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STATE OF CALIFORNIA
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SACRAMENTO, CA 95814

Kurt R. Sjoberg
Acting Auditor General

June 20, 1990

C-948

Honorable Elihu Harris, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 2148
Sacramento, California 95814

Dear Mr. Chairman and Members:

We reviewed allegations of irregularities in the Los Angeles Community College District's (district) management of construction projects. During our review, we found that the district did not adequately investigate approximately \$33,500 in damage to district property to determine responsibility for the damage and to recover the cost of repair if the damage was caused by one of the district's contractors. In addition, the district awarded contracts for \$34,000 in construction work without securing bids from contractors. Further, the district did not provide notification limiting the use of a noninstructional building. Finally, we noted other minor deficiencies. Specifically, the district overpaid a contractor by \$230, and a district employee stored district equipment at his own residence.

BACKGROUND

Under the direction of the district's vice chancellor of Business Services, the Facility Planning Section and Construction Section are responsible for the oversight of construction projects. The Facility Planning Section, supervised by the school facilities planner, coordinates the planning activities for the district's construction of new school buildings and improvement of existing school buildings, reviews and interprets the district's architectural plans, and coordinates the work of the district's architects. The Construction Section, supervised by the supervising construction inspector, coordinates the inspection of buildings under construction, processes amendments to construction contracts, and approves contractors' progress reports and payment requests. According to the district, it spent approximately \$12.7 million for capital outlay during fiscal year 1988-89.

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In November 1989, the district engaged the accounting firm of Coopers and Lybrand to assess the efficiency and effectiveness of the district's system for managing its construction projects. The Coopers and Lybrand audit included a review of the district's organizational structure, internal controls, and procedures related to the management of construction projects. The audit report identified numerous weaknesses in the district's management of construction projects. The report stated that the district needs to implement procedures, systems, and controls to improve the management of construction projects. The attachment provides a summary of the findings and recommendations in the audit report.

To address the weaknesses in its management of construction projects, the district developed a plan to improve its construction management. The district plans to establish a new facilities planning and development branch and to strengthen existing policies and procedures to improve internal controls over construction management. In addition, the district plans to hire a director for the facilities planning and development branch to increase the technical expertise of the district's personnel responsible for managing its construction projects. The district intends to complete the proposed changes by the end of 1990.

SCOPE AND METHODOLOGY

The purpose of this audit was to review allegations of irregularities in the district's management of construction projects. Those allegations that were supported by available evidence are discussed in this letter. We did not evaluate the district's system of internal controls over the management of construction projects. Further, we did not evaluate the work of Coopers and Lybrand or the basis for its findings and recommendations.

In conducting this audit, we interviewed district personnel responsible for construction management and personnel who raised the allegations of irregularities. We examined the district's construction files including construction contracts, inspectors' reports, job meeting minutes, and daily project logs. Additionally, we examined the records of the district's contractors. Furthermore, for areas of a technical nature, we consulted with experts in the fields of construction management and building inspection.

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THE DISTRICT DID NOT ADEQUATELY
INVESTIGATE \$33,500 IN DAMAGE TO
DISTRICT PROPERTY TO DETERMINE
RESPONSIBILITY FOR THE DAMAGE

The district did not adequately investigate damage to district property that occurred during construction work to determine responsibility for the damage and to recover the cost of repair if the damages were caused by one of the district's contractors. Specifications of the contract between the district and the contractor state that damage caused by the contractor determined to be the contractor's fault is the responsibility of the contractor. According to the inspector representing the district on the construction site, during the course of excavation work on the Los Angeles City College campus in June 1987, the contractor caused avoidable damage to an underground electrical line. Further, the inspector indicated that, during the course of excavation and demolition work in August 1987, the contractor caused damage to an underground drain.

To repair the damaged electrical line, the district paid another contractor approximately \$32,000 under an emergency repair contract. Additionally, the district paid the contractor that damaged the underground drain approximately \$1,500 under a contract amendment to replace the drain.

Because the district did not adequately investigate damage to district property to determine responsibility for the damage, the district was not able to determine whether it could recover the cost of repair if the damage was caused by the district's contractor.

