



**Office of the Inspector General  
Los Angeles Unified School District**

**Performance Audit of  
FSD Change Order Process**

**OA 20-1258**

**September 17, 2020**



**Los Angeles Unified School District  
Office of the Inspector General**

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**Dr. Richard A. Vladovic, Ed.D., President**  
**Dr. George J. McKenna III**  
**Mónica García**  
**Scott M. Schmerelson**  
**Nick Melvoin**  
**Jackie Goldberg**  
**Kelly Gonez**  
*Members of the Board*

**Austin Beutner**  
*Superintendent of Schools*

**William Stern**  
*Inspector General*

September 17, 2020

Mark Hovatter  
Chief Facilities Executive  
Facilities Services Division  
Los Angeles Unified School District  
333 S. Beaudry Avenue, 23rd Floor  
Los Angeles, CA 90017

RE: FSD Change Order Process Audit

Dear Mr. Hovatter,

This is our report on the FSD Change Order Process. The objectives of the audit were to evaluate whether (i) the existing controls over change order authorizations and thresholds were observed, as per Change Order Procedures 14.17 Section 5.0, (ii) the change orders were supported by the required documentation, as per Change Order Procedures 14.17 Section 8, and (iii) the timelines for preparation of documents such as change orders, requests for proposal, construction directives, and change order proposals were followed.

Our audit found that existing controls over change order authorizations and thresholds were not consistently implemented, change orders were not always supported by required documentation, and timelines for preparation of documents were mostly not followed.

We appreciate your continued support of our services.

Sincerely,

***Austin E. Onwualu***

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Austin Onwualu, CPA, CGMA, CIG  
Deputy Inspector General, Audits

*William Stern*

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William Stern, MBA, CIG, CISM, CPP, CFE  
Inspector General

C: Greg Garcia, Judith Reece, Kathryn Butler, Richard Lui, Cheri Thomas

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## **EXECUTIVE SUMMARY**

We conducted a performance audit of Facilities Services Division's (FSD) Change Order Process at the Los Angeles Unified School District (District). The objectives of the audit were to evaluate whether (i) the existing controls over change order authorizations and thresholds were observed, as per Change Order Procedures 14.17 Section 5.0, (ii) the change orders were supported by the required documentation, as per Change Order Procedures 14.17 Section 8, and (iii) the timelines for preparation of documents such as change orders, requests for proposal, construction directives, and change order proposals were followed.

During the 2019 Fiscal Year, FSD approved 2,406 change orders in the amount of \$35,614,561.72. Our audit found, in the sample selected, that existing controls over change order authorizations and thresholds were not consistently implemented, change orders were not always supported by required documentation, and timelines for preparation of documents were not consistently followed. We found that FSD had written change order procedures in place; however, not all Owner Authorized Representatives (OAR) and Regional Construction Directors followed the Change Order Procedures relating to authorizations, supporting documentation, and timelines. Specifically, we found the following:

- 1) Twenty three percent (23%) of the change orders we reviewed showed that work was performed by contractors without any formal authorization by FSD. Consistent deficiencies in authorization could significantly impact the achievement of FSD's objectives and increase the potential risk for fraud and waste of District resources.
- 2) We found that change order work was performed by contractors after the Substantial Completion date, which increased the risk of litigation and potential complications due to delays in Substantial Completion. We also found that no supporting documentation existed to show that work was performed before the Substantial Completion date for 6 change orders.
- 3) We identified several documents within change order packages that were not signed by FSD personnel and contractors, as required by District policy, which can increase the risk of loss in future litigation.
- 4) Several critical change order documents were missing from project files and some checklists were improperly completed. Without a clear audit trail, management may not be able to clearly see the root cause of problems or worse, may not be able to tell that a problem actually exists.
- 5) The timelines for preparation of documents such as change orders and requests for proposals were not followed, in many instances:
  - Twenty-three of 42 change orders (55%) were not prepared immediately upon reaching agreement with the contractor. We noted the number of days to initiate change orders ranged from 2 to 206 days.
  - Twelve of 42 change orders (29%) were not signed and received within 10 days from the contractor's receipt of a change order. We noted the number of days to receive a signed change order from the contractor ranged from 11 to 78 days.
  - Seventeen of 29 change order proposals (59%) were not received within 10 days after the issuance of a construction directive. We noted the number of days to receive a change order proposal from the contractor ranged from 35 to 316 days.

Failure to follow timelines can lead to work stoppages, cost overruns and most importantly, delays in project completion.

We made 8 specific recommendations to FSD to update change order policies and procedures and other recommendations to improve the change order process. These recommendations are detailed in the Results of Audit section of the report. FSD agreed with 4 out of 8 recommendations (50%) and disagreed or partially disagreed with the other findings. However, FSD stated in its response that the Division appreciated the efforts of this audit as FSD was constantly striving to improve upon the management and operations of their procedures.

FSD stated that there were many findings where documentation was not located during the audit and they were not aware that certain documents would be an essential part of the audit. After reviewing the draft audit findings, FSD provided 92 pages of additional documentation which compelled the audit team to reopen the audit and re-audit each finding, extending the issuance of this final report. During the audit, the audit team communicated the status of each finding in emails, telephone calls, and face-to-face meetings with FSD management (Regional Construction Directors and Deputy Directors) related to authorization of work, change order work performed after Substantial Completion, missing documentation, documents without signatures or Board of Education stamps, and lack of adherence to mandated timelines since December 2019. We provided ample opportunity for FSD staff to locate the documentation over a series of months during the performance of this audit but did not receive several supporting documents.

FSD stated in its response that it was implementing a process that will virtually eliminate most or all of the findings noted in this audit. Once the process is updated, FSD will provide training to all OARs and relevant staff. While we appreciate the planned implementation of a new electronic system with built in controls, we look forward to auditing the performance of any future system that may address the concerns raised in this report.

## **INTRODUCTION**

The Facilities Services Division (FSD) is responsible for the execution of the District's school construction bond program, maintenance and operations, the utilization of existing assets, and master planning for future capital projects.<sup>1</sup> Regulations concerning change orders are codified in the California Public Contract Code, § 20118.4 (2017).<sup>2</sup>

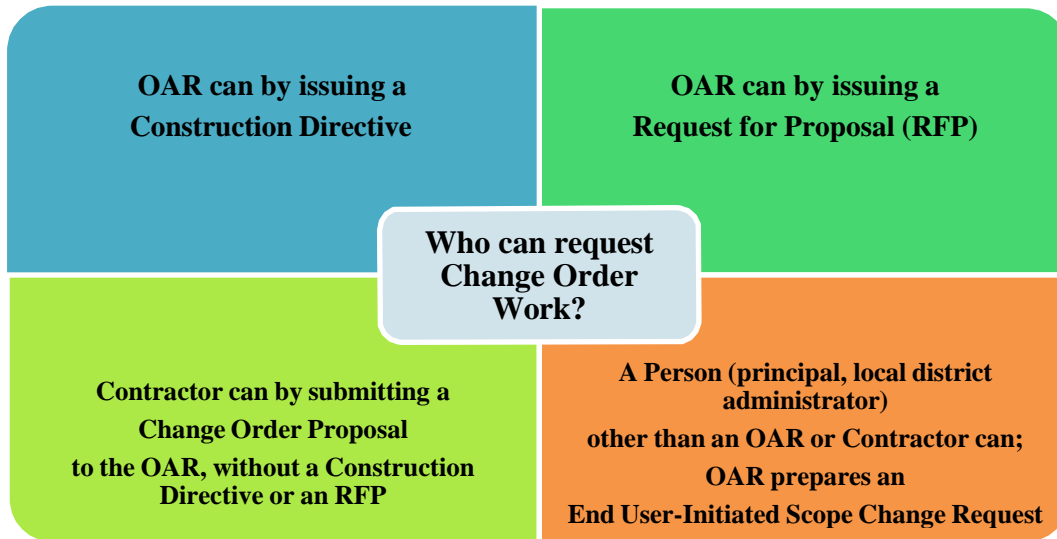
FSD last published change order policies and procedures on January 30, 2013 titled, "14.17 Change Order Procedures." The purpose of a change order is to communicate and record changes to contract documents, contract amount, milestones and/or contract time. The following graphic shows who can request change order work:

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<sup>1</sup> <https://www.laschools.org/new-site/>

<sup>2</sup> <https://law.onecle.com/california/public-contract/20118.4.html>: (a) If any change or alteration of a contract governed by Article 3 (commencing with Section 17595) of Chapter 5 of Part 10.5 of the Education Code is ordered by the governing board of the district, the change or alteration shall be specified in writing and the cost agreed upon between the governing board and the contractor. The board may authorize the contractor to proceed with performance of the change or alteration, without the formality of securing bids, if the cost so agreed upon does not exceed the greater of the following: (1) The amount specified in Section 20111 or 20114, whichever is applicable to the original contract. (2) Ten percent of the original contract price.

**Figure 1**



**Simplified Flowchart of the FSD Change Order Process**

The policies and procedures outline actions required for the preparation and processing of change orders, requests for proposals (RFPs), construction directives, and change order proposals in accordance with the contract documents and approved policies. The following graphic outline steps based on those published procedures.

