funding for extended commissioning activities; lease space at County General Hospital to support a Health Careers Academy; implement an anti-graffiti program; implement a storm water management program; implement a warranty program; reconstruct and remodel the existing Firestone factory building for use as an educational facility; purchase and construction of satellite campus sites for West Los Angeles College, Los Angeles Valley College, and Los Angeles Mission College; and upgrade the Southwest Museum facility; identify opportunities to work with public and private entities on common projects that serve students and generate revenues for the District.

**Attachment B—
Los Angeles Community College District's
Response to Draft Audit Report**

Due to the voluminous nature of the attachments included with the district's response (as listed on its Appendix A), we have not included the attachments here. The full text of the district's response, including all of the attachments is available upon request.

The numbers listed in the margin of the district's response correspond directly to the numbered items in Attachment C—SCO's Comments to Los Angeles Community College's Response.



LOS ANGELES COMMUNITY COLLEGE DISTRICT

EAST • CITY • HARBOR • MISSION • PIERCE • SOUTHWEST • TRADE-TECHNICAL • VALLEY • WEST
OFFICE OF THE CHANCELLOR

July 14, 2011

Mr. Jeffrey V. Brownfield
Chief, Division of Audits
California State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

SUBJECT: Responses to Draft Audit Report for Los Angeles Community College District dated June 22, 2011

Dear Mr. Brownfield:

On June 22, 2011, the State Controller's Office (SCO) completed its audit on the Los Angeles Community College District's bond construction program for the period of July 1, 2001 through December 31, 2010. Attached is the Los Angeles Community College District's response to the SCO's draft audit report.

In summary, this is the District's response to the draft findings:

Draft Finding 1 – LACCD used Measure J bond funds for projects and activities not on the approved list.

The District disagrees with this finding. Each of the three bond measures has a project list, beginning with a broad list of projects applicable to all locations. For example, restrooms, grounds and walkways are listed in each measure's project list. The ten-year construction program has coordinated and integrated the projects to meet evolving needs and economic developments.

Draft Finding 2 – LACCD did not provide adequate oversight over the spending practices of the colleges.

The District disagrees with this finding. The colleges have conducted substantial master planning, budgeting, projections and adjustment to manage the bond funds diligently and thoughtfully.

Jeffrey V. Brownfield, Chief, Division of Audits
California State Controller's Office
July 14, 2011

Draft Finding 3 – LACCD ignored its internal procurement rules and guidelines in the selection of the Inspector General which, at least in appearance, compromised the integrity of the Inspector General to carry out the essential functions of the office.

The District disagrees with this finding. The District's selection process for its Inspector General was quite rigorous, including the use of a background check on the proposed lead from the firm. In addition, the Inspector General is intended to complement and supplement the work of the auditors retained annually for performance and financial audits, and so the skills and qualifications were designed to meet the District's needs for the creation of the position. Finally, the lead person and the team are well-qualified for their roles and responsibilities as designated by the District.

Draft finding 4 – Oversight by the Citizens Oversight Committee (COC) was passive, perfunctory, and ineffective.

The District disagrees with this finding. The District Citizens' Oversight Committee ("DCOC") has been significantly engaged and meeting systematically since the first bond measure, and it has inquired into many areas of bond expenditures. Although the annual reporting requirement had not been handled correctly, the District had taken appropriate measures prior to the arrival of the State audit team. The District agrees that it should have its performance auditors review the functionality and effectiveness of the college-level committees that are advisory to the DCOC.

Draft Observation - LACCD continues to expand campus facilities without empirical data to demonstrate it has a viable source of revenues to operate the expanded facilities.

The District disagrees with this funding. The District has pursued significant savings by green building design, economy of scale, renovations and energy measures. The District agrees that current, devastating financial conditions require reevaluation, assessment and planning.

In addition to the attached report, the District is providing many exhibits, so voluminous that they will have to be shipped separately. However, to the extent possible, we have referenced documents already uploaded and available to the auditing team.

We anticipate that you will find that many of the assumptions and draft findings were based on flawed assumptions and interpretations. We stand ready to provide additional information as necessary. Please continue to work through Ms. Jeanette L. Gordon, Chief Financial Officer/Treasurer.

Sincerely,



Daniel J. LaVista, Ph.D.
Chancellor

MANAGEMENT RESPONSES
to
State Controller's Office Audit Report on
the Los Angeles Community College District's
Bond Construction Program

FINDING 1 – LACCD used Measure J bond funds for projects and activities not on the approved list.

Response:

The Los Angeles Community College District disagrees with this finding. The list of expenditures indicated in this finding were appropriate uses of Measure J funds as allowed under the project list included in the ballot measure approved by the voters. We disagree with the auditor's requirement to identify a specific listing of the projects in question. The adopted resolution and the project list provided the District authority to use general obligation bonds to undertake all the identified construction projects including modernization, renovation, improvement and the purchase of any related furniture and equipment as described in the first paragraph of the Project List in addition to the specific projects listed. (Exhibit A)

In support of this argument, the District has attached Exhibit 1-A, which explains the use of Measure J funds for each of the projects listed in the SCO's Schedule 1 – Schedule of Questioned Costs, July 1, 2001 through December 31, 2010. Additional Exhibits 1-B through 1-L, are referenced in that document and attached as further detail justifying the use of Measure J funds for each of the projects questioned in the draft audit.

It appears that many of the projects questioned by the SCO draft audit are due to confusion with the Measure J bond document "Project List." The Project List contains eleven paragraphs. The first paragraph lists general projects and activities including master planning and land acquisition. The next nine paragraphs address projects specific to each of the nine colleges. And the eleventh paragraph is for multi-campus projects including commissioning. However, master planning, land acquisition and

commissioning, which are clearly identified in paragraphs one and eleven of the Project List have been cited as questionable or ineligible Measure J expenditures in the SCO draft findings.

The SCO draft finding goes on to state that *"The list appears to be very comprehensive and provided LACCD with considerable discretion to use bond funds for a broad array of projects and activities."* Yet the draft audit findings question or reject projects or activities clearly identified in the Measure J Project List that have been grouped together in one building, a complex of buildings, or added to or located within buildings started under Proposition A/AA.

It was never the intent, nor is it practical or cost effective for all of the items in the Project List to become individual projects or stand-alone new buildings, and we can find no bond or Proposition 39 language stating or implying that must be the case. On the contrary, bond counsel reviewed, and where appropriate, revised the Project List language, before it went to the voters, to ensure that the District had the flexibility to respond to the inevitable changes in economic, market and educational requirements that would be experienced, particularly on a building program with the duration and complexity of the districts.

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The District is more than ten years into a building program that grew by nearly 80% two years after it started, and by another 260% five years after that. The additional funding provided by subsequent bond issues allowed physical realignment and relocation of academic departments and administrative functions into a single building or a cluster of buildings where previously there was not sufficient funding to accomplish. That establishes a clear identity, and also has departments working together in a manner that can result in sharing an overall smaller, less expensive space.

Perhaps more importantly, it allows the District and its nine colleges to respond to changes in instructional techniques or demands from the local communities for different courses or training, all of which was approved and often in response to voter requirements. Subsequent bond issue language, and in particular the Measure J Project List, was written to provide the flexibility and authority to address those needs. Bond counsel has repeatedly indicated that Measure J funds may be used whenever a project or activity in the Measure J Project List relates to a project or activity in Proposition A/AA, regardless of whether it is for a new stand-alone project or a component in an existing building project.

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The District's response to each of the specific bullet points within the SCO draft audit Finding 1 follows below. All of the detailed explanations and support for these responses come from the individual colleges involved. For ease of reference, the response numbers the SCO's bullet points.

1.1 Measure J funds were used properly for the Harbor College Learning Resource Center. The confusion seems to be with the "Disabled Students Programs and Services," which is clearly listed in paragraph four of the Measure J Project List. Instead of constructing a new building specifically for the Disabled Students Programs and Services, Harbor College elected to locate the programs and services in the New Learning Resource Center, which was initiated under Proposition A/AA project lists. Since Disabled Students Programs and Services is included in the Measure J Project List, then Measure J funds may be used even though it is being added to the New Learning Resource Center. Further detail is provided in Exhibit 1.C.

1.2 While we agree with the SCO that there is no provision allowing the District complete flexibility to use Measure J funds for incomplete Proposition A/AA projects, we believe the SCO is confusing the lack of such a provision with the clear authority that is provided where the Measure J Project List has activities or scope of work that are also contained in Proposition A/AA projects. Such use does not constitute use of funds for budget overruns. It is a very different and proper use of Measure J funds for work identified and included in the Measure J Project List that relates to projects or activities started in Proposition A/AA.

Item 1.1 above for the New Learning Resource Center is one such example. The Culinary Arts and Science and Math buildings are different situations. The confusion for the Mission College Culinary Arts understandably results from a series of name changes since the inception of the building under Proposition A from New Culinary Arts Facility, to Family Consumer Studies, to Career Technologies Academy to the current name of Culinary Art Institute. The \$1.045 million was for the "Career Technologies Academy," which is listed in paragraph 5 of the Measure J Project List. Since the same project scope (although with different names) was included in all three bond issues, then Measure J funds can appropriately be used in combination with Proposition A/AA funds. This fact is further detailed in Exhibit 1.E.