THE DISTRICT DID NOT
SECURE COMPETITIVE BIDS
FOR CONSTRUCTION WORK

The Public Contract Code, Section 20651, requires the governing board of community college districts to award contracts of more than \$15,000 for construction work to the contractor that submits the lowest bid provided that the bid covers the requirements of the work to be performed and the bidder is capable of performing the work satisfactorily. Further, the Public Contract Code, Section 20657, prohibits the practice of splitting work into smaller contracts to avoid competitive bidding requirements.

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However, the district awarded approximately \$34,000 in construction work to a single contractor without securing competitive bids. The district split the contract work into three separate contracts and awarded the contracts to a single contractor. The contracts were for approximately \$6,100, \$14,200, and \$13,600. The general description of work to be completed for each contract was the same, the contracts were all entered into on the same date, and the contractor's requests for payment for all three contracts were submitted on the same day.

According to the district's supervising construction inspector, who was involved in awarding the contracts, the district did not split the contracts to avoid competitive bidding requirements. He stated that the construction work was broken down by college campus. However, we noted that the three contracts covered a total of six campuses.

In our opinion, because the construction work was the same for each contract and the contracts were all entered into on the same date, the district should have secured competitive bids for the construction work to ensure that it paid the lowest possible price for the work.

THE DISTRICT DID NOT PROVIDE
NOTIFICATION LIMITING THE USE
OF A NONINSTRUCTIONAL BUILDING

Under a contract for a joint agricultural enterprise, a contractor constructed a structure for selling produce on the Los Angeles Pierce College campus. The district did not intend to use the structure for instructional purposes; therefore, it was not required to have the building constructed with the authorization or oversight of the Office of the State Architect. However, concerns were raised about the structural safety of the structure because it is entered by the public. To determine whether the structure is in compliance with the standards of the Uniform Building Code, we hired a building inspection service to inspect the structure. A report prepared by the building inspection service states that as far as the service could determine, the building appears to be built in compliance with Uniform Building Code standards with the exception of some substandard electrical wiring.

However, during our review, we determined that the district did not provide notification limiting the use of noninstructional buildings. Title 21 of the California Code of Regulations, Section 10, states that community college districts may construct buildings without the

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authorization or oversight of the Office of the State Architect if the districts do not intend to use the buildings for instructional purposes. The code states that, in such cases, the districts should take responsibility for the construction of the building, including preventing students and teachers from using such buildings. To prevent such use, the code requires districts to post signs on such buildings stating that the buildings do not meet the structural standards imposed by law for earthquake safety. In addition, the code requires the district's governing board to pass resolutions stating that the buildings will not be used or entered by teachers or students.

The district stated that it does not consider the code applicable in this specific case because the district did not construct the structure. The district stated that a private entity constructed the structure under an agreement to lease district property, and the structure should be considered private property for the duration of the lease. However, we believe that since the building resides on college property, the district should consider the intent of the code, which is to protect students and teachers who may enter the building.

MINOR DEFICIENCIES IN
THE DISTRICT'S MANAGEMENT
OF CONSTRUCTION PROJECTS

We identified minor deficiencies in the district's management of its construction projects. Specifically, we found the following:

- In August 1988, the district paid a contractor more than the contractor's actual costs for waste removal services. In addition, during the same month, the district paid the contractor for the use of equipment for which the contractor could not provide evidence of use. The terms of the contract between the district and its contractor state that for work performed under contract amendments, the district will pay the contractor for the contractor's actual costs. However, in one case the contractor requested reimbursement of \$560 for waste removal services under a contract amendment when the invoices that the contractor paid showed that the services cost the contractor only \$460. In another case, the district paid its contractor \$130 for the use of construction equipment. However, when we asked the contractor for support for the charges, the contractor was unable to provide evidence that it actually used the equipment. Furthermore, according to the district's inspector on

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the construction site, the contractor did not use the equipment. Because the district did not require its contractor to submit supporting documentation for all costs charged by the contractor under the contract amendment, the district overpaid the contractor a total of \$230; and

- The district's supervising construction inspector stored district equipment at his residence for approximately one year. The supervising construction inspector placed a memorandum dated January 21, 1987, in the Construction Section's files that explained the reason for the storage of the equipment at his residence. According to the supervising construction inspector, two of the district's air compressors were stored in a location on the district's Los Angeles Harbor College campus where they were in danger of being stolen. The memorandum stated that to safeguard the compressors, one of the district's construction inspectors removed the compressors from the campus and delivered them to the supervising construction inspector's residence. The supervising construction inspector further stated that the compressors were stored at his residence for approximately one year, after which the compressors were moved to a secure location on the district's Los Angeles Trade-Technical College campus.

