

Chancellor's Report

Response to the Findings of the State Controller

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3. Decentralization by Design
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 - Finding 3 – Appointment of the Inspector General
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 - Observation – Operational Funding

Board of Trustees
Special Board Meeting
August 17, 2011

Significance of Audit

- Healthy reminder of the importance of the public trust
- Promotion of program integrity
- Clarification of issues

Areas of Dispute

- Issues of fact
- Issues of policy
 - Authority and decentralization
 - Flexibility and legal limits
- Issues of communication

What Did the Voters Approve

Measure J 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 during the modernization, renovation, improvement and/or new construction 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 existing Chemistry Building; renovate and modernize the existing Science 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 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 Center and

The Project List approved by the voters for Measure J is composed of two parts:

1. General project types and activities at any of the nine colleges, the satellites and District HQ, as well as multi-campus efforts, such as ADA compliance
2. Specific projects at the nine colleges

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Decentralized Organization by Design

- The Board adopted a "Motion for Reform and Decentralization" in Spring of 1998.
- The District Academic Senate filed a complaint with the State Chancellor's Office regarding the duty to consult the proposed changes.
- After consultation as directed by the State Chancellor, the Board adopted a "Reform and Decentralization Plan."

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Background for Motion for Reform and Decentralization

“Each of the nine colleges in the District serves a unique community. The District has **a centralized bureaucracy that stifles the creativity and flexibility** of the colleges. Implementation of this reform will create more student oriented colleges which enables them to **engage in meaningful strategic planning** based upon the needs of the students and the community they serve. The reform will also enable the District and its colleges to operate **more efficiently and will establish a system of accountability** that will ensure greater financial and educational viability. The reform will also **strengthen shared governance** at the colleges, providing for greater local control.”

Adopted by the Board of Trustees
May 4, 1998

Objections by the District Academic Senate

- “It is not the D.A.S. position that de-centralization is improper. It is the position of D.A.S. that California State Law requires the Governing Board to consult with D.A.S. on the budget process ...”

Letter from Robert D. Epple, Esq.

- State Chancellor determination: “... we believe that the DAS should have been consulted prior to adoption of [the Motion for Reform and Decentralization] because it goes well beyond merely changing the administrative organization of the District ...”

July 2, 1998 letter from
State Chancellor Tom Nussbaum

Adoption and Implementation of Reform and Decentralization Plan

“The colleges and the district exist to serve the needs of current and potential students in our communities, and the **district office exists to serve the needs of the colleges** by providing service, support and coordination. As such, the **college presidents act in a line capacity to the Chancellor** and **district office personnel act in a staff service capacity to the colleges** and in a line capacity to the Chancellor.

The accountability of the presidents must be commensurate with their authority; moreover, while colleges shall operate with autonomy, **the college presidents must work collectively in making decisions that impact district operations...**”

Adopted by the Board of Trustees
September 9, 1998

Finding 1 - Use of Measure J Funds

State Controller

“...we identified numerous instances where bond funds were not on the list...\$42.64 million determined to be questionable or ineligible Measure J expenditures”

A list of 24 projects is identified in Schedule 1

Sample of Findings:

1. The SCO states \$427,000 for the New Learning Resource Center at Harbor was not on the project list.
2. The SCO states \$6.1 million of Measure J funds were used to complete Trade Tech South Campus.

“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.”

LACCD

The SCO disagrees as a matter of policy with the voter-approved project list. The District relied on the opinion of bond counsel in developing the list. Bond counsel also provided general guidelines regarding use of the list.

Management Response:

1. The work is for the Disabled Programs and Services included on the Measure J Project List and located within the New Learning Resource Center at Harbor.
2. The funds were used for land acquisition at the East Campus for the Construction Trades Center, which is listed in Measure J.

Finding 3 - Appointment of Inspector General

State Controller

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 IG to carry out the essential functions of the office.

Sample of Findings:

1. The District's procedures provide that the proposal with the highest score will be deemed the offer most advantageous.
2. The selected bidder had the lowest score among the four bidders interviewed and the second-lowest score among the 11 bidders.
3. Policy Masters exceeded the lowest cost proposal by 50% annually.
4. We question the qualifications of the Inspector General to carry out the essential functions of the office.

LACCD

In light of the unprecedented nature of this contract, the District followed its process, and took additional due diligence measures to ensure a qualified firm and lead were selected.

Management Response:

1. The quote fails to take into account the interview option specifically allowed in the procedures. The District followed its procedures and added:
 - A second panel interview;
 - A background check for the designated lead; and,
 - A final interview with the Chancellor.
2. The SCO used an incorrect list of firms as a key to the evaluators' scoring sheets. Policy Masters was among the five highest scores.
3. Policy Masters' proposal was for a full team, not one, part-time person, which would have been insufficient to meet the goals of the office.
4. The Inspector General qualifications are driven by its purpose.

Finding 3 - Appointment of Inspector General

Scoring Sheet

	Qualifications, Experience, and References (25)	Staffing, Project Organization (25)	Work Plan Technical Approach (25)	Fee (25)	Miscellaneous, Exceptions, and Deviations (10)	TOTAL Points
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						

Date: _____

Name of Reviewer: _____

Finding 3 - Appointment of Inspector General

Correct List

May 13, 2010

Listing of firms responding to RFP # 10-12 Establishment of the Office of Inspector General and Whistleblower Program

1. BUSINESS CONTROLS, INC. *- email 5-18-10*
2. CAPSTONE ADVISORY GROUP, LLC. *- email negotiation 5-18*
3. DELOITTE SERVICES LP
4. ERNST & YOUNG LLP
5. ETHICS POINT *email John Killen 5-18-10*
6. FU-GEN, INC. *email fu-gen@fu-gen.com 5-18-10*
7. MAGALLANES ASSOCIATES INTERNATIONAL *email 5-18-10*
8. POLICY MASTERS, INC.
9. RGL FORENSICS *email AS frame 5-18-10*
10. THE NETWORK, INC. *email Adam Shorrock 5-18-10*
11. THOMPSON, COBB, BAZILO & ASSOCIATES, P.C.