The \$3.4 million expended as of June, 30, 2010 for the Health and P.E., Fitness Center is addressed in the first paragraph on the fourth line of the Measure J Project List, which allows any college to expend funds for furniture and equipment. This fact is further detailed in Exhibit 1.D.

1.3 The \$19.4 million for the Science and Math building at West Los Angeles College relates to the Allied Health/PE, Recreation and Wellness Center, which is included in paragraph ten of the Measure J Project List. As explained in Exhibit 1.K from the college, West LA College decided on a smaller Allied Health design, which could not accommodate the dental hygiene component. Consequently, the dental hygiene component was located in the Science and Math building.

- 1.4 We believe that there is some confusion on the part of the SCO between the South Campus and the East Campus at Trade Tech. The \$6.1 million of Measure J funds were expended to purchase land for the new East Campus, not to complete the Technology Building at the South Campus. The confusion may have also resulted since the East Campus has a similarly named building called Construction Technology versus the Technology Building, which is a slight name change from the Measure J Project List of "Build Construction Trade Center" to Construction Technology Building.
- 1.5 The \$1.01 million used for perimeter fencing at Southwest College is included in the Measure J Project List. As stated in Exhibit 1.H from the college, the details of the project include relocation of landscape items along with an increase in security for the entire campus. The first paragraph of the Project List (see item B#5 of Exhibit 1.B) includes security, roadway, walkway grounds and entrance improvements to all. The perimeter fence further serves to funnel pedestrian traffic to the designated accessible walkways and enhance security by limiting entry and exit points.
- 1.6 LACCD disagrees with the premise that portions of Measure J were used inappropriately to complete the Northeast Campus (aka Van de Kamp Innovation Center). The first paragraph of the Measure J Project List includes acquisition, land lease, and/or facilities including but not limited to contiguous parcels, making site improvements thereon and/or constructing additional facilities thereon, including administrative offices and support areas and expand instructional programs to meet future educational demands of District students. (Item 1.B#3) The last paragraph, labeled "Multi-Campus," allows for upgrade of communications systems, data transfer hardware, smart classrooms, and remote learning. It also allows for the District to identify opportunities to work with public and private entities on common projects to serve students and to generate revenue for the District. (Exhibit 1.B#7)

Response to Recommendations: The SOC draft audit concludes with two recommendations for Finding 1.

1. The District agrees with the first recommendation that policies and procedures should be adopted to insure that the intent of the voters is being followed. Those policies and procedures are already included in the Program Management Plan, and in the Touchpoints Program Handbook. The District takes the SCO's concerns seriously and will look for ways to improve the ongoing compliance.
2. The District agrees with the second recommendation that clear documentation should be available to "map" the current project lists to the ballot language. Since the start of the SCO's audit, the District has provided many documents explaining its rationale for use of projects listed on the ballots and any

clarification of perceived deviation. The District also requires the colleges to submit "white paper" memos or letters on any deviation, which are approved by the College Project Manager, the Program Management Controls Department, and scanned into the document storage system (Docview). A number of these memos are attached to this management response as exhibits. The district will continue to make improvements in that documentation and seek ways to make that publicly available, perhaps as supporting documentation to the "Dash Board" reports that are currently available to the public.

FINDING 2– LACCD did not provide adequate oversight over the spending practices of the colleges.

Response:

The Los Angeles Community College District disagrees with this finding. The District has a decentralized project management function. At the District-wide level, expenditures are reconciled on a quarterly basis to ensure that cash expenditures do not exceed available funds. Budgets and expenditures are reconciled at the bond measure level and the college level. However, the ability to reconcile at the project level has not been fully implemented due to the differences in the financial systems used by the Program Manager and the District.

The first paragraph of the Measure J bond document Project List specifies many general projects and activities that apply to all nine colleges, and bond counsel has repeatedly indicated that Measure J funds may be used whenever a project or activity in the Measure J Project List relates to a project or activity in Proposition A/AA, without regard to its status as a new stand-alone project or a component in an existing building project. The SCO is improperly categorizing the District's appropriate and authorized use of Measure J funds in its findings as addressing budget overruns for Proposition A/AA.

In addition, there is a misunderstanding with the term "cancelled projects" in the SCO's audit findings. In the early years of the program, a number of project line items were created in the accounting system to track pre-planning, engineering studies, and in some cases, field work to prepare a building site or the campus for upcoming construction. For example, at City College, an old building was demolished at a cost of \$63,244, to make way for the new Martin Luther King, Jr. Library (MLK Library) that was to be designed and constructed on the site. The practice in the first six or more years of the program was to then label the old original demolition accounting line as "cancelled," and create a new line item. This was an inaccurate representation and improperly gave the SCO the impression that, in the \$63,244 demolition at City was wasted funds, and in

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total, that there was \$28.2 million of work or funds had been wasted. The District is in the process of correcting those improperly cancelled accounting line items by accurately labeling the projects as complete, which allows the work to be capitalized, and also connecting or rolling up the original studies or work with the new and separate accounting line items for the new buildings.

In response to each of the bullet points within the SCO draft audit Finding 2, LACCD submits the following:

2.1 The finding takes issue with \$4.4 million expended for Mission College's Culinary Arts Center and the P.E. and Fitness Center. The expenditures were for the furnishings and equipment, and upgrade of technology systems, which are clearly identified as District-wide eligible projects in paragraph one of the Measure J Project List. Measure J funds were therefore allowable and properly used on these projects to respond to updated requirements for furniture and equipment as well as technology for smart classrooms.

2.2 LACCD disagrees with the statement that Measure J funds were used for budget overruns regarding Trade Tech South Campus Project. No Measure J funds were used for this project. To date only Proposition A and AA funds have been used for the completion of the project. (3)

The SCO states that the budget for the Trade Tech South Campus project is \$77.8 million and \$126 million has been expended, resulting in a \$48 million cost overrun. The SCO appears to have relied on a media release instead of the accounting system to obtain the \$126 million expenditure. First of all, the media release refers to a \$126 million project (Please see Exhibit 2.W), which includes land acquisition, construction and design costs – the expenditures. Then the SCO incorrectly goes on to compare the original construction contract award amount of \$77.8 million to the total amount of \$126 million. There is no budget overage and in fact the project expenditures are well under the current budget. (4)

2.2 The District disagrees with the statement that oversight of projects by the colleges was lacking. As demonstrated in the attached Exhibits 2.N through 2.V, the total amount of cancelled projects is actually \$9.7 million and not \$28.3 million. There have been many economic, market and educational changes and impacts in the more than ten years since the program started with Proposition A. The colleges must have the ability to respond to these changes and have sometimes had to make difficult business decisions to cancel projects. The reasons range from rapid and unpredictable escalation of construction costs, resulting in bids too far over budget, to demographic changes of the student base and the need for a different mix of classes at that campus, which requires a re-budgeting and re-prioritization of (2)

projects. Most public and private sector projects in the State of California experienced a dramatic cost escalation between 2002 and 2005 that resulted in reevaluation and cancellation of projects due to the steep increase in the cost of construction.

LACCD requires documentation from the colleges in the form of letters excused by the College Project Managers (CPM) regarding cancelled projects. The letters of cancellation are executed at the direction of the college presidents in conjunction with the colleges' planning processes.

Regarding the Student Admission Center at City College, the project started programming and pre-design with the full intention to complete the project as planned; however, the project was cancelled, due to re-allocation of budgets brought about by escalating market conditions. As construction costs rose, it became evident that the college would not be able to complete all desired projects. In this instance, the college re-prioritized its projects and as a result decided to discontinue this project.

Regarding the Southwest College photovoltaic project for Parking Lot One, the project was cancelled because the campus reassessed its master plan, taking into account the additional funds made available due the passage of Measure J. Parking Lot One was one of the two remaining building sites on campus. The college determined this was the most appropriate site that would be used for a re-prioritized project as required under the revised Master Plan.

2.3 In response to the statement made regarding \$28.3 million of cancelled projects in ballot measures, LACCD offers the following response:

On April 7, 2011 the SCO conducted a conference call with BuildLACCD to inquire about both general and specific questions regarding cancelled projects. At this time the SCO had made inquiries of seven cancelled line items. SCO said it might follow up with more specific projects samples at a later date. During this conference call, BuildLACCD told SCO that it was reviewing all cancelled projects with each campus under a new definition of cancelled projects as related to GAAP accounting principles (see Exhibit 2.Y provided to the SCO on April 1, 2011). It was stated to the SCO that this review project had been under way for several months with four colleges having been reviewed and the balance of the campuses to be reviewed before year-end (6/30/11). Final reviews were completed as of 7/7/11.

This review resulted in the following amounts for cancelled projects as of 06/30/2011:

Proposition A	\$ 6,264,973.55
Proposition AA	\$ 3,171,682.80
Measure J	<u>\$ 320,809.75</u>
Total Cancelled Projects:	\$ 9,757,466.10

Exhibits 2.N through 2.V provide detailed documentation of the results along with explanations and justification for each cancelled project.