The California Government Code, Section 13403, states that an effective system of internal control includes the proper safeguarding of equipment. We believe the storage of equipment for an extended period at an employee's residence is not the normal practice for safeguarding equipment in an effective system of internal control.

CONCLUSION

The Los Angeles Community College District did not investigate approximately \$33,500 in damage to district property that occurred during construction work to determine responsibility for the damage and to recover the cost of repairs if the damage was caused by the contractor. In addition, the district did not secure the required competitive bids for approximately \$34,000 in construction work. Furthermore, the district did not provide the notification prohibiting teachers and students from using or entering a noninstructional building. Finally, we noted other minor deficiencies. Specifically, the district made overpayments to a contractor totaling \$230, and a district employee stored equipment at his own residence.

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RECOMMENDATIONS

To ensure that it recovers the cost of damage to district property caused by its contractors, the Los Angeles Community College District should fully investigate any damages that occur during construction work to determine the responsibility for the damages. If the damages are the fault of the contractors, the district should promptly bill the contractors for the cost of repairing the damage or require the contractors to repair the damage at their own cost. Finally, the district should evaluate the possibility of recovering from one of its contractors the \$33,500 in damages to the Los Angeles City College campus that the contractor may have caused.

To ensure that it pays the lowest possible price for its construction work, the district should secure competitive bids for all construction contracts for more than \$15,000.

To ensure that it prevents teachers and students from using or entering buildings constructed without the authorization and oversight of the Office of the State Architect, the district should consider posting signs on such buildings stating that the buildings do not meet the structural standards imposed by law for earthquake safety. Further, the district's board of trustees should consider passing resolutions stating that the buildings will not be used or entered by teachers or students for instructional purposes. Finally, the district should correct substandard electrical wiring in the structure for selling produce at Los Angeles Pierce College.

To ensure that it does not overpay its contractors, the district should require its contractors to submit supporting documentation for all costs they charge. In addition, the district should evaluate the possibility of recovering from one of its contractors the \$230 in overpayments. Finally, the district should evaluate the possible benefit of conducting an audit of the contractor's records to determine if its payments to the contractor are supported by the contractor's records.

To ensure that its property is adequately safeguarded, the district should store its equipment at a secure location on district property.

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We have conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this letter.

Respectfully submitted,



KURT R. SJOBERG
Acting Auditor General

Attachments

The Los Angeles Community College District's response to this letter
The Office of the Auditor General's comments