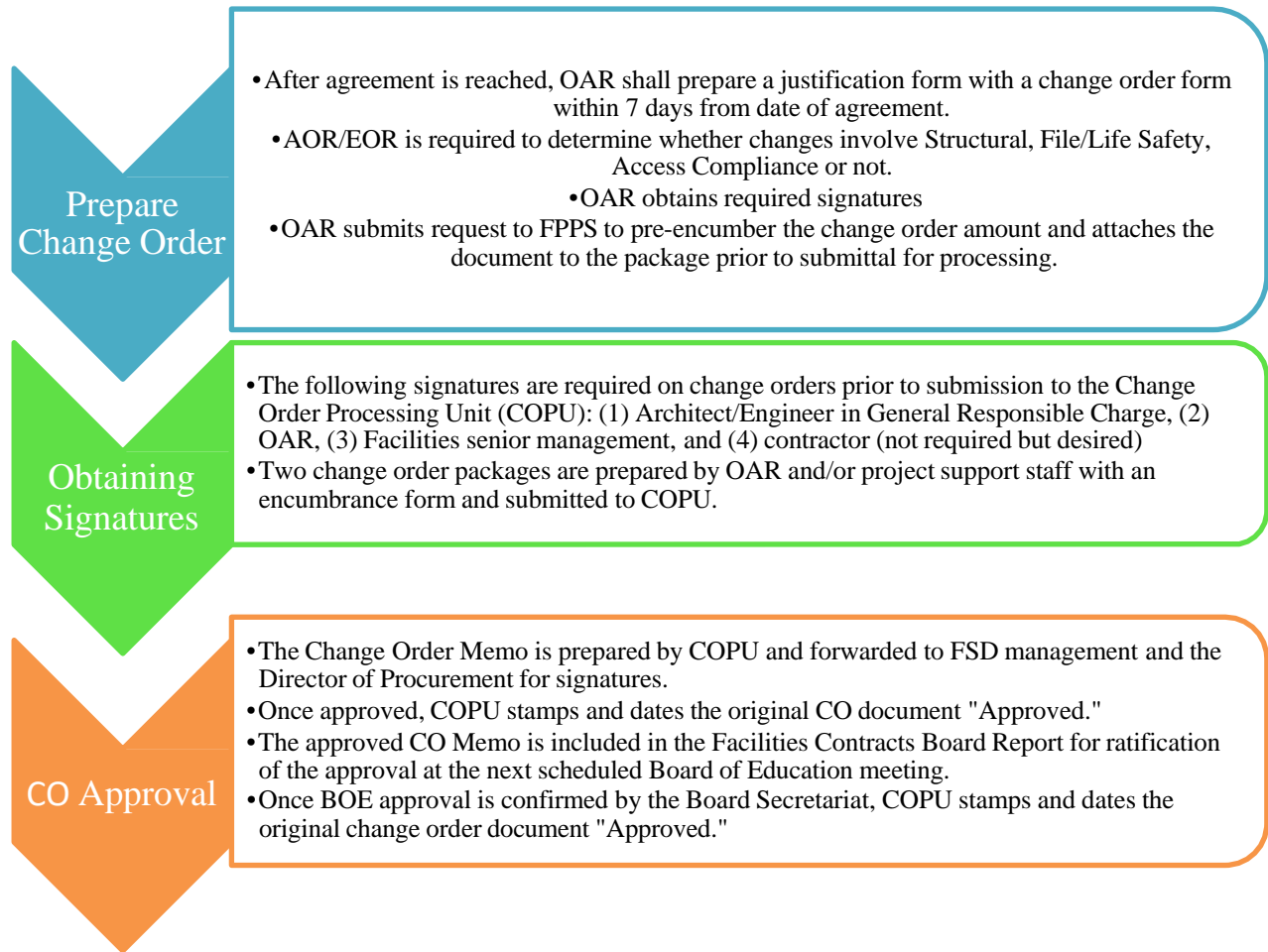
A specific process exists depending on the method in order to execute a change order as seen below in Figure 2.

**Figure 2**

Construction Directive (CD)	Request for Proposal (RFP)	End User-Initiated Scope Change Requests	Contractor Submits Request
<ul style="list-style-type: none"> <li>• OAR prepares CD and estimates cost of work (between 10% and 25% of original price) &amp; specifies pricing as lump sum, unit price, or time and material, obtains owner fair cost estimate</li> <li>• OAR issues CD to Contractor.</li> <li>• Contractor submits a Change Order Proposal to OAR within 10 calendar days</li> <li>• Negotiations conducted between OAR and contractor is documented on Record of Negotiation form</li> </ul>	<ul style="list-style-type: none"> <li>• Architect of Record (AOR) prepares RFP Scope of Work</li> <li>• OAR verifies adequate funding or Rough Order of Magnitude; obtains Owner FCE</li> <li>• OAR transmits RFP to Contractor, copies AOR &amp; IOR</li> <li>• Contractor responds to RFP with a COP within 10 calendar days</li> <li>• Negotiation conducted between OAR and contractor is documented on Record of Negotiation form</li> </ul>	<ul style="list-style-type: none"> <li>• Requested by persons other than Contractor or OAR; OAR completes EUIS request</li> <li>• OAR obtains signatures from the requestors and FSD management</li> <li>• OAR issues an RFP or CD to contractor to perform the work</li> <li>• Contractor responds to RFP/CD with a change order proposal within 10 calendar days</li> <li>• Negotiation conducted between OAR and contractor is documented on Record of Negotiation form</li> </ul>	<ul style="list-style-type: none"> <li>• Contractor submits a change order proposal without a CD or RFP issued</li> <li>• OAR may send COP to AOR for review of costs, milestones, etc. AOR can make a recommendation but it is OAR's decision to proceed with CO work</li> <li>• OAR estimates cost of work &amp; specifies pricing as lump sum, unit price, or time and material; OAR obtains owner fair cost estimate (FCE)</li> <li>• Negotiation meetings conducted between OAR and contractor is documented on Record of Negotiation form</li> <li>• OAR issues CD to contractor</li> </ul>

Figure 3 below shows the detailed process for preparing the change order and obtaining approval by all concerned parties.

**Figure 3**



Change Order Procedures 14.17 requires the OAR to keep clear documentation related to ensuring project completion. The table below shows the descriptions of some of the more important documents.

**Table 1**

REQUIRED DOCUMENTATION <sup>3</sup>	DESCRIPTION
Rough Order of Magnitude	An RFP should not be issued until verification that adequate funding, based upon a Rough Order of Magnitude (ROM) estimate, is available for the proposed change.
Owner Fair Cost Estimate	OAR obtains or prepares an owner fair cost estimate or quantitative analysis upon issuance of a RFP, construction directive. It is a separate, independent estimate of the cost and time impact of the proposed change order work prior to receipt of the change order proposal.
Encumbrance Payment Request Form (EPRF)	OAR shall prepare an online EPRF and submit to Facilities Procurement and Payment Services for pre-encumbrance of the Change Order amount.

<sup>3</sup> Ibid, page 3- ROM & CD, 5- COP, 6- FCE, 10- EPRF

REQUIRED DOCUMENTATION <sup>3</sup>	DESCRIPTION
Change Order Proposal	Whenever contractor (i) receives and responds to an RFP, or (ii) is directed by a Construction Directive, or (iii) believes a change in the work has occurred that establishes a basis for an adjustment, contractor shall complete and submit a change order proposal to the OAR for proposed adjustments to the contract amount, milestones and/ or contract time. A change order proposal shall include all estimates, breakdowns, costs, data and/ or information required in order to validate a proposed adjustment in the contract amount, milestones and/ or contract time. <sup>4</sup>
Construction Directive	A construction directive is prepared by an OAR and is issued to contractor to advance the work to avoid a delay in the project schedule. A construction directive is primarily issued when agreement of proposed additions, deletions or modifications of contract documents cannot be reached, and work is now critical. Prior to issuance of a construction directive that will affect cost, the OAR must estimate the cost of the work described in the construction directive. The construction directive must specify pricing for the cost of the work using one of the following three methods: (1) lump sum, (2) unit price, or (3) time and material.

### **SCOPE AND OBJECTIVES**

The objectives of the audit were to evaluate whether (i) the existing controls over change order authorizations and thresholds were observed, as per Change Order Procedures 14.17 Section 5.0, (ii) the change orders were supported by the required documentation, as per Change Order Procedures 14.17 Section 8, and (iii) the timelines for preparation of documents such as change orders, requests for proposal, construction directives, change order proposals were followed.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit covered the period from July 1, 2018 through June 30, 2019.

### **METHODOLOGY**

To accomplish our audit objectives, we (i) performed walkthroughs with key contacts from Facilities Services Division (FSD) to obtain an understanding of the change order process, (ii) identified risks pertaining to the change order process, (iii) reviewed existing policies and procedures, applicable state laws and regulations, and the Public Contract Code, (iv) interviewed Regional Construction Directors and key personnel in the change order process, (v) conducted internal control questionnaires with Regional Construction Directors and other key personnel, and (vi) tested processed change orders.

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<sup>4</sup> General Conditions Article 10.7



## **EVALUATION OF INTERNAL CONTROLS**

In accordance with Government Auditing Standards, we obtained an understanding of internal control that is significant within the context of the audit objectives. We assessed whether internal controls were properly designed and implemented. For those controls that were deemed significant, we obtained sufficient, appropriate evidence to support our assessment about the effectiveness of those controls. We are required to report deficiencies in internal controls that are significant within the context of the audit objectives. A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct (i) impairments of effectiveness or efficiency of operations, (ii) misstatements in financial or performance information, or (iii) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis. Based on our audit, we did not find any deficiencies in internal controls, but we found that internal controls could be strengthened and improved, details of which are provided in the Results of Audit section of this report.

## **RESULTS OF AUDIT**

We selected 42 change orders from a total population of 2,406 change orders as follows:

- (1) 20 change orders were selected judgmentally based upon change orders that had been approved by the Board of Education within 10 days of Substantial Completion; and
- (2) 22 change orders were randomly selected using a statistical sampling method, with a confidence level of 90% and a sampling error rate of 5.5%.