2.4 Under the “multi-campus: cost categories” the draft states that oversight and accountability was lacking and identifies certain expenses as unallowable under Prop 39. It is our opinion that we have followed the letter of the law that governs what expenses are allowed under Prop 39. The District contracted out the overall management of the bond program and we have not used bond funds to pay for expenses such as teacher and administrator salaries or other school operating expenses. Note the attached letter from the District’s bond counsel, Fulbright & Jaworski L.L.P., dated July 11, 2011, regarding the use of bond funds for qualified program management, asset management and specialty consulting expenses. (Exhibit 2.Y)

2.5 There is a fundamental misunderstanding of the rigorous planning and budgeting process the District conducted prior to and after passage for all three of its bond issues. The District prepared a full list of projects with detailed cost estimates that served as the basis for each of the ballot measures. While the colleges have a certain amount of budget discretion after passage of the bonds, it is to deal with the inevitable refinements and changes resulting from the subsequent studies, programs and plans that are developed once architects, engineers and management firms are engaged, as well as changes in market conditions and educational requirements.

LACCD is a District of multiple colleges. Each college functions not as a mere satellite campus of a central District, but rather as an academically self-contained, individually accredited, educational entity, with its own educational focus and curriculum, participatory governance process and facilities management services. Each college has its own bond project management firm, developed its own master plan via its own master planning architect, developed individual CEQA compliance documents, and made prioritizations and budget related decisions based on its internal shared governance mechanisms. While the District has centralized resources supporting and helping to coordinate many functions and providing administrative services, the programmatic, academic and curricular decisions regarding college classes and programs are almost exclusively carried out at the individual colleges.

The SCO audit states “Once bond funds are allocated, each college campus has considerable discretion over how funds are to be spent with minimal oversight from

LACCD.” The prioritization, scoping and programming of the academic and support facilities is appropriately driven by the educational program and end users, which is a decentralized function within the LACCD.

In addition, the College's allocated budget amount from each bond is a fixed, finite amount. That budget allocation is based on the detailed cost estimates and list of projects prepared before the bond issue. Changes may occur within the allocation, and often, result from information that does not become available until after the bond is passed and funds are available for Environmental Impact Reports (EIR), design programming, site investigations and bid contracting strategies. Sometimes market conditions or needs to focus on different educational requirements cause priorities to be revisited.

The SCO refers interchangeably to “Master Plans,” “list of intended projects,” “facilities master plans,” and “District-wide Master Plans.” It is important to distinguish these terms in order to understand the District's capital planning process.

Each of the three bonds in the current capital program were separately scoped and authorized over a period of seven years and were based on a “list of intended projects” that were driven by the Educational Master Plans prepared by each College. Please see exhibits 2AI, 2AJ and 2AK. Detailed cost estimates by both project and cost type, including hard construction, escalation, consulting and management costs, were prepared for each of the intended projects to arrive at the total bond amounts. In the case of Measure J, actual cost history was used to develop the design, consulting, and other overhead costs to each project.

After the passage of the first bond, each college retained an architect to create the College Facilities Master Plan, each of which were subsequently reviewed and approved by the Board of Trustees. The Facilities Master Plans were updated for each subsequent bond, as necessary. The SCO states that “...after numerous requests, the District could not provide a facilities master plan of any of the ballot measures.” In fact, the District immediately provided the Facilities Master Plans for each College. This is documented in correspondence and still resides on the FTP site, (Exhibit 2AH). The implication of the SCO is that the bond project lists and /or dollar amounts were not based on adequate or any planning when in fact there was extensive work and voluminous documents demonstrating otherwise. In the case of Measure J, three options were considered by the Board of Trustees for presentation to the voters, each based on detailed, cost-loaded project lists. The options ranged from the complete list of project needs from each College amounting to \$5.9 Billion down to a much-reduced option of \$1.9 Billion, with the third dividing these at \$3.9 Billion. The estimated cost and the projects were presented as follows:

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1. 2/12/2008 – Project list developed by individual campuses. Total \$5.59 billion. Please see Exhibit 2AA
2. 2/20/2008 – More detailed project list compiled. Total \$5.6 billion. Please see exhibit 2AB
3. 3/5/2008 – Priority 1 and Priority 2 project lists compiled. Total \$4.45 billion. Please see Exhibit 2AC
4. 3/29/2008 – 2AD
5. 4/10/2008 – Updated Priority 1, 2, 3 project list compiled. Total \$5.49 billion. Please see Exhibit 2AE
6. 5/14/2008 – Project list developed from a blend of Priority 1 and Priority 2. Campus allocation drafted. Please see exhibit 2AF
7. Current Measure J list is for amount of \$3.5B. Please see exhibit 2AG.

The Board's direction to pursue \$3.5 Billion in funding was implemented, and the project list was revised accordingly. Please see exhibit 2AK. As fluctuation in the market costs in the subsequent years would be unknown, prudence dictated that the list in the bond be as comprehensive as possible to accommodate the most projects possible. In other words, the list was intended to encompass enough projects in the case of a deflationary period in construction. While this eventuality has played out and the District has benefited in recent years from record low construction costs, the project list remains more comprehensive than what will likely be able to be built within the \$3.5 Billion allocated. This is by design and considered a best practice.

As a result of the Master Planning process for each College, subsequent to the authorization of the bonds, the specific scoping, sequencing and packaging of the projects identified in the bond project list was analyzed strategically and logistically. While combining multiple academic programs in single buildings or using shared spaced deviated from the specific list indicated in the bond, this refinement enabled efficiencies in cost, space and schedule.

Response to Recommendations:

1. LACCD agrees with the recommendation that the Facilities Master Plans with the associated costs should be documented and available to the public. This is currently done and available so there should be no need for further action by LACCD. All Facilities Master Plans along with the corresponding EIRs that have complied with the CEQA requirements and approved by the BOT in public session are publically available. All projects and the corresponding costs (project budgets and expenditures) are posted monthly to the LACCD Dashboard reports available on the LACCD websites.
2. In light of our answer above, recommendation 2 is moot.
3. LACCD disagrees with this recommendation. While there are LACCD administrative procedures and standards that are in place for the execution of the

projects, the concept of a singular "District-wide Master Plan," as referenced in this recommendation, does not apply to the LACCD. This function occurs at the College governance level. Coordination of projects or programs between or amongst Colleges has not been a cited problem or concern; thus, the lack of a "District-wide Master Plan," despite being referred to as a "significant internal control deficiency" in the Audit, lacks foundation.

FINDING 3 – LACCD ignored its internal procurement rules and guidelines in the selection of the Inspector General which, at least in appearance, compromised the integrity of the Inspector General to carry out the essential functions of the office.

Response:

The District disagrees with this finding. The District did follow its internal procurement rules and guidelines in the selection of the Inspector General (IG) and does not believe that the process in any way compromised the integrity of the IG to carry out the essential functions of the office.

3.1-3.7 The SCO chronology of the selection process is missing several significant events and key components of information regarding the evaluation process that demonstrate the level of due diligence performed by the District. The District procurement of the IG was based on a stringent evaluation and selection process intended to augment the basic procedures outlined in PP-04-08 Procurement of Special and Professional Services. Specifically, the SCO based its report on an interview with the Contracts and Purchasing Manager, who is not responsible for bond-funded procurements and failed to interview the Deputy Chancellor, Dr. Adriana Barrera, who was the administrator charged with the review and selection process and who maintained extensive documentation throughout the procurement process.

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3.8 LACCD disagrees that the RFP failed to properly identify the standards by which the qualifications of the bidder could be determined. Section D of the RFP, which is attached as Exhibit 3-A, required that bidders submit statements of the qualifications, related experience and references of bidders. The RFP states that this information should be provided for both the Proposer and any subcontractors included in the proposal. The RFP asks for an overview of the ability of the individual/firm to conduct the required work, to furnish background information on the firm, including "noteworthy qualifications for providing the required services to the District." (Exhibit 3-A)

Furthermore, the RFP includes an exhibit, which clearly lays out the scope of work for the position of IG. (Exhibit 3-B) The statement on the scope of work shows that in addition to the definition of the position, the exhibit identifies the typical duties of the IG and the minimum requirements of the individual or firm submitting the proposal.

3.9 LACCD disagrees that it disregarded qualitative and objective standards under the RFP process. The SCO cites LACCD's Business Operations and Policies and Procedures PP-04-08, stating, "The proposal receiving the highest score will be deemed the offer most advantageous to the District and be recommended for contract award."

Because of the importance to LACCD of the work of the IG, the review and selection process was designed to include a series of interviews for the bidders deemed most prepared to start-up a new office and begin full implementation of investigative work immediately. A four-member panel was convened to review the written submittals. The members of the panel included:

James Watson, LACCD Contracts Manager

Thomas Hall, formerly LACCD Director of Facilities Planning and Development and currently Interim Executive Director of Facilities Planning and Development

Adriana Barrera, Deputy Chancellor

Lisalee Wells, LACCD bond counsel, Fulbright & Jaworski

Although the contract for the IG services would be funded by the bond program, the Board of Trustees was mindful of a potential conflict of interest should the RFP be issued by the BuildLACCD staff. Consequently, the Board charged Interim Chancellor Dr. Tyree Wieder with the issuance of the RFP using non-bond program resources. The Interim Chancellor designated Deputy Chancellor Barrera as the lead administrator to facilitate the RFP process. The SCO auditors interviewed Mr. Watson, the LACCD Contracts Manager, whose role in the review and selection process was limited to developing and advertising the RFP and later to serving as one of the panelists for the review of proposals submitted in response to the RFP. The SCO auditors did not interview Dr. Barrera, Ms. Wells or Mr. Hall, all of whom had informed experience and background with regard to the scope of work and requirements for the position of the IG, and who could also have addressed questions regarding the initial proposal review process.