SUMMARY OF FINDINGS AND RECOMMENDATIONS
FROM COOPERS AND LYBRAND'S AUDIT REPORT

<u>Subject</u>	<u>Finding</u>	<u>Recommendation</u>
Organization	Responsibility and accountability between the Facilities Planning and Construction sections are not clearly defined.	Define responsibilities and establish accountability for all tasks necessary to efficiently manage construction projects.
	Lines of authority and reporting on construction projects among the supervising construction inspector, project manager, architect, and inspectors are not clearly defined.	Involve the director of Business and Ancillary Services in resolving conflicts.
	Relationships between the supervising construction inspector and staff inspectors are strained. In addition, insufficient staffing exists for inspections at the Mission College project.	Increase involvement of the supervising construction inspector and other under-utilized inspectors on the Mission College project. If necessary use a contracted inspector to perform inspections.
	Internal controls over the processing and approval of invoices are weak.	Reassign the supervision of the Construction Section's contract analyst and administrative assistant to the contract coordinator or the Accounting Section.
	Staff have indicated that communications to the supervising construction inspector regarding projects have been ignored.	Use official notice forms for communications to the supervising construction inspector, and require the inspector to respond to all communications.
Management Reporting	Contract reporting is fragmented and difficult to evaluate.	Enhance the Contract Status Report to include more detail. In addition, develop a computer database for contract reporting purposes.
	Labor hours for inspectors are not sufficiently maintained for management reporting purposes.	Maintain a time-distribution system.
	Existing computer resources are not coordinated to increase their potential benefit.	Establish a plan to maximize the use of existing computer resources.
Pre-bid Architectural Review	Reviews over pre-bid architectural drawings are not adequate to prevent project delays and increased costs.	Perform detailed pre-bid reviews of architectural drawings to ensure fulfillment of construction and building code requirements.
Inspection Paper Trail	Documentation and verification of construction inspections are not adequate.	Require inspectors to record and sign off in the inspector's log when specific inspections are completed.
Selection of Contractors	Selection of the lowest bidder sometimes results in substandard workmanship.	Evaluate the reasonableness of the bid to determine whether the lowest bidder is capable of meeting the district's quality standards.
Inspector Qualifications	The qualifications of inspectors may not be appropriately matched with the required inspections.	Evaluate the district's ongoing needs for planned inspections and staffing to improve the scheduling of inspections.
Engineering Review	Savings available through the use of alternative materials are not always taken advantage of.	Perform a pre-bid engineering review of architectural drawings to determine opportunities for cost savings.
Construction Consultant	Additional costs or credits included in contract change orders may not be accurately determined.	Hire a construction consultant to independently review contract change orders with significant additional costs or credits.

Subject	Finding	Recommendation
Periodic Audits	Staff indicated that procedures are not always followed and that appropriate documentation is not always provided in processing contract change orders.	Perform periodic procedural and operational audits of construction projects, and report results directly to the vice chancellor.
Property Inventory	Internal control over the Construction Section's inventory is weak.	Prepare an inventory listing, and perform periodic property reconciliations.

**THE OFFICE OF THE AUDITOR GENERAL'S COMMENTS ON THE
RESPONSE FROM THE LOS ANGELES COMMUNITY COLLEGE DISTRICT**

- ① As explained in our letter, a district employee on the construction site stated that the contractor caused avoidable damage to the district's property. In addition, we could not identify evidence indicating the district took sufficient measures to determine whether the contractor was responsible for the damage.
- ② We have revised the text based on the district's comment.



LOS ANGELES COMMUNITY COLLEGES

CITY • EAST • HARBOR • MISSION • PIERCE • SOUTHWEST • TRADE-TECHNICAL • VALLEY • WEST

OFFICE OF THE CHANCELLOR

Dr. Donald G. Phelps

June 14, 1990

Mr. Kurt R. Sjoberg
Acting Auditor General
State of California
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

Thank you for your recent draft copy of the Auditor General's letter concerning Los Angeles Community College District's management of construction projects. In compliance with the contents of your letter, attached are our comments for your consideration in the final document to be printed.

If additional information is needed, please contact Mr. Thomas L. Stevens, Jr., Business Services Division, at (213) 891-2081.

Sincerely,

A handwritten signature in cursive script that reads "Donald G. Phelps".

Donald G. Phelps

es

Enclosure: a/s

AUDITOR GENERAL REPORT -- DRAFT RESPONSES

ISSUE: The audit report cites an area involving excavation work at City College which resulted in damage to underground electrical conduit. The report suggests that the District did not appropriately determine responsibility, and thus, lost the opportunity to recover the \$32,000 repair cost from the general contractor.

RESPONSE: In receiving the incident referenced, information is available that indicates District staff did review the matter and determined the District was responsible for the damage. The District did not provide the general contractor with appropriate detailed plans that identified the underground electrical conduit. As such, the District assumed the financial responsibility for the \$32,000 repair work (1)*

ISSUE: The audit report indicates that the District failed to post appropriate notification regarding a produce stand located on Pierce College property. The report cites Title 21, Section 10 of the California Code of Regulations which stipulates that a public entity can construct without OSA approval, a non-instructional structure; however, notification needs to be posted for students and teachers.

RESPONSE: In reviewing the District's compliance responsibilities with our General Counsel, it is the District's position that Title 21, Section 10 is not applicable in this specific case. The structure was not constructed by the District or intended for use by the District. The structure and its use are set forth in a lease agreement with a private entity, as such, the lease parcel of property and structure should be viewed as private for the duration of the lease agreement.