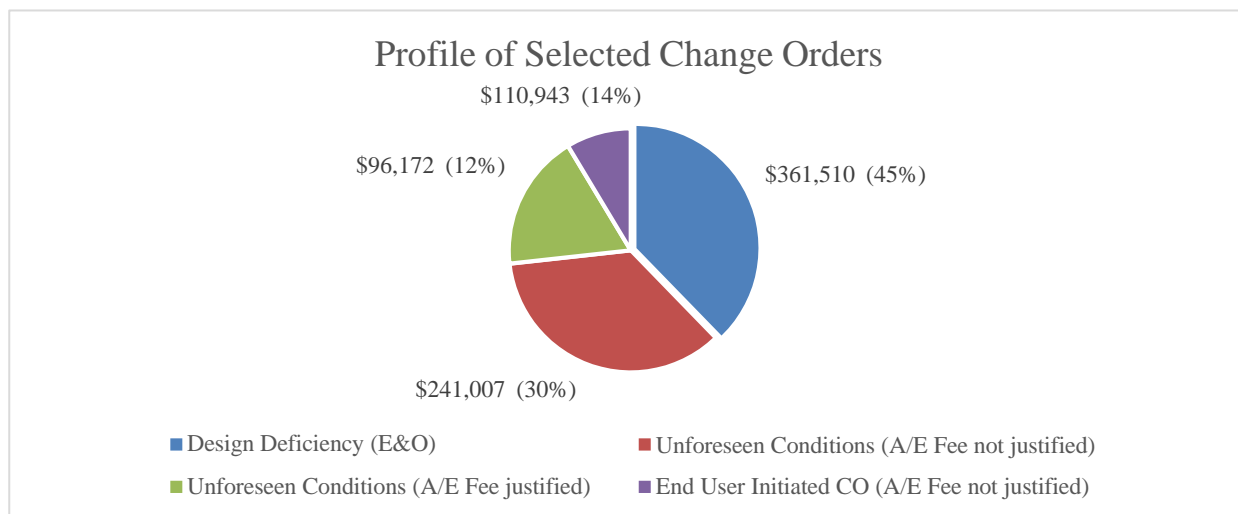
Exhibit 1 at the end of this report describes the individual project names with change order descriptions, and the corresponding dollar amounts of each change order. Table 2 below shows the selected change orders.

**Table 2**  
**Description of Selected Change Orders**

<b>Change Order Value Description</b>	<b>#of Change Orders in Each Category</b>	<b>% of Change Orders Tested</b>	<b>Total Value</b>
Under - \$5,000	10	24%	\$25,012.70
\$5,001 - \$10,000	5	12%	\$37,121.47
\$10,001 - \$15,000	7	17%	\$82,310.41
\$15,001 - \$20,000	6	14%	\$106,990.39
\$20,001 - \$50,000	10	24%	\$337,048.48
\$50,001 - \$60,000	4	10%	\$221,148.96
Total	42	100%	\$809,632.41

Facilities staff identifies each change order under a specific reason for the change order work to be performed and the reason categories are (i) design deficiency, (ii) unforeseen conditions (Architect/Engineer fee not justified), (iii) unforeseen conditions (Architect/Engineer fee justified), and (iv) end user initiated change (Architect/Engineer fee not justified). Figure 4 shows the change order totals based on the reason categories. The two highest cost categories were Design Deficiency (E&O) and Unforeseen Conditions (A&E Fee not justified).

**Figure 4**



**1. To evaluate whether the existing controls over change order authorizations and thresholds were observed, as per Change Order Procedures 14.17 Section 5.0.**

Our audit found that existing controls over change order authorizations and thresholds were observed inconsistently. Change orders were not always supported by required documentation and the timelines for preparation of documents were mostly not followed. We found that FSD had written Change Order procedures in place; however, not all OARs and Regional Construction Directors followed the published Change Order Procedures 14.17 relating to authorizations, supporting documentation, and timelines.

**A. Authorization of Change Order Work**

Some change order work was performed by contractors without any formal authorization by FSD.

We found that 10 of 42 change orders (23%) had change order work completed by the contractor without formal authorization (such as a construction directive, change order, or RFP). In addition, there was no justification showing that the nature of the work was critical.

For example, we found that work was performed for a change order in December 2018 based upon Daily Time and Material Records, and no document such as a construction directive or RFP was in the change order package nor checked off on the change order checklist. In addition, the change order was not initiated until May 20, 2019, approximately 6 months after the work was performed.

We found several instances where no construction directive was generated, and a change order was initiated more than 2 months after Substantial Completion. A Regional Construction Director agreed that the change order work was done without authorization.

The conditions described above occurred because of insufficient oversight by OARs and Regional Construction Directors. When asked the reason for these exceptions, one Regional Construction

Director stated that no contractors asked him when to start work for a change order or inquired whether the change order was authorized.

As a result, the effects of consistent deficiencies in authorization could significantly impact the achievement of FSD's objectives and increase the potential risk for fraud and waste of District resources.

FSD agreed with the finding except for 1 of the 10 change orders. FSD submitted a unsigned construction directive as evidence that the change order work was authorized at San Miguel ES. The document does not meet the signatory requirements of FSD's change order policy and was not acceptable evidence since it did not have a valid signature and date from the OAR or the Sr. Project Manager.

**Recommendation 1:**

We recommend that FSD should provide training to OARs and all other key FSD staff to ensure that change order work shall not be performed prior to the formal authorization of change order work.

FSD agreed with the recommendation and stated that it was in the process of converting the change order process to an electronic process. Once FSD implements the electronic process, FSD will provide training to OARs and all other key FSD staff.

**B. Change Order Work Performed After Substantial Completion**

We found that change order work was performed by contractors after the Substantial Completion date.

District policy states that *“All change order work must be completed prior to Substantial Completion<sup>5</sup>.”* In addition, the change order form<sup>6</sup> states, in part, *“By signing this Change Order, the parties (i) certify that the Work directed by this Change Order will be or has been performed PRIOR to Substantial Completion...”* Substantial Completion is defined as the stage in the progress of the work when all of the requirements of the Contract are completed, except Punch List items, final warranties and guaranties, and record documents submittals.<sup>7</sup>

We found evidence that for 3 out of 41<sup>8</sup> change orders (7%), change order work was completed after Substantial Completion. For instance, we found that in one case a construction directive was created and dated on the same date as the Substantial Completion date of 8/24/2018, and that two bids were submitted for a chain-link enclosure after 8/24/2018.

The conditions described above occurred because of a lack of oversight by OARs and Regional Construction Directors. In addition, one Regional Construction Director stated that “the contract work was not completed when they issued the Certificate of Substantial Completion” and “that it was his call as a manager of the project”. He stated that it will save the District money and time from possible lawsuits.”

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<sup>5</sup> Ibid, Page 3, Section 3

<sup>6</sup> Change Order Form Rev. 05-30-2015

<sup>7</sup> Facilities Services Division Policies and Procedures, 14.20 Start-Up, Page 1, Section 3

<sup>8</sup> We examined 41 change orders for this test because 1 change order was an administrative change order.

In addition, 6 out of 41 change orders (15%) were questionable due to a lack of corroborative evidence to prove that the change order work was performed prior to Substantial Completion. In inquiries of Regional Construction Directors, we found that no supporting documentation existed to show that work was performed by contractors before Substantial Completion. The policy as written is an ineffective policy since there are no requirements to maintain any specific documentation to show when change order work was performed. In addition, management inconsistently monitored this control since there was no corroborating evidence on file to support this policy.

As a result, there is an increased risk of litigation and potential complication due to delays in Substantial Completion.

FSD disagreed with the finding. Documentation was provided by FSD to show that the change order work occurred before actual Substantial Completion for Fairfax HS.

FSD did not provide sufficient evidence that change order work occurred before the actual Substantial Completion date at Fairfax HS. A Notice to Proceed was issued by FSD to A&B Construction, Inc. on 1/19/2017 with a project description of **Boilers and Air Handling Units Replacements** and a contract amount of \$9,948,000. FSD submitted the following documentation after the draft report was issued: (1) a change order proposal dated 5/6/2019 and (2) an Encumbrance Request Form dated 6/21/2019 as evidence that change order work was completed before actual Substantial Completion. We reviewed two change orders related to Fairfax HS: (1) one change order amount was \$9,149.48 for this purpose: *"Contractor to install Air Handling Units 4 & 5 per CCD 1024 detail and RFC 63"* and (2) the second change order amount was for \$50,336.00 for this purpose, *"Contractors to remove and reinstall HVAC ducts, conduits, raceways, and boxes for fireproofing clearance."* We noted that the Certificate of Substantial Completion signed on 8/2/2019 stated, *"The date of Substantial Completion of the Project designated above is hereby established as 7/25/2019 which is also the date of commencement of all applicable warranties required by the Contract Documents except as noted below: None."* The audit team noted that the Substantial Completion Punch List-Master Copy stated the following:

- ✓ HVAC AHU #7 is non-functional and continuous to fail not providing cooling. Date cited 08/27/19. \$25,000.00. [Note: The cited date of 8/27/19 was after the Substantial Completion date of 7/25/19.]
- ✓ Kitchen New HVAC system is non-functional and continuous to fail since start-up. Date cited 08/27/19. \$25,000. [Note: The cited date of 8/27/19 was after the Substantial Completion date of 7/25/19.]

In an inquiry to the Regional Construction Director about the punch list items which were not minor corrections and therefore were change order work performed after Substantial Completion, the Regional Construction Director stated that this project was a problem since it started because the design team did not perform their analysis well and the contract work was not completed when they issued the Certificate of Substantial Completion. He added that this *"was his call as a manager of the project and it will save the District money and time from possible lawsuits."* Based on our analysis of the documentation submitted after the draft report, no changes are warranted for this finding.

## **Recommendation 2:**

We recommend that a management report be generated monthly, reporting each change order work start date, actual end date, and the date of Substantial Completion. The report should be compiled based upon records similar in nature to the Daily Time and Material Records. The report should be reviewed by Regional Construction Directors to ensure that change order work is not performed after Substantial Completion.