The panel members met and with little initial discussion began the review of proposals submitted in response to the RFP. The failure to initially discuss and agree on the important elements of the proposals may have led to the disparity of ratings among the four panelists. However, upon completing the initial review, Deputy Chancellor Barrera, acting on behalf of Interim Chancellor Wieder and the LACCD Board of Trustees, clarified the role of the proposal review panel as that of identifying several firms which could then be interviewed by another panel/committee. Because the RFP called for establishing a critical function of which to date the District had no experience, the panelists agreed that simply establishing cut-off scores of the ratings for the submitted

proposals would not suffice. The panelists understood that because the contract to be issued as a result of the RFP process was categorized as one of professional services, their individual ratings would serve as a guide to their discussions rather than as quantitative measures leading to a final decision as stated in the SCO audit report. Again, recognizing the importance of the IG, the panelists agreed to discuss each submittal, identifying strengths and weaknesses in relation to the scope of work as identified in the RFP. Several firms were set aside as not being appropriate for the next level of review for a number of reasons, even if one or more of the reviewers had rated them highly. Those reasons primarily included the following:

- the firm had no experience working with construction projects;
- the firm had no experience working with Prop 39 compliance;
- the list of current projects would have placed LACCD as one among a number of the firm's other major projects; or,
- the firm had experience limited only to audits or to investigations but not both.

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LACCD agrees that the panel failed to document the reasons for not considering firms for the next level of review, that is, for interviews. LACCD also agrees that the panel failed to document the basis for identifying the four firms ultimately selected for interviews. Such documentation would have provided transparency and clarified the bases for decision-making at this first phase of the multi-phased, comprehensive review and selection process.

LACCD disagrees that the lack of documentation during the first phase of the review and selection process, leading to the identification of Policy Masters, Inc. for contract award, was flawed. Panel members recognized the greater latitude afforded under the award of a professional services contract process. During their discussion, panel members considered the experience of the firm as well as that of the lead individual, staffing, fee structure and work plan but recognized that no one factor should disqualify a firm. For example, the panel considered that a firm's fee structure might be high but understood that the next phase of the review process would provide the opportunity to drill down on this point. Taking a holistic approach to the review of proposals, the panel identified four firms to be invited for interviews: two large multi-national accounting firms, one large national firm and one start up, local firm.

LACCD then established a different panel to interview these firms. The interview committee was developed with the perspective that the individuals who were to serve in this capacity would bring different backgrounds and perspectives regarding the LACCD bond program. In moving to establish the Office of the IG, the Board of Trustees considered that this function would be different from the separate financial and performance audits which would continue to be conducted on an annual basis. The IG

would be responsible for conducting special investigations as identified by the Board of Trustees and/or Chancellor, identified via a whistleblower program or through findings of either the financial or performance audit of the bond program. The unprecedented nature of this work within the District called for a rigorous review process such that two Board members and the District's Chief Financial Officer agreed to serve on the interview committee. The District's bond counsel, Lisalee Wells, and BuildLACCD program director, Lloyd Silberstein, agreed to serve as resources to the committee. Additionally, two committee members were recruited from outside the District to serve on the interview committee based on their expertise in conducting investigations and forensic audits, respectively.

The diversity of perspectives and experience among the interview committee members reflected their backgrounds in terms of either:

- knowledge of the District;
- knowledge of the bond construction program;
- experience in conducting financial audits; or,
- experience in conducting investigations.

Members of the interview committee were:

- Sylvia Scott-Hayes, member of the LACCD Board of Trustees
- Mona Field, President, LACCD Board of Trustees
- Jeanette Gordon, LACCD Chief Financial Officer/Treasurer
- Stuart Rudnick, former prosecuting attorney (Musick, Peeler & Garrett)
- Anna Lim, forensic accountant, KPMG (first interview)
- Douglas Farrow, forensic accountant, KPMG (second interview)

On May 20, 2010, the interview committee met and interviewed four firms. The interviews were structured such that each firm was afforded the opportunity to introduce team members and present its work plan prior to responding to the committee's questions. (Exhibit 3-C) The interview questions had been developed based on the District's experience with the bond program and input from individual committee and staff resource members. At the conclusion of these interviews, the committee met and discussed its impressions of each firm. Disappointment with regard to two firms was expressed on several points: 1) the lack of specificity in responding to questions, 2) failure to identify clearly the actual lead person and 3) lack of clarity whether the lead person's assignment to LACCD would be on a full-time basis. A third firm was also reviewed with some measure of concern in that the team offered no work plan and responded to questions with generalities. All three firms stated during this interview that they would require at least six months of study of the District's bond program before beginning any investigations or audits.

In contrast, Policy Masters, Inc. presented a team in which each member had a clearly specified role, and made a presentation which laid out a work plan for the first six months with specificity and projected initiatives for the first year. Team members responded directly to questions such that at the conclusion of the interviews, committee members expressed concerns about making a recommendation to the incoming Chancellor and Board of Trustees of a young, start up firm in which the lead person is not an accountant. Recognizing that the District would continue its contracts with external consulting firms to conduct the bond program's financial and performance audits, the committee concluded that the background of the lead person, Christine Marez, in construction and policy development provided her with the skills to serve ably as the IG.

The committee requested that before moving forward, preliminary reference checks be made with regard to the references provided by each firm. This task proved challenging in that the individuals listed as references generally were not integrally involved in the day-to-day work of audits or other related work could only provide limited information.

Then Board President Mona Field communicated the committee's conclusions to the Chancellor designate Dr. Daniel LaVista, and together, the two crafted the next phase of the review process. They requested that an external consultant conduct a second set of confidential reference checks regarding the professional background and experience of each of the team leads for the four firms. Consequently, Deputy Chancellor Barrera contacted each firm and informed the lead person of this step as it had not been specified in the RFP. She requested the names of at least three individuals who could provide professional references specific to the respective team leader. The names and contact information were conveyed to an external consultant, Community College Search Services, which then conducted the reference checks and prepared confidential reports on each of the four team leads.

Additionally, the Board President and Chancellor designate called for a second round of interviews with all four firms to be conducted by the same interview committee which had conducted the first set of interviews. All members, with the exception of one person, were able to fulfill this commitment. The second interview focused on each firm's lead person and the three or four essential key staff members who would be proposed to work on the LACCD contract. The interview committee developed a set of questions designed to provide in-depth responses with regard to proposed IG office operations. (Exhibit 3-D) Follow-up questions were also asked with regard to the full-time assignment of the team lead, the work plan for the first six months as well as the fee structure. Based on the second interview held on August 4, 2010, the interview committee identified two firms to be recommended to the Chancellor for his interview.

Because of the greater latitude afforded under the professional services review and selection process, committee members did not rate each firm during the first and second interviews. Rather, committee members discussed the merits of each firm and conveyed their consensus to Deputy Chancellor Barrera who served as the liaison for Interim Chancellor Wieder and Chancellor LaVista. Committee members were informed that confidential reference reports had been prepared on the four firms and that these reports had been sent to the Chancellor.

Chancellor LaVista prioritized the IG contract award amongst the most important of his responsibilities when he assumed office on August 1, 2010. Following the second set of interviews of the four firms, Chancellor LaVista accepted the recommendation of the highly qualified and experienced interview committee which had forwarded the names of two firms for his consideration. Chancellor LaVista then reviewed the materials which were provided to the SCO auditors for their review as well as the confidential reference reports. Subsequently, he interviewed the lead person from each of the two recommended firms, deliberated, and ultimately, determined to recommend Policy Masters, Inc. as the firm to be awarded the contract for the establishment of the Office of the IG.

3.10 The SCO audit states that there was a lack of documentation on the interview process. To the contrary, the outcome of the first interview with the four firms was memorialized via an email communication from Deputy Chancellor Barrera to the incoming Chancellor. Following the second interview, Deputy Chancellor Barrera wrote a formal memo with the committee's conclusions to Chancellor LaVista who had formally started working with the District by that time. (Exhibit 3-E)

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LACCD must surmise that it is the SCO's failure to interview Deputy Chancellor Barrera and/or review the memo she sent to Chancellor LaVista (Exhibit 3-E) which led to this erroneous statement.

To perform the number of audits and investigations outlined in the LACCD RFP for IG, a full-time IG and several support staff positions would be required. The SCO indicated that price of the Policy Masters, Inc. proposal was the second highest, but failed to take into account that the pricing structure proposed was based upon a full-time IG working at least 1900 hours annually, several professional and support staff (auditors, investigators, administrative assistant) and office operations dedicated to LACCD for a total of \$701,000. Additionally, Policy Masters, Inc. proposed a specific work plan of deliverables that was the basis for the price proposed.