To date, the District has not independently verified the structural soundness or issuance of permits for the produce stand constructed by the lessee. The obtaining of building and occupancy permits by the lessee is set forth in the lease agreement. To verify compliance of this area by the lessee, the District has requested the college staff to secure from the lessee proof of compliance. Further, the District will conduct its own independent structural inspection. If there are problems, the lessee will be notified so that the necessary corrections can be made. (2)

ISSUE: Several miscellaneous items were identified in the audit report that are either procedural in nature or involve minimal amounts of dollars.

*The Office of the Auditor General's comments on specific points in this response begin after the Los Angeles Community College District's response.

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RESPONSE: The District feels that the appropriate level of review was implemented to the change orders referenced in the report. The District feels that the amounts taken to Board can be justified. It is possible that a discrepancy in the area of \$50 to \$70 could have occurred as a means of expediting the completion and/or continuance of work on the project.

As to the matter of taking District property to one's home residence, that is definitely inappropriate. There are existing rules and procedures prohibiting such action. In the matter cited, there was a violation of District policy and an error in judgment as to the rationale used by the supervisor for doing so. Since the appropriate rules are in place to address this matter, the appropriate District personnel have to be more diligent in their enforcement.

ISSUE: The audit report suggests that the District did not properly engage in a competitive bid process for contractual work amounting to \$34,000. The implication is that the District bypassed the bid processing by "splitting the bids" into three separate contracts in the amounts of \$16,000, \$14,000 and \$13,600, all of which fall under the \$15,000 bidding requirement amount.

RESPONSE: The three proposals referenced were not issued to deliberate violate the legal requirement to bid contracts for work which exceeded \$15,000, but were used to facilitate the completion of the work left unfinished when RCR was removed from the handicapped barrier removal project. The proposal form was used routinely as the primary contract document to complete the many small projects left at the several colleges included in the RCR contract as it allowed the Supervising Construction Inspector, who became the prime contractor for the project, to expeditiously complete the many smaller jobs which college administrators were demanding be completed.

The Supervising Construction Inspector initiated the proposal document and final approval of the use of this form was given by the School Facilities Planner. The School Facilities Planner must approve the use of the proposal contract form for every job in excess of \$1,000. His review included an analysis of job splitting before his approval is given.

The Supervising Construction Inspector indicates he was directed by the General Counsel and Director of Business Operations to use the proposal form to complete the work left unfinished by RCR.

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Also attached is a memo from Thomas Fallo, dated March 10, 1986, and a memo from Dennis Lee, dated October 14, 1985, relating to the completion of the RCR contract. Both memos were sent to Vice Presidents, Administration and both discuss the use of the proposal documents to expedite the completion of the work left unfinished by RCR. Forty-nine (49) documents were issued for approximately \$133,000 to complete the RCR contract.

INTER-OFFICE CORRESPONDENCE
Los Angeles Community Colleges

To: Vice Presidents, Administration

March 10, 1986

From: Thomas M. Fallo

Subject: HANDICAP BARRIER REMOVAL PROJECT

Since vacation of the project by R. C. R. General Contractors, it has been determined that the District should proceed with construction in spite of the potential of litigation through the Office of General Counsel. Business Operations staff has met individually with the Vice Presidents and Buildings and Grounds Administrators to review the status of the unfinished work. As you are aware, the cost of the construction is not large but work is dispersed through each of the campuses and the nature of the project is tedious.

To effect the completion of the project within the limited resources available, both funds and personnel, the District has assumed the role of a prime contractor. This is a slower process. It requires the District to find personnel for the various trades with close cooperation and assistance from the college maintenance personnel, particularly the Building and Grounds Administrators.

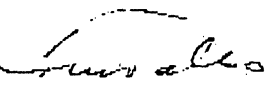
Staff is proceeding somewhat on a campus by campus basis relative to its ability to deploy its inspectors and find qualified workman willing to work for the District. Work is currently progressing at four locations: Pierce, Valley, East and Harbor colleges. Pierce College was the first one started and the corrective work is now approximately 60% complete.

We now have contracts via M & L proposals with the following trades: carpentry, ceramic tile, miscellaneous iron and concrete. To date, we have been utilizing college personnel for plumbing and painting. Use of college personnel, where available, appears to enhance the operations. The colleges are reimbursed for any expenses incurred.