FSD agreed with the recommendation to generate monthly reports and currently uses reports to monitor the status and completion of change orders. However, FSD stated that it believes that there is a fundamental difference between what the audit is recommending with respect to Substantial Completion versus Actual Substantial Completion. FSD submitted documentation of work being completed before the actual contractual Substantial Completion.

FSD stated: (1) that every contract has an initial Substantial Completion date, but as changes occur during the contract, the complete date will also change; (2) Often the actual Substantial Completion Date is not established until the work is completed and all delays (e.g., owner, contractor, weather of concurrent issues) have been analyzed by experienced Schedulers to determine who is responsible for the delays to the project; 3) Furthermore, the process has worked effectively over the past two decades as FSD has done extremely well in documenting, communicating, and resolving contract schedule disputes. Therefore, FSD stated that it believes that the current process with respect to managing actual Substantial Completion is effective; however, as FSD moves to a fully electronic process, the Division will continue to analyze the data and look at reports that will help to improve the process.

### **C. Unsigned Documents in Change Order Packages**

We found several documents that were not signed by FSD personnel and contractors, as required by District policy, within the change order packages we reviewed.

District policy requires each OAR to sign the change order document.<sup>9</sup> RFPs, construction directives, and End User-Initiated Scope Change Requests are prepared by the OAR and approved by the designated signatories. Whenever the contractor responds to an RFP or construction directive or believes a change in the work has occurred, the contractor shall complete and submit a change order proposal to the OAR.<sup>10</sup> The OAR and contractor shall then sign the Daily Time and Material Record.<sup>11</sup>

The documents detailed below require approvals from designated signatories, and we found the following:

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<sup>9</sup> Change Order Procedures 14.17, Page 9, Section 9.0 states: “The following signatures are required on Change Orders prior to submittal to COPU for processing and approval.

- Architect/Engineer in General Responsible Charge (AOR). While it is desired to have the AOR signature upon submittal to COPU, the signature is not required for payment of a Change Order with a stamped "Approved" date.
- Owner's Authorized Representative (OAR)
- Senior Management (as specified below)
- CONTRACTOR signature, while desired, is not required for approval of a Change Order. Per General Conditions, CONTRACTOR is required to perform all Change Order Work.”

<sup>10</sup> Ibid, 7.0 Change Order Proposals, page 5

<sup>11</sup> Ibid, Cost of the Work, page 6

- Two of 42 change orders (5%) were not signed by the OAR; only the Senior Project Manager signed the change order.
- Three of five RFPs (60%) were not signed by the required approver.
- One construction directive was not signed by all required approvers.
- One End-User Initiated Scope Change Request was not signed by the Branch Director of the Project Execution Branch.
- One Time and Material change order was not supported with Daily Time and Material Records that were signed by the contractor at the end of each workday.
- Two of 40 change order proposals (5%) were not signed by the contractor.

In addition, 4 out of 42 (10%) change orders did not have the Board of Education's approval stamp recorded on the documents.

The conditions described above occurred because of a lack of oversight by the OARs and the Regional Construction Directors, as well as due diligence by FSD staff and contractors. One exception was due to an OAR who used an older version of the RFP form, which required only one signature, while the current version required several signatures. We made inquiries of Regional Construction Directors and one replied that people made human errors although they were trained to do their jobs.

Unsigned documents that are critical to a construction project can increase the risk of loss in future litigation.

FSD partially disagreed with the finding. FSD responses are seen below for each of the specific conditions as well as the OIG response:

	<b>Finding</b>	<b>FSD Response</b>	<b>OIG Response</b>
1	Two of 42 change orders (5%) were not signed by the OAR; only the Senior Project Manager signed the change order.	FSD concurred that the OAR did not sign, however, the Senior Project Manager (SPM) signed for both the OAR and the SPM. FSD stated that when the OAR is not available due to illness or vacation, the SPM, being the OAR's supervisor is authorized to sign for the OAR. FSD stated that this is standard practice within FSD.	Page 9 of the Change Order Procedures, states that the OAR's signature is required on change orders. No exception was stated in the policies. Although FSD has a standard practice of allowing the SPM to sign in lieu of the OAR, this practice was not formalized in any written policies.
2	Three of five RFPs (60%) were not	FSD concurred and stated that the incorrect form was used. The new electronic	

	<b>Finding</b>	<b>FSD Response</b>	<b>OIG Response</b>
	signed by the required approver.	process will resolve this issue.	
3	One construction directive was not signed by all required approvers.	FSD concurred and stated that only the OAR signed the construction directive. The new electronic process will resolve this issue.	
4	One End-User Initiated Scope Change Request was not signed by the Branch Director of the Project Execution Branch.	FSD stated that the Deputy Director of Project Execution signed the End-User request and is authorized to sign the End-User Change Order in the absence of the Director if it is noted "for the Director." The new electronic process will eliminate this issue.	As stated earlier, the Change Order Procedures make no exceptions for the Deputy Director to sign off on the request. This informal policy should be documented in a formally written policies and procedures.
5	One Time and Material change order was not supported with Daily Time and Material Records that were signed by the contractor at the end of each workday.	FSD concurred with this finding.	
6	Two of 40 change order proposals (5%) were not signed by the contractor.	FSD concurred with the finding and stated that the new electronic process will resolve this issue.	
7	Four out of 42 (10%) change orders did not have the Board of Education's approval stamp recorded on the documents.	FSD disagreed with the finding and has provided documentation on these 4 change orders.	In December 2019, the audit team inquired of a Deputy Director of Project Execution whether the change orders with Board of Education stamps of approval were misfiled or misplaced because the change orders in the hardcopy package and the electronic package did not show evidence of Board approval. The Deputy Director requested administrative staff to locate the Board-approved change orders. After a thorough search, administrative staff

	Finding	FSD Response	OIG Response
			stated they could not locate such change orders. In response to the Draft Report, FSD provided four change orders with BOE stamps. We reviewed the documentation and found that 2 change orders had date stamps from the Change Order Processing Unit and two others did not. Because the original documents were never presented during the engagement, and due to the anomalies identified, the documentation does not meet evidentiary standards.

**Recommendation 3:**

We recommend that the Director require as a policy that all FSD administrators update the written change order procedures annually or once every 3 years in order to keep the policies relevant to operations.

FSD disagreed with the recommendation and stated that the change order policy as established has been fully vetted over the decades by senior management and legal. FSD stated: (1) it will update the policy on an as needed basis to ensure its accuracy, and (2) specifically, now that FSD is implementing a new electronic processing, it is a good time to update the policies and procedures.

**OIG Response:** We recommended the revision of policies periodically because the last policies and procedures were published in January of 2013, over 7 years ago, and many of the policies were obsolete and not realistic due to changing construction industry practices. During the audit, we also received comments from FSD management that many of the policies were not practical due to rigid timelines. It is an organizational best practice to revisit policies and procedures periodically, especially when controls are not working adequately in practice.

**Recommendation 4:**

We recommend that at least one FSD staff be designated to perform quality assurance duties and review change order documents for consistency.

FSD disagreed with the recommendation and stated that FSD believes there is sufficient oversight in the current process and adding another layer of oversight would be costly and unnecessary. However, FSD believes that implementing a new electronic process will improve the quality of the change order documentation.

- 2. To evaluate whether the change orders were supported by the required documentation, as per Change Order Procedures 14.17 Section 8.**

Several critical change order documents were missing from project files or improperly completed.



District policy states that the “OAR is to prepare two (2) ORIGINAL Change Order Packages consisting of the following documents:<sup>12</sup>

1. Change Order Checklist (*use for guidance on package documents only*)
2. Copy of EPRF (Encumbrance/Payment Request Form) with Section 3 completed by BPAT
3. Change Order (with signatory page)
4. Copy of DSA-approved CCD- Type A (Form DSA-140), or CCD- Type B not requiring DSA Approval (Form DSA-141) (*if any*)
5. Attachments to the CCD: Revised drawings or specifications of change work with signature(s) and stamp(s) of AOR and licensed design professional that prepared the drawings/sketches/changes as applicable. AOR shall also be responsible stamping documents prepared by others, i.e., Contractor, subcontractor, OAR, etc.
6. Construction Directive (CD) (*if any*)
7. Justification of Contract Modification form
8. Approved End User-Initiated Scope Change Request form (*if any*)
9. Record of Negotiation form
10. Change Order Proposal (COP) (*if any*)
11. Owner Fair Cost Estimate
12. Schedule Fragnet (*if Contract Time is changed and if project size/scope is applicable*)”

We reviewed 42 change order packages and found the following critical documents missing from change order packages:

- Ten of 41 change orders (24%) did not have any Encumbrance Payment Request Form on file.
- Five of 5 RFPs (100%) had no Rough Order of Magnitude document on file.
- Four of 14 change orders (29%) had no owner fair cost estimates on file.
- One change order proposal was not on file.
- Three of 30 construction directives (10%) had no cost of work estimate and specified pricing with a "Not to Exceed" amount prior to issuance of the construction directive.
- Two of 30 change order proposals (7%) did not have the value of the work detailed in the change order proposal, as required by District policy.

We also found that 14 of 42 change order checklists (33%) were not completed properly. For example, we found instances where the Encumbrance/Payment Request Form (EPRF) was not checked off on the checklist but the document was in the file. On the other hand, we found that documents were missing from the package, but checked off on the checklist. We also found one checklist that was not checked off at all even though all documents were in the package.

The conditions described above occurred because of a lack of oversight on the part of FSD staff to ensure that the encumbrance request forms, fair cost estimates, and a change order proposal were on file. Regional Construction Directors stated (i) that the Rough Order of Magnitude was rarely used but they had some estimates in mind; (ii) it was and still is the practice of FSD to use the change order

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<sup>12</sup> Ibid, Change Order Package Contents, page 8

proposal as a fair cost estimate with their own numbers indicated if needed for any change order that is \$25,000 or less. We note that this informal procedure was not documented in the District’s policies and procedures.