As a comparison, the second firm selected for final interview with Chancellor LaVista, proposed the hourly rate for its IG position of \$350 (a significantly reduced rate for the first year only), and proposed annual costs of \$450,000 to \$475,000. This cost is the

equivalent of one (1) half-time IG (1000 hours), one support staff person and management of the hotline. Had the firm's lead person served as the full-time IG, that firm's annual cost for this position alone would have been \$655,000. As stated in Exhibit 3-E, the firm also expressed concerns about releasing reports developed under the auspices of the Office of the IG and bearing the name of the firm.

3.11-3.25 The District disagrees with the SCO's report regarding the qualifications of the IG to carry out the essential functions of the office. Chancellor LaVista responded to the SCO's previously stated concerns in a letter dated March 18, 2011. (Exhibit 3-F)

The SCO asserts that the Association of Inspector General (AIG) Principles and Standards, otherwise known as the *Green Book*, are mandated requirements for an IG. However, the *Green Book*, specifically states, "*The standards are advisory and are not intended to impose requirements.*" The SCO failed to include additional language from the *Green Book* addressing qualifications as indicated in the following statement:

"The IG qualifications and selection should reflect an appointment without regard to political affiliation on the basis of integrity, capability for strong leadership, and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration, investigation, or criminal justice administration or other appropriate fields." [emphasis added]

3.26 The District's IG requirements were for someone with a demonstrated knowledge of construction, school bond program management, Proposition 39 requirements, the California Public Contract Code, California Education Code and other required statutes applicable to community college districts and the management of bond funded construction (LACCD RFP, #10-12). These requirements appropriately satisfy the recommendation cited in the *Green Book* under the category of "*other appropriate fields.*" Ms. Marez, the Policy Masters, Inc. principal, has over 22 years of demonstrated knowledge and experience in the construction industry, including 14 years of school bond program experience. This latter experience includes work in previous positions in which reviewed and responded to IG findings, managed and conducted internal management reviews and oversaw the administration of a contractor hotline for bond construction.

The SCO further misinterpreted the principles and standards contained in the *Green Book* by listing "the qualifications needed to be an IG" as actual requirements for the performance of the IG's work. In fact, these requirements are necessary for acceptance into the IG certification course offered by the AIG. At this time, Ms. Marez has met all AIG requirements and has been accepted for the AIG's next certification class being offered during the week of August 15-19, 2011.

Included as further evidence of the District's due diligence in reviewing the qualifications of the Policy Masters, Inc. principal, is the Comprehensive Reference Report prepared by Community College Search Services (CCSS) regarding Ms. Marez which is submitted here with CCSS' authorization. (Exhibit 3-G)

3.27 We agree with the SCO finding that 46% of the work will be performed by the IG position and an unspecified number of hours for the senior manager. A substantial number of these hours are for the actual field work for audits, reviews and investigations. The SCO's statement that these individuals have "no audit or investigation experience" leads the District to question the SCO's understanding of the type of audits and investigative work required of the IG by the LACCD bond program.

In providing standard auditing services, most firms typically require "technical evaluators" to perform work outside of financial qualitative or quantitative auditing. The bond program requires performance audits and reviews related to compliance to the construction contracts, California construction codes and Proposition 39 regulatory requirements. Both the principal and the senior manager of Policy Masters, Inc. are considered subject matter experts in these areas, and have performed numerous internal management audits and investigations related to bond construction work. Neither of the two multi-national firms presented lead personnel with comparable experience. 9

Many of the audits and reviews performed by the LACCD IG will utilize other professional standards related to construction as authorized in the Generally Accepted Governmental Auditing Standards (GAGAS), Section 1.14, *"Auditors may use GAGAS in conjunction with professional standards issued by other authoritative bodies. Auditors may also cite the use of other standards in their audit reports, as appropriate."*

Furthermore, investigations of the bond program are primarily related to, or initiated by, reports or findings of illegal or inappropriate actions alleging fraud or collusion in construction contracting and bidding (i.e., contractor kick-backs) or non-compliance to applicable California laws and codes. Both the principal and senior manager of Policy Masters, Inc. have extensive experience performing forensic reviews of contractor change orders, claims, certified payroll verification, etc., on Division of the State Architect approved projects which comprise the majority of LACCD bond projects. 9

Finally, the entire review and selection process was conducted with an eye to fairness, objectivity and due diligence. The interviews were conducted in accordance with the District's guidelines and included on the interview committee at least two professionals in the fields of audits and fraud investigations. The four firms were interviewed twice due to the fact that LACCD had a new chancellor whose final recommendation to the Board would be extremely important. During both of the interviews the current IG for

the District responded far and above any of the other team leads. She and her team clearly had done their research and identified the areas that were of concern to the District and demonstrated a much greater command of what the duties of the LACCD IG would be than any of the other three firms.

While the four firms presented teams with extensive backgrounds in conducting audits, the interview committee recommended to Chancellor LaVista the two leading firms which it considered were the best qualified based a deliberative interview process. In her memo to Chancellor LaVista, Deputy Chancellor Barrera indicated that the committee believed Policy Masters, Inc. to be the better of the two firms. Chancellor LaVista independently interviewed these two firms, and ultimately, recommended Policy Masters, Inc. to the Board of Trustees for award of the contract.

Response to Recommendations

The LACCD Board of Trustees and the LACCD Chancellor should:

- *Adopt control measures to ensure procurement of special and professional services fully comply with internal rules and guidelines.*

LACCD agrees with this recommendation. The LACCD Chancellor will oversee the modification of the District's internal procurement policy to include for the provision of supplemental evaluation and selection processes for professional services contracts.

- *Develop documentation requirements for the evaluation and selection of bidders.*

LACCD agrees with this recommendation. The LACCD Chancellor will mandate that documentation for all phases of evaluation and selection of bidders to be maintained in the contract file.

- *Adopt other measures to provide transparency and accountability in procurement of special and professional services as well as for other services.*

LACCD agrees with this recommendation. The District's responses to the first two recommendations under Finding 3 will ensure transparency and accountability in procurement of special and professional services as well as for other services.

- *Request and independent investigation into the process and circumstances that led to the selection of the IG and take appropriate administrative or legal actions.*

LACCD disagrees that an independent investigation is warranted given the comprehensive nature of the evaluation and selection processes as evidenced in the District's response.

FINDING 4 – Oversight by the Citizens Oversight Committee (COC) was passive, perfunctory, and ineffective

Response:

The District Citizens' Oversight Committee ("DCOC") was formed promptly after the passage of the first bond measure. Given the size of the District, the Board of Trustees determined as part of the election process that there should be a College Citizens' Committee ("CCC") for each college to enable closer scrutiny, and to provide advice to the DCOC. As a result, there are sixty to eighty citizens serving on these committees to review bond expenditures. The DCOC has been convened quarterly for the last ten years, and it has been conducted in compliance with the Brown Act.

The District has met the legal requirements by having an operational oversight committee, an annual performance audit and an annual financial audit. However, the District has exercised diligence beyond the legal minimum by repeatedly pursuing additional audits and reviews. After a few years of the Building Program, the Board of Trustees commissioned a specific study regarding operations ("The Hickling Report"), which was discussed repeatedly with the DCOC (Minutes from January, March and May 2005 and September 2009, Exhibits 4.A and 4.B). There was a follow-on to that study several years later.

In the Fall of 2009, the Board again sought an outside look by Capstone Advisory Group, resulting in a report to the Board in March 2010 by both Capstone and District bond counsel that there were identified areas of inappropriate expenditures. In June 2010, the performance auditors reported to the Board that these expenditures, albeit inappropriate, represented less than one percent (1%) of the total expenditures in the program. The performance auditors and bond counsel were deployed to develop additional guidelines to strengthen compliance, which were issued in September 2009. (Cost Principles, Exhibit 4.C)

There are two additional efforts underway that are more recent. First, the Chancellor created a Building Program Review Panel ("BPRP"), comprised of people with construction and public building program experts, to review the Building Program and make recommendations. (Committee list and Charge, Exhibit 4.D) The BPRP's report is expected in Fall 2011. Secondly, the District is conducting a selection process for a firm to facilitate the preparation of specifications for an open competition for the Program Manager, since the current contract expires in April 2012.

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The District recognized the need to focus more attention on the Building Program. As a result, the Board of Trustees has shifted its Board meetings to dedicate one meeting a month to a Committee of the Whole to strengthen bond oversight measures. (Board Rule 2605.11, Exhibit 4.E)

The DCOC Annual Report Process Has Been Corrected

The DCOC is the only statutorily mandated entity, and therefore, the only entity with an obligation to issue an annual report. The CCCs are merely advisory to the DCOC, as specifically articulated in the DCOC bylaws. The DCOC prepared an annual report in 2003; thereafter, the District's annual report was prepared and presented to the DCOC for adoption. After advice from bond counsel in March 2010, a separate reporting mechanism was established. A subcommittee of the DCOC was actively involved in creating and editing the DCOC report, and a similar effort is now planned on an annual basis. Management agrees that the annual reporting requirements were not appropriately monitored, and corrective measures have already been taken.