Meanwhile, staff is attempting to locate additional qualified construction personnel in order to accelerate the completion of the project. Although it is too early to estimate an exact completion date of the entire project, we would expect it to be at least six to nine months.

We remind the colleges that if there is a problem which arises that poses immediate health or safety hazards, corrective measures can be taken by the college. Jack Smith should be notified, followed by copies of supporting documentation for the reimbursement of expenses.

As the work progresses further, the balance of the colleges will be included. In the meanwhile, your continued cooperation and support are appreciated.


Thomas M. Fallo
Vice Chancellor
Business Services

TMF:ls

INTER-OFFICE CORRESPONDENCE
Los Angeles Community Colleges

To: William Norlund
Vice President of Administration, LAPC

October 14, 1985

From: Dennis W. Lee
Director of Business Operations

Subject: CONTINUATION OF THE HANDICAPPED PROJECT (PHASE I)

In our efforts to complete the handicapped construction project authorized by the Board of Trustees and to ease the burden placed on the campuses, the work, not completed by the contractor, is to be continued in two basic parts:

- A. Completion of the work as outlined in the attached exhibit "A" for your college. The amount allocated for such work is \$18,000.
- B. Completion of design deficiencies outlined in the attached exhibit "B". You will note that these areas primarily involve toilet stalls and doors. This work can commence only when we have received revised plans from the architect and Facilities Planning that address all of the design deficiencies.

In approaching the first part of the project, the work has already been discussed preliminarily with your Building and Grounds Administrator. Moreover, as discussed with the Vice Presidents of Administration, such work may be completed by your own available college forces or contracted through M & L proposals or by the Contracts Office; whichever process or combination will best facilitate the work. The account to be charged will be P-5301-6202-7126 and all contractual arrangements will require approval and encumbrance at the District office by the construction section.

Please note that this project is still subject to approval by OSA; therefore, all completed work must be acceptable to OSA and must be coordinated and signed off by the Inspector of Record. Compliance with the plans within the budget amount is essential as all work is subject to physical review by OSA in satisfaction of the Handicapped Code requirements.

For the second part of the incomplete work, we are hoping to receive corrected plans shortly from Facilities Planning.

Please call Jack Smith directly if there are any questions and concerns. Your support is appreciated.

DWL:ld

cc: Vice Chancellor, Business Services
College Presidents
Jack Smith
Tex Shannon

INTER-OFFICE CORRESPONDENCE
Los Angeles Community Colleges

To: J. Quentin Mason
Vice President of Administration, LAHC

October 14, 1985

From: Dennis W. Lee
Director of Business Operations

Subject: CONTINUATION OF THE HANDICAPPED PROJECT (PHASE I)

In our efforts to complete the handicapped construction project authorized by the Board of Trustees and to ease the burden placed on the campuses, the work, not completed by the contractor, is to be continued in two basic parts:

- A. Completion of the work as outlined in the attached exhibit "A" for your college. The amount allocated for such work is \$40,000.
- B. Completion of design deficiencies outlined in the attached exhibit "B". You will note that these areas primarily involve toilet stalls and doors. This work can commence only when we have received revised plans from the architect and Facilities Planning that address all of the design deficiencies.

In approaching the first part of the project, the work has already been discussed preliminarily with your Building and Grounds Administrator. Moreover, as discussed with the Vice Presidents of Administration, such work may be completed by your own available college forces or contracted through M & L proposals or by the Contracts Office; whichever process or combination will best facilitate the work. The account to be charged will be H-5301-6202-7126 and all contractual arrangements will require approval and encumbrance at the District office by the construction section.

Please note that this project is still subject to approval by OSA; therefore, all completed work must be acceptable to OSA and must be coordinated and signed off by the Inspector of Record. Compliance with the plans within the budget amount is essential as all work is subject to physical review by OSA in satisfaction of the Handicapped Code requirements.

For the second part of the incomplete work, we are hoping to receive corrected plans shortly from Facilities Planning.

Please call Jack Smith directly if there are any questions and concerns. Your support is appreciated.

DWL:ld

cc: Vice Chancellor, Business Services
College Presidents
Jack Smith
Tex Shannon