As a result, reviews of project files by any regulatory agencies, internal and external auditors, and FSD’s internal quality staff could be delayed or possibly impeded in the future. Also, accountability may not be possible due to a lack of information. Without a paper trail, management may not be able to clearly see what is causing a problem or worse, they may not be able to tell that there is a problem.

FSD partially disagreed with some of the conditions in this section. FSD responses are seen below for each of the specific conditions as well as the OIG response:

	<b>Finding</b>	<b>FSD Response</b>	<b>OIG Response</b>
1	10 of 41 change orders (24%) did not have any Encumbrance Payment Request Form on file.	FSD partially disagreed and stated that it is impossible to process a change order through Project Controls and Contracts without the Encumbrance Payment Request Form (EPRF). The 7 EPRFs are provided in the response. The EPRFs were missing from three packages.	FSD submitted 7 Encumbrance forms in response to the Draft Report as evidence that the change orders were supported by required documentation. We reviewed the documentation and found them not to be credible based on the following: (1) EPRF forms were not found in the official hard copy change order packages, nor the electronic copies, and each Change Order Checklist confirmed that the forms were not included in the package that was sent for archiving; (2) the Auditor-in-Charge inquired at meetings with the Regional Construction Directors for these forms to which the RCDs admitted that the forms were missing due to oversights; and (3) the documents submitted with FSD's response have various anomalies in the headers, footers, and content of the documentation submitted. For example, 2 of the 7 documents did not have any footer at all, while the other 5 had footers that included a unique numerical identifier (Form ID). Four of the documents had dates in the header but three documents did not. Also, the fonts varied in the footer section. Due to lack of availability of originals during fieldwork, and the risk that documents can be altered after the fact, these documents do not meet evidentiary standards under Government Auditing Standards.
2	Five of 5 RFPs (100%) had no Rough Order of Magnitude (ROM)	FSD concurred. FSD stated that it believes providing the contractor with a ROM should not be a requirement as the contractor is required to submit detailed pricing	

	<b>Finding</b>	<b>FSD Response</b>	<b>OIG Response</b>
	document on file.	for all equipment, material, labor, and overhead costs. On the next update of the policy and procedure, FSD stated that it will remove this requirement.	
3	Four of 14 change orders (29%) had no owner fair cost estimates (FCE) on file.	FSD partially disagreed. FSD submitted 1 FCE in Attachment E and stated that 2 of the 4 change orders were less than \$25K and the OAR used a marked-up version of the contractor's proposal as the FCE to negotiate. On Fries ES Paving (T-518), the Change Order Proposal was \$17K and the OAR negotiated the change down to \$10.8K. On Fairfax HS HVAC (T-582), the Change Order Proposal was \$17.2K and the OAR negotiated the change down to \$9,149.	FSD submitted the following documentation as support that 1 change order did have an owner fair cost estimate in the change order package: (1) a Record of Negotiation, (2) a Change Order Proposal, (3) a Change Order Proposal Detail Sheet, and (4) a Change Order Proposal Compensable Time Extension Cost form. None of these documents satisfies the requirement that a Fair Cost Estimate must be prepared and retained in the change order package. District policy states: <i>OAR obtains or prepares an Owner Fair Cost Estimate (Exhibit G) or analysis upon issuance of an RFP or CD to the Contractor or upon receipt of a COP for which a RFP or CD was not issued.</i> The Auditor-in-Charge interviewed 3 Regional Construction Directors about this issue, and they admitted that they used a COP in lieu of the proper form when change order totals were less than \$25,000. The finding remains unchanged because this practice was not documented in the official FSD policies and procedures.
4	One change order proposal was not on file.	FSD provided the Reseda ES drainage (T-511) change order proposal.	FSD submitted 2 change order proposals, 3 project information sheets, 3 change order proposal detail sheets, 5 faxed quotes, and 2 inspection requests as evidence that a change order proposal was on file for a project at Reseda ES. Neither of the total amounts on the change order proposals matched the actual change order we reviewed: \$75,005.37 and \$69,612.46 did not match the amount of \$55,689.72 and the descriptions of work did not match the purpose of the change order we selected. Therefore, the finding remains unchanged.
5	Two of 26 change orders (8%) had no	FSD partially disagreed. FSD stated that the 2 CDs were issued to the	FSD submitted 2 construction directives as evidence that both change orders were supported by the required documentation, per District

	<b>Finding</b>	<b>FSD Response</b>	<b>OIG Response</b>
	construction directive issued to the contractor.	contractor but were missing signatures.	policy. Both are accepted since both forms are signed by 2 OARs and both change orders are less than \$25,000 in value.
6	Three of 30 construction directives (10%) had no cost of work estimate and specified pricing with a "Not to Exceed" amount prior to issuance of the construction directive.	FSD partially disagreed and stated that one of the three COPs did have specified pricing.	FSD submitted 1 construction directive for Young Oak Kim Academy as evidence that one change order proposal did have specified pricing. We disagree. The construction directive stated in the Cost Proposal Method section the following:  "Lump Sum. OAR Estimated Cost TBD."  It also stated "Time and Material; Estimated Cost of \$." Based on the lack of dollar amounts in these two statements, the construction directive had no specified pricing.
7	Three of 30 change order proposals (10%) did not have the value of the work detailed in the change order proposal, as required by District policy.	FSD partially disagreed and stated that 2 of the 3 COPs did have information necessary to negotiate the change orders.	FSD submitted documentation as evidence that 2 change order proposals had the value of the work detailed in the proposals. We accept 1 change order proposal for South Region HS #9. However, for Monroe HS, a change order and a record of negotiation was submitted by FSD, which is not the equivalent of a change order proposal. District policy states, "Whenever contractor receives and responds to an RFP, is directed by a construction directive, or believes a change in the work has occurred that establishes a basis for an adjustment, contractor shall complete and submit a change order proposal to OAR for proposed adjustments to the contract amount, milestones and/or contract time."
8	14 of 42 change order checklists (33%) were not completed properly.	FSD partially disagreed and stated that 11 of the 14 checklists were available but not the first page of the package. These checklist documents have been provided in the response.	In its response, FSD stated that "the checklist were available but not the first page of the package." However, the finding in the draft report is "the checklist was not completed properly." Our findings are detailed as follows: (i) The EPRF Box in the change order Checklist was not checked in 4 different checklists, although the EPRF documents were on file. (ii) The change order box in the change order Checklist was not checked even though the change order document was on file.

	Finding	FSD Response	OIG Response
			(iii) The justification box in the change order Checklist was not checked even though the justification document was on file. (iv) The box for construction directive in the change order Checklist was not checked although the document was on file. (v) "NA" was not entered on 2 checklists, as had other OARs written on their checklists, and no initials were entered for Schedule Fragnet Box since Fragnet was not applicable.

**Recommendation 5:**

We recommend that FSD should update the standard template of the change order checklist to include the Request for Proposal (RFP), Request for Clarification (RFC), Rough Order of Magnitude (ROM), Daily Time and Material Records (DTR), and other documents if needed.

FSD disagreed and stated that once FSD implements the electronic change order process, a manual checklist will no longer be required.

**Recommendation 6:**

We recommend that at least one FSD staff be designated to perform quality assurance duties and review change order packages for completeness of documentation.

FSD stated that the same response to Recommendation 4 applied to this recommendation. In Recommendation 4, FSD disagreed with the recommendation and stated that FSD believes there is sufficient oversight in the current process and adding another layer of oversight would be costly and unnecessary. However, FSD believes that implementing the new electronic process will improve the quality of the change order documentation.

**3. To evaluate whether the timelines for preparation of documents such as change orders, requests for proposal, construction directives, and change order proposals were followed.**

Timelines were not consistently followed in the preparation of several documents.

We analyzed the length of time it took to process change order documents such as the number of days it took:

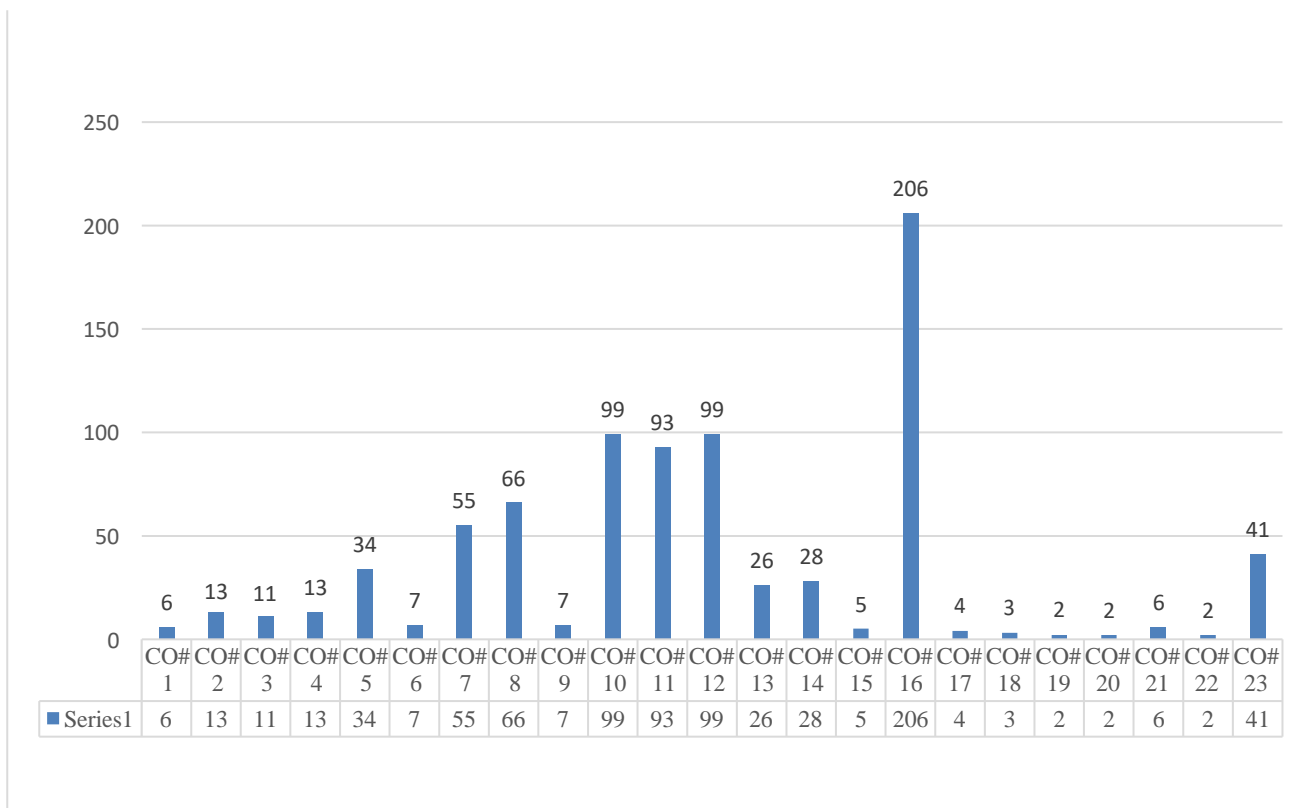
- a. To initiate the change order upon reaching an agreement with a contractor.
- b. To obtain the change order with the contractor's signature
- c. To receive the change order proposal from the contractor after the issuance of an RFP
- d. To receive the change order proposal from the contractor after the issuance of a construction directive.