The DCOC Engaged in Meaningful Review

The DCOC was regularly provided with materials, requiring a three-inch notebook, which summarized the financial expenditures to date on the program. An example of one meeting's presented data is attached. (DCOC Materials, September 2010, Exhibit 4.F) The DCOC received reports about large-scale bids for fixtures, furnishings and equipment for economy of scale and efficiency in contracting; the DCOC inquired into outreach to local, small and emerging businesses, as well as labor compliance concerns; the DCOC received reports regarding safety, the ratio of hard and soft costs and compliance with the Americans with Disabilities Act. The DCOC made inquiries to counsel about duties of repayment and liability. (Agenda from June 2002, Exhibit 4.G; Agenda from October 2002, Exhibit 4.H; Minutes from May 2009, Exhibit 4.I; Agenda from December 2009, Exhibit 4.J; Agenda from May 2010, Exhibit 4.K; Memo from bond counsel in September 2010, Exhibit 4.L) Both the financial auditors and the performance auditors have reported at least annually to the DCOC. 11

In April 2011, the DCOC focused its entire meeting on a discussion of its roles and responsibilities. The DCOC determined to meet every other month, rather than only quarterly. In addition, a subcommittee was formed to make recommendations about DCOC functionality, which reported to the DCOC on June 24, 2011. Therefore, like the District, the DCOC pursues improvement on its own initiative.

Public Art Is Allowed Only from Savings and Only Within the Project List

The Los Angeles Community College Board of Trustees passed a resolution regarding public art on June 24, 2009. (Board Resolution, Exhibit 4.M) This resolution relates to

the spending of bond funds to purchase public art; however, in the resolution there is no mention of any specific budget amount. In addition, the funding for the public art purchases is not allocated from the Bond projects' budgets but rather from any project **cost savings** at each college, up to one-half of one percent of the college's original bond allocation. The resolution further provides that any expenditure must be within the Project List. The characterization that the DCOC "did not question the proposed expenditure" ignores the discussion, reflected in the minutes, showing that the DCOC gave its comments and recommended changes for the resolution before it was before the Board of Trustees. (Minutes, Exhibit 4.I)

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Authority of the Committee is Consistent with Law

In consultation with bond counsel, it was established that the oversight committees have no separate legal capacity separate from the District. Therefore, appropriate bylaws were prepared by in-house counsel and presented to the committees for adoption. (CCC Bylaws, Exhibits 4.N through 4.V) Those bylaws specifically list the committees' charters consistently with the Education Code definition.

A Committee of Volunteers Has Limited Capacity

State law mandates certain types of representatives serve on the committees. However, those representatives are mandated based on constituency, not based on expertise in construction. (Education Code section 15282)

State law prohibits any vendor from serving on the committees: those who are highly experienced in the construction area may prefer to be eligible to secure business from the District rather than serve on a constituent committee, although the District is fortunate to have some DCOC members with a construction background. The committee members are mandated by law to serve without compensation, and the District is prohibited from using bond proceeds to provide any staffing for the committee. (Education Code sections 15280 and 15282) It has often been difficult to secure the attendance of a quorum for either the college-level committees or the DCOC.

By comparison, the law also mandates annual, professional-level financial and performance audits. Those audits must be performed to appropriate accounting standards, and the District is allowed to use bond funds for that purpose. The District has had those reviews performed every year, with reporting to both the DCOC and to the Board of Trustees.

Management accepts that there has not been aggressive enough review to ensure the proper functioning of the College Citizens' Committees. Inasmuch as the District is presently conducting a competitive selection process for selection of a performance

auditor, the District will charge the performance auditor with review of the effectiveness of College Citizens' Committees in the next year.

The District is complying fully with the spirit and the letter of the legal requirements for citizen oversight. However, the ultimate authority and responsibility for determining bond expenditures remains with the Board of Trustees' management of District contracts and property. The Board of Trustees' responsibilities are specifically enumerated in Education Code 70902.

OBSERVATION - LACCD continues to expand campus facilities without empirical data to demonstrate it has a viable source of revenues to operate the expanded facilities

Response:

The District determined early on in its Building Program that controlling operating costs of its new and expanded facilities was essential. It is the intention of the District to provide for the increased costs associated with the new construction through other costs savings measures such as constructing central plants and other photo voltaic systems that will reduce energy costs. The newly constructed buildings will have in their designs, operational efficiencies that will reduce costs. The Board passed several resolutions recognizing that need after passage of the initial bond.

13

Energy Conservation Is Projected to Generate Massive Savings

The combination of new, much more efficient buildings, and implementation of six key energy technologies, is anticipated to lower the District's electrical utility bill by \$1.15 million per year even though there will be 63% more facilities at the end of the Building Program. That savings is of course available to offset other operating costs.

The documentation of the energy design is the District's Energy Optimization Plan ("EOP"), which focuses on lowering utility consumption and the associated utility costs for operating the buildings. (Energy Optimization Plan, Exhibit 5.A) The EOP addresses supply, delivery, demand and management of energy for all the District's buildings. The EOP provides a cost summary of the anticipated savings in electrical consumption.

There are several components to the energy plan: central plants; demand management; renewable energy; and, energy storage.

With regard to central plants, there are differing characteristics. For example, one plant incorporates solar thermal, taking care of the heating and the cooling load of the campus by using stored hot water and an absorption chiller.

With regard to energy demand management, the District used a traditional energy saving contract (ESCO) approach to retrofit lights, fans, pumps, and other energy consuming components; install insulation, low-E glass, white and green roofs, and other

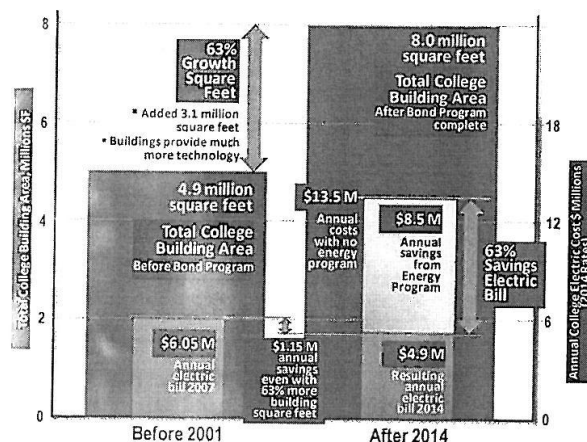
conservation features; install state-of-the-art technologies, including occupancy sensors; and install metering and monitoring systems.

The renewable energy solutions considered include solar, wind, and geothermal. Solar has turned out to be the best answer for the District. Eight of the nine colleges have new solar arrays.

The last element of the energy plan is to use energy storage to leverage when the energy will be used. With regard to energy usage, the District is pursuing lower demand charges and changing time-of-day usage.

In the absence of any special measures, electrical costs would be projected to be \$13,430,508 for 101,509,346 in kWh usage per year District-wide. **With the six energy conservation measures or technologies implemented, the total annual cost is projected to be \$4,935,044, representing an annual savings of approximately \$8.5 million.**

In 2001, before the District's Building Program was implemented, the District had a total of approximately 4.9 million square feet of facilities. The District has been paying approximately \$6.05 million a year in electrical utility consumption for those 4.9 million square feet of facilities. (\$6.05 million is the total of all electrical bills in 2007, which is the latest year before any significant quantity of new buildings were added or old buildings modernized.) After 2014 when the majority of new buildings and modernizations are projected to be complete, there will be approximately 8.0 million square feet of facilities. **The anticipated electrical utility costs District-wide will be \$4.9 million per year, or \$1.15 million a year less than what the District has been paying, even though there will be 63% more facilities.** The EOP provides the basis for those figures. The savings is attributed to replacement of old inefficient buildings and introduction of the six energy technologies.



The \$8,495,464 savings represents one year, which of course translates into a substantially larger sum over time. After the \$220.5 million investment to put the systems in place is paid back, there is a projected savings of approximately \$416 million over the life of the equipment.

	Renewable Energy	Central Plant	Demand Monitoring & Control	Totals
Annual Energy Savings at 2014 \$	\$3.2 million 38%	\$3.3 million 39%	\$2.0 million 23%	\$8.5 million 100%
Capital Investment at 2014 \$	\$107.1 million 49%	\$91.4 million 41%	\$22.0 million 10%	\$220.5 million 100%
Simple Payback	\$107.1/\$4.5 \$3.2 sustained \$/yr 24.0 Years	\$91.4/\$4.7 \$3.3 sustained \$/yr 19.4 Years	\$22.0/\$2.5 \$2.0 sustained \$/yr 8.8 Years	\$220.5/\$9.1 \$6.5 sustained \$/yr 24.0 Years
Useful Life	35 Years Original 50 year term	50 Years	30 Years	
Life After Payback	11 Years Original 20 year term	30.6 Years	21.2 Years	
Savings After Payback	\$63.5 million	\$280.9 million	\$71.7 million	\$416.1 million After \$220.5 million has been paid back

Use of the Van de Kamp Site is Consistent with Regular Community College Programming

Although the classes for Summer 2011 and the twenty-three classes scheduled for Fall of 2011 are considerably fewer than desired, the bulk of the campus is available for use by City College for classes or for workforce development, and about half of the hours of use for the campus buildings each day are available for City College specifically. Moreover, the rents from all the tenants at the Van de Kamp site create a positive revenue stream that will cover site operational costs.

13

The campus management was returned to District-level management for a period of five years only; it is expected that full management of the site will return to City College in 2014.

There are three buildings on the campus: The New Education Building, which is approximately 47,000 square feet; the Bakery Building, which is approximately 30,000 square feet; and, the Child Care Center, which is approximately 3,000 square feet.