List SCO Used

May 13, 2010

Listing of firms responding to RFP # 10-12 Establishment of the Office of Inspector General and Whistleblower Program

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4. FU-GEN, INC.
5. POLICY MASTERS, INC.
6. RGL FORENSICS
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8. THE NETWORK, INC
9. BUSINESS CONTROLS, INC.
10. THOMPSON, COBB, BAZILO & ASSOCIATES, P.C.
11. ETHICS POINT

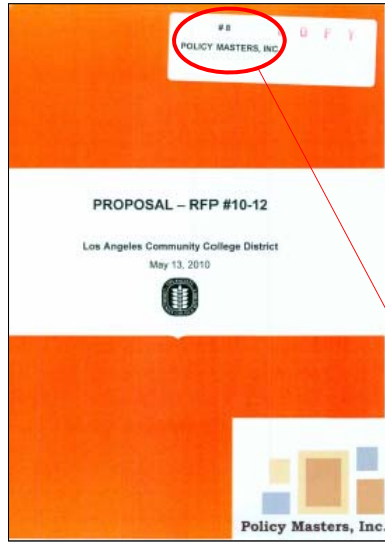
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Finding 3 - Appointment of Inspector General

LACCD		State Controller	
List (order) of Firms as Reviewed by Raters	Average Score by Raters	List (order) of Firms as Reviewed by SCO	Average Score by Raters
1-Business Control, Inc.	55.5	1-Ernst & Young, LLP	55.5
2-Capstone Advisory Group, LLC	59.0	2-Deloitte Services LP	59.0
3-Deloitte Services, LP	69.8	3-Magallenes Associates International	69.8
4-Ernst & Young LLP	71.3	4-Fu-Gen, Inc.	71.3
5-Ethics Point (hotline)	41.3	5-Policy Masters, Inc.	41.3
6-Fu-Gen, Inc.	73.5	6-RGL Forensics	73.5
7-Magallenes Associates	63.5	7-Capstone Advisory Group, LLC.	63.5
8-Policy Masters, Inc.	67.3	8-The Network, Inc.(hotline)	67.3
9-RGL Forensics	42.3	9-Business Controls, Inc.	42.3
10-The Network, Inc.(hotline)	46.0	10-Thompson, Cobb, Bazilo & Associates	46.0
11-Thompson, Cobb, Bazilo & Associates	69.0	11-Ethics Point (hotline)	69.0

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Finding 3 - Appointment of Inspector General



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5-Ethics Point (hotline)	41.3	5-Policy Masters, Inc.	41.3
6-Fu-Gen, Inc.	73.5	6-RGL Forensics	73.5
7-Magallenes Associates	63.5	7-Capstone Advisory Group, LLC.	63.5
8-Policy Masters, Inc.	67.3	8-The Network, Inc.(hotline)	67.3
9-RGL Forensics	42.3	9-Business Controls, Inc.	42.3
10-The Network, Inc.(hotline)	46.0	10-Thompson, Cobb, Bazilo & Associates	46.0
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Finding 3 - Qualifications of Inspector General

- The SCO relies on guidelines from the National Association of Inspectors General.
- Guidelines included but not utilized by the SCO:
 - General Standard*
 OIG staff should collectively possess the variety of knowledge, skills, and experience needed to accomplish the OIG mission...
 - Basic Qualifications*
 The qualifications [listed] relate to the collective knowledge, skills, and experience of an OIG, not necessarily to any one staff member..."
- Auditor status neither legally required nor dictated by national standards
 - Example: LAUSD IG is not and has not been an auditor

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Finding 4 – DCOC and CCC		
<p style="text-align: center;">State Controller</p> <p>Oversight by the DCOC was passive, perfunctory and ineffective.</p> <p>Sample of Findings:</p> <ol style="list-style-type: none"> 1. The DCOC report provided no evidence to demonstrate that the committee had "actively" reviewed bond expenditures. 2. The DCOC did not question the use of bond funds for public art. 3. The Legislature should adopt legislation to improve accountability and transparency...and provide the committees greater independence from the colleges' governing bodies. 	<p style="text-align: center;">LACCD</p> <p>The DCOC inquired into many areas and met quarterly. The college-level committees are not required by code, but staff will have them reviewed by the performance auditors.</p> <p>Management Response:</p> <ol style="list-style-type: none"> 1. The DCOC was provided voluminous Dashboard reports and conducted its activities in accordance with the Education Code. 2. The Board's resolution in support of public art required that installations fit within the project list. 3. The LACCD followed the law. The SCO's desire for different legislation is not a failure of the LACCD. 	
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Observation		
<p style="text-align: center;">State Controller</p> <p>LACCD continues to expand campus facilities without empirical data to demonstrate it has a viable source of revenues to operate the expanded facilities.</p> <p>Sample of Findings:</p> <ol style="list-style-type: none"> 1. LACCD was unable to provide documentation as to the estimated amount of the projected savings or the basis for the projections 2. Mission College's Culinary Arts Center was slated to open in February 2011 ...it is not in use and is sitting vacant. 	<p style="text-align: center;">LACCD</p> <p>Staff agrees with this finding in large part.</p> <p>Management Response:</p> <ol style="list-style-type: none"> 1. The SCO was provided with extensive material. 2. The Culinary Arts Center was occupied and used for classes starting last April. 	
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Conclusion

- Better communication needed on both sides
- Significant errors of fact
- District compliance with law
- Continuous improvement