District policy states the following regarding timelines:

- “Once an agreement on any proposed adjustment is reached, OAR shall immediately prepare or direct preparation of a Justification for Contract Modification concurrently with a Change Order”<sup>13</sup>
- “Contractor must execute All Change Orders within 10 days of receipt of a Change Order document for signature. If Contractor fails to execute a Change Order, OAR reserves the right to process the Change Order without Contractor’s signature (General Condition Article 10.20).”<sup>14</sup>
- “Contractor must respond to the RFP with a Change Order Proposal (COP) with ten (10) calendar days unless otherwise specified in the RFP.”<sup>15</sup>
- “Contractor shall submit a Change Order Proposal within ten (10) days of the date CD is issued (General Conditions Article 10.6).”<sup>16</sup>

We found that 23 of 42 change orders (55%) were not prepared immediately upon reaching agreement with the contractor. It took between 2 to 206 days to initiate a change order.

**Figure 5 – Number of Days to Initiate a Change Order**



We found that 12 of 42 change orders (29%) were not signed and received within 10 days from the contractor’s receipt of a change order, as required by District policy. We noted that it took between 11 to 78 days to receive a signed change order from the contractor.

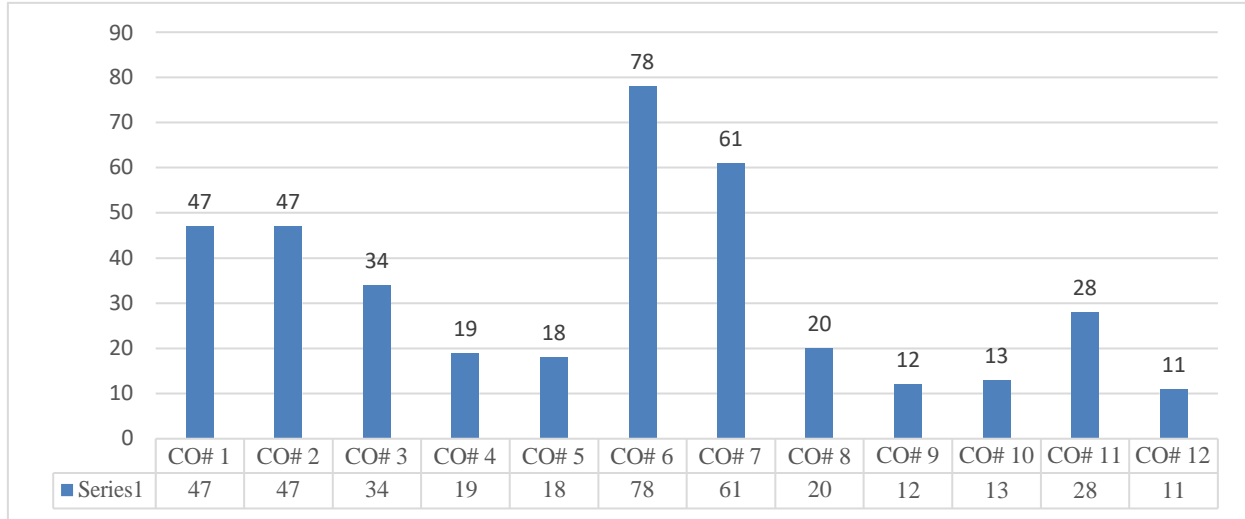
<sup>13</sup> Ibid, 8.0 Change Order (CO) Preparation, page 7

<sup>14</sup> Ibid, Expedited Change Order, page 8

<sup>15</sup> Ibid, 4.0 Request for Proposals (RFP), page 3

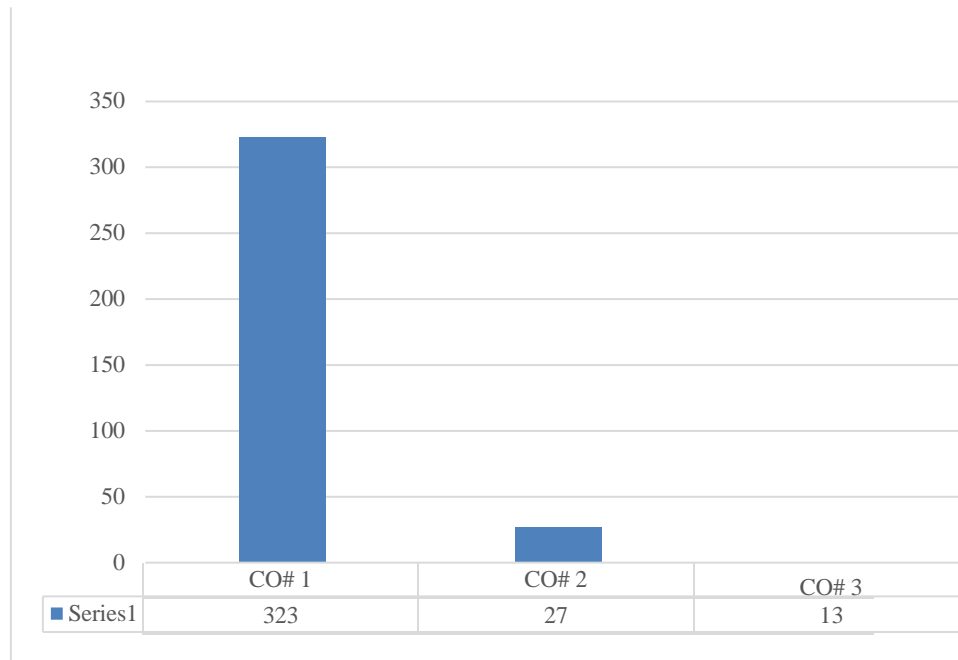
<sup>16</sup> Ibid, 5.0 Construction Directives (CD), page 3

**Figure 6**  
**Number of Days to Receive a Signed Change Order from Contractor**



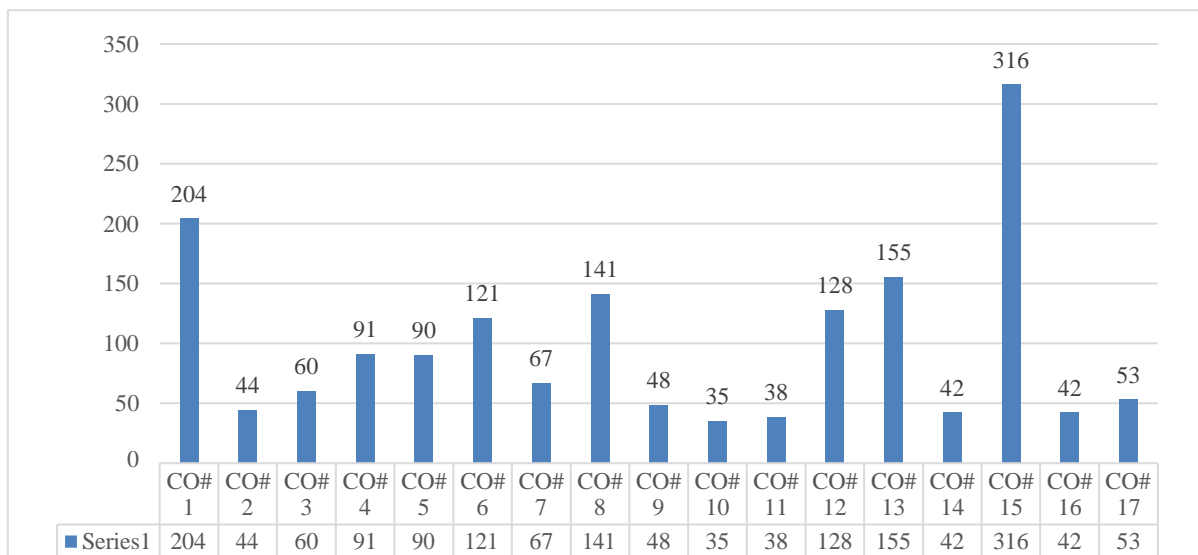
We found that 3 of 5 change order proposals (60%) were not received within 10 days after the issuance of an RFP, as required by District policy. We noted that the number of days a change order proposal was received from the contractor ranged from 13 to 323 days.