The charter school is authorized to occupy up to 47,000 of the square footage of the New Education Building during the daytime, but City College may utilize the classrooms in the evening. Collaborative programs between high schools and community colleges are well-established. The District has long-standing high school leases at two of its other campuses (Southwest College and Harbor College).

The City of Los Angeles is a lessee, with sub lessees conducting workforce center activities occupying approximately 10,000 square feet (one-third) of the Bakery Building. The remaining two-thirds of the building will be used by Los Angeles City College for classes and other workforce development activities.

Workforce development is an express part of the charge and mission for community colleges. (Education Code section 66010.4) Every college in the District has workforce development activity.

Continued Building and Expansion is Necessary for Student Equity

The District's Building Program is not just about expansion: a significant proportion of the program is renovation or replacement of existing facilities. In the absence of any significant capital infusion in its thirty-year history (at the time of the first bond measure), the District's students were in obsolete and incomplete facilities. Three of the colleges were never truly completed: Southwest, West and Mission. The allocation of bond proceeds among the nine colleges specifically included a factor to ensure those campuses fulfill their community promises.

Most of the new property acquisitions have been for contiguous property, particularly for the colleges with disparately small footprints. At the inception of the first bond measure, the District had two colleges with less than 25 acres; City College's main campus is about 40 acres; Pierce College has over 400 acres. Although the initial acquisition of the Van de Kamp site pre-dated the bond measures, in the long term, building it out will add nearly twenty percent (20%) of campus acreage to the totality of Los Angeles City College, in a location more accessible to the community.

The property acquisitions, contiguous or not, are designed to increase student access and student equity over the long term. It is extremely impractical for students in South Central Los Angeles to travel to Woodland Hills for a class in any economic climate. For example, the South Gate satellite campus was established on a leased site, and with its full-time equivalent enrollment in excess of 3,000 students, the bond measures provide some funding for the creation of a permanent site to meet a clear community need.

The District's students are some of the most economically challenged of any in the State. More than half of the District's students are eligible for fee waivers in light of financial necessity. Access to modern, efficient educational facilities is a matter of social equity.

Green Building Design and Other Measures Will Reduce Operating Costs

The District developed guidelines from the inception of its Building Program to strengthen consistency and efficiency for the colleges and for the architects and engineers hired by the colleges. The guidelines focused on design criteria, which include water efficiency features, energy efficient equipment, sustainable furniture, reusable products and easy-to-maintain materials.

For example, the guidelines on water usage include low flow irrigation, no irrigation through the use of native plants, gray water systems, zero storm water runoff, waterless urinals, and dual flush toilets. These efforts will help control, reduce and/or eliminate water costs.

The District also used economies of scale to lower its capital costs, lower its maintenance and replacement costs, while still minimizing environmental impact. As the result of an unprecedented, aggressive bidding process, for example, the District was able to obtain carpet with a 30-year warranty, one hundred percent (100%) recycled backing, and forty percent (40%) recycled yarn content, a wide range of colors and patterns, and a cost of \$15 per yard. The District previously experienced carpet costs of \$30 per yard with a considerably shorter warranty. Comparable efforts have been successful for master purchase agreements for furniture and equipment.

Mission College's Culinary Arts Building is in Use

Mission College's new Culinary Arts Building was signed off by the Fire Marshal on February 7, 2011, the same day as the new semester began. In order to minimize disruption to the academic program, move-in was scheduled for the period around Spring Break. Move-in began on April 11, 2011, and regular use of the building started two weeks later.

Response to Recommendations: The SCO draft audit includes recommendations and the following is our response:

LACCD disagrees with the auditor's assertion that the bond program is recognized as an "auxiliary organization" or that it is required to implement financial standards as described by the California Community Colleges Auxiliary Organization Accounting and Reporting System. The bond program is not an "auxiliary organization," which is a term of art under Education Code sections 72670 through 72682 and the applicable Title 5 regulations. This operation is no different than the capital outlay and construction program that the District operated prior to the authorization of the first bond measure. The Bond Fund is one of the nine funds of the LACCD's total budget, all of which is governed by GAAP and GASB standards, California Community Colleges Budget and Accounting Manual, Board Rules and Administrative Regulations.

LACCD concurs with the recommendation to develop formal policies and procedures for accounting for operating costs, including staffing for newly-constructed facilities.

Although the District's bond program is managed under the contracted program management firm, URS Inc., all fiscal policies and procedures including bidding processes, procurement, and financial records are operated and governed by the District's Board Rules and Administrative Regulations. Additionally, the Board of Trustees has adopted Cost Principles for the bond program to ensure proper provisions for calculating costs. The District will continue to review and evaluate the existing policies and procedures as they relate to the bond construction program.

LACCD also concurs with the auditor's recommendation to document projected savings due to energy efficiencies and determine if savings are sufficient to cover additional operating costs.

Overall, although the District has not developed a comprehensive plan to address all the operational and maintenance (M&O) costs associated with the additional facilities, the District has done several studies to identify M&O anticipated cost increases by the end of the bond program. The District is currently spending approximately \$51 million annually on maintenance and operation costs of its facilities, which includes salary and benefits for custodians, utilities and other related M&O costs. The District estimates these annual M&O costs will increase to \$71 million by the year 2016 exclusive of the energy savings when all the new construction is completed.

Initially, the District anticipated that these costs would be partially offset by the projected energy savings as mentioned above, and the remainder of the cost increases would be funded through the State growth funding for new facilities and cost of living increases (COLA). However, due to the current State-wide fiscal crisis, it is necessary for the District, in its budget planning processes, to reassess the building program and the resources available to cover the anticipated increases in M&O costs.

List of Attachments - Appendix "A"

Please note that we have attached copies of the listed documents referred in the management response. Any reference to previously provided documents through the ftp site is also listed for reference.

<u>Finding</u>	<u>Description</u>	<u>Electronic copy attached to management response</u>	<u>Copies previously uploaded on FTP Site</u>
N/A	Referenced Copy of SCO Draft Report Dated June 22, 2011 (starting page 12)	X	
Finding 1	Exhibit - 1.A - Build LACCD Mapping Response to State of CA Audit	X	
	Exhibit - 1.B - Project List	X	
	Exhibit - 1.C - White Paper Memo RE: New Learning Resource Center - Harbor	X	
	Exhibit - 1.D - White Paper Memo RE: Health & PE, Fitness Center - Mission	X	
	Exhibit - 1.E - White Paper Memo RE: Culinary Arts Institute Facility - Mission	X	
	Exhibit - 1.F - White Paper Memo S-010 - RE: Child Development Center - Southwest	X	
	Exhibit - 1.G - White Paper Memo S-002 - RE: Swimming Pool - Southwest	X	
	Exhibit - 1.H - White Paper Memo S-011 - RE: Site Improvements - Southwest	X	
	Exhibit - 1.I - White Paper Memo - RE: Public Arts Project - Valley	X	
	Exhibit - 1.J - Cover Letter 07/05/11 RE: White Paper - West	X	
	Exhibit - 1.K - Cover Letter 03/21/11 RE: White Paper - West	X	
	Exhibit - 1.L - E-mail from D. Leister to M. Garber RE: Finding 1 mapping-response - East	X	
Finding 2	Exhibit - 2.M - Not Used		
	Exhibit - 2.N - City, Review of Cancelled Projects for SCO	X	
	Exhibit - 2.O - East, Review of Cancelled Projects for SCO	X	
	Exhibit - 2.P - Harbor, Review of Cancelled Projects for SCO	X	
	Exhibit - 2.Q - Mission, Review of Cancelled Projects for SCO	X	
	Exhibit - 2.R - Pierce, Review of Cancelled Projects for SCO	X	
	Exhibit - 2.S - Southwest, Review of Cancelled Projects for SCO	X	
	Exhibit - 2.T - Trade, Review of Cancelled Projects for SCO	X	
	Exhibit - 2.U - Valley, Review of Cancelled Projects for SCO	X	
	Exhibit - 2.V - West, Review of Cancelled Projects for SCO	X	
	Exhibit - 2.W - SCO's documentation of South Campus_MWW News Release (Trade Tech)	X	
	Exhibit - 2.X - Not Used		
	Exhibit - 2.Y - Fulbright Letter (Addressing "Program Management" Expenditures)	X	
	Exhibit 2.AA - Options for Measure J dated 2/12/2008 (\$5.5B)	X	
	Exhibit 2.AB - Options for Measure J dated 2/20/2008 (\$5.6B)	X	
	Exhibit 2.AC - Options for Measure J dated 3/5/2008 (\$4.1B)	X	
	Exhibit 2.AD - Options for Measure J dated 3/29/2008 (\$5.3B)	X	
	Exhibit 2.AE - Options for Measure J dated 4/10/2008 (\$5.49B)	X	
	Exhibit 2.AF - Options for Measure J dated 4/23/2008 (\$3.5B)	X	
	Exhibit 2.AG - Measure J Budget of \$3.5 billion	X	
	Exhibit 2.AH - Email notifying the upload of requested documents	X	
	Exhibit 2.AI - BOT approval of Proposition 'A'	X	
	Exhibit 2.AJ - BOT approval of Proposition 'AA'	X	
	Exhibit 2.AK - BOT approval of Proposition 'J'	X	
	Campus Master Plans		
	West - EIR Volume I		X
	00 Cover_FEIR Volume I.pdf		X
	01 PREFACE.pdf		X
	02 Executive Summary.pdf		X
	03 TOC_FEIR Volume I.pdf		X
	04 Summary.pdf		X
	05 Chapter 1_Introduction.pdf		X
	06 Chapter 2_Project Description.pdf		X
	07 Chapter 3_Environmental Setting.pdf		X
	08 Chapter 4_Alternatives.pdf		X
	09 Chapter 5_Impact Overview.pdf		X
	10 Chapter 6_Bibliography.pdf		X
	11 Chapter 7_Persons Consulted.pdf		X

List of Attachments - Appendix "A"

Please note that we have attached copies of the listed documents referred in the management response. Any reference to previously provided documents through the ftp site is also listed for reference.