**Figure 7**  
**Number of Days to Receive a Change Order Proposal after RFP Issuance**



We found that 17 of 29 change order proposals (59%) were not received within 10 days after the issuance of a construction directive, as required by District policy. We noted that the number of days it took to receive a change order proposal from the contractor ranged from 35 to 316 days.

**Figure 8**  
**Number of Days a Change Order Proposal was Received after the Issuance of a Construction Directive**



The conditions described above occurred because we noted that all Regional Construction Directors agreed and emphasized that the change order procedures were not practical. They pointed out that the word “immediately” should be removed because they did not know how many days “immediately” meant. The ten (10) days requirement was not doable according to all Regional Construction Directors.

As a result, the failure to follow the timelines for preparation of the documents can lead to work stoppages, cost overruns and most importantly, delays in project completion.

FSD disagreed with the finding. FSD responses are seen below for each of the specific conditions as well as the OIG response:

	<b>Finding</b>	<b>FSD Response</b>	<b>OIG Response</b>
1	23 of 42 change orders (55%) were not prepared immediately upon reaching agreement with the contractor. It took between 2 to 206 days to initiate a change order.	FSD provided documentation for 9 of the change orders that were prepared within 10 days. See Attachment K. Also, FSD stated that it will review the requirement of immediately processing change orders as some of the more technically challenging or larger change orders may require more time.	<p>We appreciate FSD’s decision to revisit the policy, the word “immediately” is vague and should be replaced with a defined period of time (for example, 3 business days).</p> <p>FSD submitted several pages of documentation including records of negotiation, change orders, change order proposals, and other contractor documentation. None of the evidence presented changes the finding that change orders were not prepared immediately. FSD</p>



	Finding	FSD Response	OIG Response
			stated that it had provided documentation for 9 of the change orders that were prepared within 10 days; however, the issues were that the change orders were not prepared <b>immediately</b> .
2	12 of 42 change orders (29%) were not signed and received within 10 days from the contractor's receipt of a change order, as required by District policy. We noted that it took between 11-78 days to receive a signed change order from the contractor.	FSD stated that currently, there is a tremendous amount of construction and the prime contractors and subcontractors are extremely busy; and, we need to work with the contractors to ensure they are processing the paperwork in a timely fashion. FSD stated that it will review the current policy and procedures to ensure there is flexibility, but with strong timelines that will balance the timely processing of change orders. FSD stated that 1 of the 12 change orders was received within 10 days and is submitted with the response.	FSD submitted a change order for Reseda ES (T-513) dated 4/30/2019. The audit team informed FSD that Reseda ES (T-513) was in this finding in error. In fact, it was Los Angeles High School - Gym Renovation (T-513) that was included in this finding because the OAR signed the change order on 4/5/2019 and the contractor signed the change order on 4/16/2019, 11 days later.
3	3 of 5 change order proposals (60%) were not received within 10 days after the issuance of an RFP, as required by District policy. We noted that the number of days a change order proposal was received from the contractor ranged between 13 to 323 days.	FSD stated that it will add an option that enables the OAR and the contractor to mutually agree to a time that is beyond the 10 days. FSD added that this will be for the larger changes that require DSA approval.	
4	17 of 29 change order proposals (59%) were not received within 10	FSD stated: Same response as above and FSD will add an option that enables the OAR and the contractor to mutually	

	<b>Finding</b>	<b>FSD Response</b>	<b>OIG Response</b>
	days after the issuance of a construction directive, as required by District policy. We noted that the number of days it took to receive a change order proposal from the contractor ranged from 35 to 316 days.	agree to a time that is beyond the 10 days. This will be for the larger changes that require DSA approval.	

**Recommendation 7:**

We recommend that FSD should: (i) review the change order policies and procedures to determine if any updates are necessary to address the current concerns expressed by Regional Construction Directors, (ii) develop a Change Order Performance Evaluation document, which should capture the reasons for delays, and contractor deficiencies, and (iii) complete the Change Order Performance Evaluation document at the completion of the project.

FSD partially agreed with the recommendation as follows:

- (i) FSD concurred;
- (ii) FSD will review once the new electronic process is established; and
- (iii) FSD will review once the new electronic process is established.

**Recommendation 8:**

We recommend that FSD should provide training to Regional Construction Directors, OARs and all other key FSD staff relating to the efficient preparation of documents and adherence to required timelines.

FSD agreed with the recommendation and will provide the training to OARs and key FSD staff on the new electronic change order process.

**AUDIT TEAM**

This audit was conducted by the Office of the Inspector’s General Audit Unit team:

- Katharine Monishi, Audit Manager
- Mistraim Reyes, Jr., Senior Auditor
- Dolores Mabini, Principal Auditor
- Jeanette Polynice, Senior Auditor

**ATTACHMENT A**

**Verbatim Response to Draft Report  
from  
Facilities Services Division**



**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
*Facilities Services Division*

July 23, 2020

Mr. Austin Onwuala, Deputy Inspector General  
Office of the Inspector General  
333 South Beaudry Ave., 12<sup>th</sup> Floor  
Los Angeles, CA 90017

RE: Facilities Services Division Responses to the Office of the Inspector General's Draft Report of the  
Facilities Change Order Process Audit

Mr. Onwuala:

Please find attached Facilities Services Division's responses to the findings and recommendations in the Draft Report of the Office of the Inspector General's Facilities Change Order Process Audit. Also included is the link to the attachments referenced in the response document.

Please let me know if you have any questions regarding our responses to the findings and recommendations in the draft audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Hovatter".

Mark Hovatter

## Facilities Responses to the Draft Report of the Audit of Facilities Services Division Change Order Process

### **FSD's Response to the Executive Summary:**

FSD appreciates the efforts of this audit as we are constantly striving to improve upon the management and operations of our procedures. There were many finding where documentation was not located during the audit. FSD was not aware that certain documents would be an essential part of the Audit. After reviewing the draft audit findings, FSD will provide additional documentation.

Regarding the recommendations, FSD disagrees or partially disagrees with about half of the audit recommendations. The auditors are professional and experienced in conducting audits, but do not possess experience managing contractors and changes in the field which lead to some recommendations that would not align well with the management of our construction program.

Additionally, there are comments that imply increased legal risk that are not substantiated by any of the findings. FSD has had an excellent record and a solid change order process that has been proven over the past two decades of dealing with contractors and has been very successful in resolving possible disputes or claims. FSD recommends either removing those comments or providing data that will support those conclusions. (See attached email recommendation from legal)

Finally, FSD is implementing a process that will virtually eliminate most or all of the findings noted in this audit. Once the process is updated, FSD will provide training to all OARs and relevant staff.

### **OIG FINDINGS AND RECOMMENDATIONS, AND FACILITIES RESPONSES**

#### **A. Authorization of Change Order Work**

- Found 10 of 42 Change Orders (23%) had change order work completed by the contractor without formal authorization (such as a construction directive, change order, or RFP). In addition, there was no justification showing that the nature of the work was critical.
  - FSD agrees with this finding except for one change order (see Attachment A).

#### **Recommendation 1:**

We recommend that FSD should provide training to OARs and all other key FSD staff to ensure that change order work shall not be performed prior to the formal authorization of change order work.

#### **FSD's Response:**

FSD is in the process of converting change orders to an electronic process. This will prevent these types of findings from occurring. Once the electronic process is implemented, FSD will provide training to OARs and all other key FSD staff.

## **B. Change Order Work Performed After Substantial Completion.**

- Found evidence that for 3 of 41 change orders (7%), change order work was completed after Substantial Completion. In addition, 6 of 41 (15%) change orders are questionable due to lack of corroborative evidence to prove that the change order work was performed prior to Substantial Completion.
  - FSD disagrees with this finding. Documentation (Attachment B) has been provided to show that the change order work occurred before the **Actual** Substantial completion.

### **Recommendation 2:**

We recommend that a management report be generated monthly, reporting each change order work start date, actual end date, and the date of Substantial Completion. The report should be compiled based upon records similar in nature to the Daily Time and Material Records. The report should be reviewed by Regional Construction Directors to ensure that change order work is not performed after Substantial Completion.

### **FSD's Response:**

FSD agrees with generating monthly reports and currently uses reports to monitor the status and completion of change orders. However, we believe that there is a fundamental difference between what the audit is recommending with respect to Substantial Completion versus Actual Substantial Completion. Attachment D shows documentation of work being completed before the actual contractual Substantial Completion.

Every contract has an initial Substantial Completion date, but as changes occur during the contract, the complete date will also change. Often the Actual Substantial Completion Date is not established until the work is completed and all delays (e.g., owner, contractor, weather of concurrent issues) have been analyzed by experienced Schedulers to determine who is responsible for the delays to the project.

The process has worked effectively over the past tow decades as FSD has done extremely well in documenting, communicating, and resolving contract schedule disputes. Therefore, FSD believe that the current process with respect to managing Actual Substantial Completion is effective. However, as FSD moves to a fully electronic process, we will continue to analyze the data and look at reports that will help to improve our process.

## **C. Unsigned Documents in Change Order Packages**

We found several documents within the change order packages that were not signed by FSD personnel and contractors, as required by District policy.

FSD partially disagrees with this finding. Below are FSD responses to each of the specific findings:

- Two of 42 change orders (5%) were not signed by the OAR; only the Senior Project Manager signed the change order.
  - FSD concurs that the OAR did not sign. However, the Senior Project Manager (SPM) signed for both the OAR and the SPM. When the OAR is not available due to

illness or vacation, the SPM, being the OAR's supervisor is authorized to sign for the OAR. This is standard practice with in FSD.