<u>Finding</u>	<u>Description</u>	<u>Electronic copy attached to management response</u>	<u>Copies previously uploaded on FTP Site</u>
	12 Chapter 8_List of Preparers.pdf		X
	13 Appendix A_NOP.pdf		X
	City - LACC MP Update FINAL Sept 2008.pdf		X
	East - ELAC_Facilities_Master_Plan_Update_Final_Supplemental_EIR_2010.pdf		X
	Harbor - 0.1 Addendum_June7 2010 final 2010.pdf		X
	Mission - College Master Plan March 15, 2007.pdf		X
	Southwest - EIR & MP_LASC Final Supplemental-070710.pdf		X
	Trade - Addendum to the LATTG Thirty Year Master Plan EIR_12-7-09.pdf		X
	Valley - LAVC_Master Plan_2006(1).pdf		X
Finding 3			
	Exhibit 3.A - Qualifications, Related Experience and References		
	Exhibit 3.B - Scope of Work (Office of Inspector General)		
	Exhibit 3.C - Office of Inspector General, May 20, 2010, Interview Questions		
	Exhibit 3.D - Inspector General, Second Interview		
	Exhibit 3.E - Memo, Results of 2Nd Interviews for Inspector General		
	Exhibit 3.F - Letter from Chancellor, March 18, 2011		
	Exhibit 3.G - Comprehensive Reference Report from Christine Marez		
Finding 4			
	Exhibit 4.A, DCOC Minutes for May 6, 2005		
	Exhibit 4.B, DCOC Minutes for September 11, 2009		
	Exhibit 4.C, Cost Principles, Administrative Regulation B-30		
	Exhibit 4.D, LACCD Building Program Review Panel and Charge		
	Exhibit 4.E, Standing Committees, Board Rule 2605.11		
	Exhibit 4.F, Materials for DCOC meeting, September 2010		
	Exhibit 4.G, DCOC Agenda, June 28, 2002		
	Exhibit 4.H, DCOC Agenda, October 4, 2002		
	Exhibit 4.I, DCOC Minutes for May 15, 2009		
	Exhibit 4.J, DCOC Agenda for December 18, 2009		
	Exhibit 4.K, DCOC Agenda for May 14, 2010		
	Exhibit 4.L, Memo from Bond Counsel Lisalee Wells, September 16, 2010, distributed to the DCOC on September 17, 2010		
	Exhibit 4.M, Board of Trustees meeting minutes excerpt from June 24, 2009 ("Art Resolution")		
	Exhibit 4.N, Mission College Citizens' Oversight Committee Bylaws		
	Exhibit 4.O, Harbor College Citizens' Oversight Committee Bylaws		
	Exhibit 4.P, City College Citizens' Committee Bylaws		
	Exhibit 4.Q, Bylaws of the East Los Angeles College Citizens' Committee		
	Exhibit 4.R, Los Angeles Valley College's Citizens' Committee Bylaws		

Attachment C— SCO's Comments to Los Angeles Community College District's Response

1. In essence, the project lists were crafted in such way that virtually any expenditure could be construed to be on the list to circumvent control and accountability. This is contrary to the purpose and intent of Proposition 39.

Following are examples of how the project lists and accompanying language are constructed in such a way that any expenditure could be a bond expenditure.

The Health and P.E., Fitness Center at Mission College was a Proposition A/AA project inclusive of all cost components. However, since the LACCD ran out of funding for this project, they are trying to justify and rationalize the usage of Measure J funds in the amount of \$3.4 million for the purchase of Furniture, Fixtures, and Equipment (FFE) and Program Management. Even though Measure J has a generic FFE component, it is evident that the expenditure of these funds was not intended for projects that Propositions A/AA were supposed to fund in their entirety. Further, as the LACCD states, in its response, that Measure J allows for generic FFE purchases for the “modernization, renovation, improvement and/or new construction projects components.” This project was six years old when Measure J passed. Measure J FFE expenditures were not intended to be for previous projects under the older propositions. Furthermore, this not only indicates the misuse of bond funds but a lack of proper planning and oversight as illustrated in Findings 2 and 4.

Another example of the LACCD's lack of oversight of its spending is in the category of “Specialty Consulting.” This item was identified during our review of “multi-campus” costs. These are costs that are spread out amongst the colleges but should also be allocated to a project. The SCO found that the integrated accounting system over the life of the ten-year project has never been able to allocate these costs to a specific project. In reviewing the makeup of these costs, we came upon the category of “Specialty Consulting.” The SCO identified several vendors and their associated invoices totaling over \$7 million for copying services, transit passes, public relations, and software for the LACCD's website. These costs are clearly not the intention of Proposition A/AA and Measure J, and should not have been charged to the bond fund.

2. The district acknowledged that the definition about “cancelled” projects lacks clarity. When we discussed this matter with BuildLACCD staff during the course of our audit, we were informed that the definition had been changed. We prepared our analysis based on the revised definition, to reach the figure of \$28.3 million. The LACCD's response indicates more changes or a different interpretation are needed. In absence of clear definition, it would be difficult for colleges to maintain proper control and oversight over cancelled projects.
3. According to its “Fixed Asset Spreadsheet,” the college allocated \$11.5 million in Measure J funds to the South Campus (Trade Tech) project, of which \$6.2 million had been spent as of November 19, 2010.

Trade Tech's South Campus project (a Proposition A/AA project) helps demonstrate the LACCD's inappropriate use of Measure J bond funds. The LACCD states that there are no cost overruns or use of Measure J funds on this project. To ensure our findings were accurate, the SCO revisited this issue. A subsequent review of Trade Tech's Dashboard reports submitted to the public via their website as well as the LACCD's “Fixed Asset Spreadsheet,” which tracks bond and project expenditures, noted that the LACCD had inappropriately utilized Measure J funds for this project.

The LACCD's Dashboard report has Trade Tech budgeted for \$11.5 million of Measure J funds on this project. In addition, the LACCD's fixed asset report indicates that it used \$6.2 million of Measure J funds on this project. A further review by the SCO disclosed that the actual Measure J funds used were to purchase land to construct a parking facility at East Campus and have been inappropriately expended to the South Campus project. Therefore, the SCO concludes that the LACCD and Trade Tech College should not have:

- Budgeted Measure J funds towards a Proposition A/AA project;
 - Expended Measure J funds on a Proposition A/AA project; and
 - Purchased additional land to construct a parking structure at East Campus and try to justify the expense under the South Campus project even though it was not on the project list.
4. This finding has been modified to reflect the district's comment and additional information provided.
 5. We have repeatedly requested this data from LACCD's CFO and Executive Director of Facilities Planning and Development, LACCD accounting staff, and BuildLACCD's staff. Some indicated this information is available but have not provided it. This is the first time the requested information has been provided.
 6. We contacted the Contract Manager on the advice of the Chief Financial Officer/Treasurer, who was appointed as our liaison for the audit. In addition, on two occasions, we formally requested from the district "all back-up documentation for Request for proposal #10-12 – Establishment of the Office of Inspector General – LACCD."
 7. These criteria were not listed in any of the documents reviewed or included in the contract file. Moreover, the Contract Manager, who also served as a panel member, professed no knowledge of these undocumented criteria.
 8. This item has been deleted as a result of additional information and documentation provided by LACCD.
 9. This assertion is not supported in any of the documents provided by LACCD.
 10. These measures suggest LACCD management has reasons to be concerned about adequacy of control and accountability in the bond construction program.
 11. We reviewed the additional meeting minutes submitted with the LACCD's response and found no evidence to suggest the committee had engaged in robust or meaningful discussion or questioned any of the bond expenditures.
 12. The recommended change is a technical clarification to reflect the intent of up to one-half of one percent of the college's original bond allocation.
 13. The LACCD states that its intention is to provide for the increased costs associated with the new construction through other cost savings measures. However, the LACCD was unable to identify the process by which each campus plans for and ensure that it has sufficient operating funds for new bond construction projects.

With respect the LACCD's continuance of an aggressive building program, we note that the LACCD is in danger of committing millions of additional capital costs to a multitude of projects that may not have sufficient operating revenues to operate.

This was initially evidenced in our review the LACCD's decision to renovate the Van de Kamp bakery. To date, the LACCD has expended in excess of \$86 million to the Van de Kamp campus; LACCD has yet to get it operational as a satellite campus.

**State Controller's Office
Division of Audits
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Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>