- Three of Five RFPs (60%) were not signed by the required approver.
  - FSD concurs. The incorrect form was used. The new electronic process will resolve this issue.
- One construction directive was not signed by all required approvers.
  - FSD concurs. Only the OAR signed the construction directive. The new electronic process will resolve this issue.
- One End-User Initiated Scope Change Request was not signed by the Branch Director of the Project Execution Branch.
  - The Deputy Director of Project Execution signed the End-User request. He is authorized to sign the End-User Change Order in the absence of the Director if it is noted "for the Director." The new electronic process will eliminate this issue.
- One Time and Material change order was not supported with Daily Time and Material Records that were signed by the contractor at the end of each workday.
  - FSD concurs.
- Two of 40 change order proposals (5%) were not signed by the contractor.
  - FSD concurs. The new electronic process will resolve this issue.
- 4 out of 42 (10%) change orders did not have the Board of Education's approval stamp recorded on the documents.
  - FSD disagrees with the finding and has provided the documentation (Attachment C) on the 4 change orders.

**Recommendation 3:**

We recommend that the Director require as a policy that all FSD administrators update the written change order procedures annually or once every 3 years in order to keep the policies relevant to operations.

**FSD's Response:**

As established, the change order policy has been fully vetted over the decades by Senior Management and Legal. FSD will update the policy on a as needed basis to ensure its accuracy. Specifically, now that FSD is implementing new electronic processing, it is a good time to update the policies and procedures.

**Recommendation 4:**

We recommend that at least one FSD staff be designated to perform quality assurance duties and review change order documents for consistency.

**FSD's Response:**

FSD believes there is sufficient oversight in the current process and adding another layer of oversight would be costly and unnecessary. However, FSD believes that implementing the new electronic process will improve the quality of the change order documentation.

**2. To Evaluate whether the change orders were supported by the required documentation, as per Change Order Procedures 14.17 Section 8.**

Below are FSD responses to each of the findings in this section:

- 10 of 41 change orders (24%) did not have any Encumbrance Payment Request Form on File.
  - FSD partially disagrees. It is impossible to process a change order through Project Controls and Contracts without the Encumbrance Payment Request Form (EPRF). The 7 EPRFs are provided in Attachment D. (only 7 items in attachment D. The EPRFs were missing from three packages).
- Five of 5 RFPs (100%) had no Rough Order of Magnitude (ROM) document on file.
  - FSD Concur. FSD believes providing the contractor with a ROM should not be a requirement as the contractor is required to submit detailed pricing for all equipment, material, labor, and overhead costs. On the next update of the policy and procedure, FSD will remove this requirement.
- Four of 14 change orders (29%) had no owner fair cost estimates (FCE) on file.
  - FSD partially disagrees. One FCE is provided in Attachment E. Two of the four change order were less the \$25K and the OAR used a marked-up version of the contractor's proposal as the FCE to negotiate. On Fries ES Paving (T-518), the Change Order Proposal was \$17K and the OAR negotiated the change down to \$10.8K. On Fairfax HS HVAC (T-582), the Change Order Proposal was \$17.2K and the OAR negotiated the change down to \$9,149.
- One change order proposal was not on file.
  - FSD has provided the Reseda ES drainage (T-511). See Attachment F.
- Two of 26 change orders (8%) had no construction directive issued to the contractor.
  - FSD partially disagrees, the 2 CDs were issued to the contractor but were missing signatures. See Attachment G.
- Three of 30 construction directives (10%) had no cost of work estimate and specified pricing with a "Not to Exceed" amount prior to issuance of the construction directive.
  - FSD partially disagrees. One of the three COPs did have specified pricing. See Attachment H.
- Three of 30 change order proposals (10%) did not have the value of the work detailed in the change order proposal, as required by District policy.



- FSD partially disagrees. Two of the three COPs did have information necessary to negotiate the change orders. See Attachment I.
- 14 of 42 change order checklists (33%) were not completed properly.
  - FSD Partially disagrees. 11 of the 14 checklists were available but not the first page of the package. These checklist documents have been provided in Attachment J.

**Recommendation 5:**

We recommend that FSD should update the standard template of the change order checklist to include the Request for Proposal (RFP), Request for Clarification (RFC), Rough Order of Magnitude (ROM), Daily Time and Material Records (DTR), and other documents if needed.

**FSD's Response:**

Once FSD implements the electronic change order process, a manual checklist will no longer be required.

**Recommendation 6:**

We recommend at least one FSD staff be designated to perform quality assurance duties and review change order packages for completeness of documentation.

**FSD's Response:**

Same response as that for Recommendation 4.

**3. To evaluate whether the timelines for preparation of documents such as change orders, requests for proposal, construction directives, and change order proposals were followed.**

**OIG findings and FSD responses are provided below:**

- 23 of 42 change orders (55%) were not prepared immediately upon reaching agreement with the contractor. It took between 2 to 206 days to initiate a change order.
  - FSD has provided documentation for 9 of the change orders that were prepared within 10 days. See Attachment K. Also, FSD will review the requirement of immediately processing change orders as some of the more technically challenging or larger change orders may require more time.
- 12 of 42 change orders (29%) were not signed and received within 10 days from the contractor's receipt of a change order, as required by District policy. We noted that it took between 11-78 days to receive a signed change order from the contractor.
  - Currently, there is a tremendous amount of construction and the prime contractors and subcontractors are extremely busy. We need to work with the contractors to ensure they are processing the paperwork in a timely fashion. FSD will review the current policy and procedures to ensure there is flexibility, but with strong timelines that will balance the timely processing of change orders. One of the 12 change orders was received within 10 days and is submitted as Attachment L.
- 3 of 5 change order proposals (60%) were not received within 10 days after the issuance of an RFP, as required by District policy. We noted that the number of days a change order proposal was received from the contractor ranged between 13 to 323 days.

- FSD will add an option that enables the OAR and the contractor to mutually agree to a time that is beyond the 10 days. This will be for the larger changes that require DSA approval.
- 17 of 29 change order proposals (59%) were not received within 10 days after the issuance of a construction directive, as required by District policy. We noted that the number of days it took to receive a change order proposal from the contractor ranged from 35 to 316 days.
  - Same as response as above: FSD will add an option that enables the OAR and the contractor to mutually agree to a time that is beyond the 10 days. This will be for the larger changes that require DSA approval.

**Recommendation 7:**

FSD should: (i) review the change order policies and procedures to determine if any updates are necessary to address the current concerns expressed by the Regional Construction Directors, (ii) develop a Change Order Performance Evaluation document, which should capture the reasons for delays, and contractor deficiencies, and (iii) complete the Change Order Performance Evaluation document at the completion of the project.

- (i) FSD concurs
- (ii) FSD will review once the new electronic process is established
- (iii) FSD will review once the new electronic process is established

**Recommendation 8:**

FSD should provide training to Regional Construction Directors, OARs and all other key FSD staff relating to the efficient preparation of documents and adherence to required timelines.

**FSD's Response**

FSD will provide the training to OARs and key FSD staff on the new electronic change order process.

**Additional Attachments to  
Facilities Services Division's Response  
Are Located at:**

[https://my.lausd.net/webcenter/content/conn/WCCConn/uuid/dDocName:ID099701?  
rendition=web](https://my.lausd.net/webcenter/content/conn/WCCConn/uuid/dDocName:ID099701?rendition=web)

**EXHIBIT 1**  
**LIST OF PROJECTS SELECTED**

**List of Projects Selected**

#	Project Name	CO Description	Amount (\$)
1	Fairfax HS - HVAC	Remove/reinstall duct and electric conduit for fireproofing clearance	\$50,336.00
2.	Carver MS - HVAC	Close wall gap	\$35,713.00
3.	Pio Pico MS - HVAC & Fire Alarm System	Asbestos abatement work	\$45,336.00
4.	San Fernando HS - Paving	Remove/reinstall ADA gates at stadium	\$42,479.00
5.	Reseda ES - Drainage Improvements	Curb at fence and planter wall	\$55,295.96
6.	Reseda ES - Drainage Improvements	Extension of point of connection for drinking fountain	\$15,689.72
7.	Victory ES - Paving	Install of trench drain at lunch shelter #1	\$12,143.37
8.	Fries ES - Paving	Installation of AC paving adjacent to Bldg 2	\$10,816.00
9.	Fries ES - Paving	Replacement of concrete walkway	\$27,950.00
10.	Fries ES - Paving	Removing and reinstalling outdoor benches	\$9,097.00
11.	Fairfax HS - HVAC	AHU 4+5 Anchoring Details and Location Change	\$9,149.48
12.	Van Nuys ES - HVAC	Slab Infill	\$1,895.28
13.	Coldwater Canyon ES - HVAC	Install ceiling tiles in kitchen	\$2,390.00
14.	Coldwater Canyon ES - HVAC	Revise the energy management system controls	\$12,767.00
15.	Reseda ES - Drainage Improvements	Relocation of drain line at entrance of school crossing with double door electrical pathway	\$16,206.34
16.	Reseda ES - Drainage Improvements	Add four new basketball poles and court	\$28,610.63
17	Victory ES - Paving	Cut edges of play area	\$1,194.00
18.	San Miguel ES - HVAC & Roofing	Shaft wall opening	\$12,235.36
19.	La Salle ES - ADA Improvements	Replace parent center door concrete landing adjacent and attach to concrete replacement for elevator	\$18,599.45
20.	La Salle ES - ADA Improvements	Provide additional modification to existing handrail fence panels and supports	\$3,995.05
21.	La Salle ES - ADA Improvements	Provide restroom accessories not in plans for all-gender RRs & Nurse RR. Pepl/reloc accessories in Main Bldg and Bldg A RR	\$5,710.99
22.	Westport Heights ES - Roofing	Unforeseen work that needs to be in compliance with LAUSD HVAC Department and OEHS	\$12,078.63
23.	Western ES - Paving	Soil Contamination in Bioswale #1 exported from Western ES to Kettleman City	\$38,575.00
24.	Madison MS - ADA Improvements	J Bldg RR sewer cleanout	\$3,322.00
25.	Madison MS - ADA Improvements	Additional tile work in J-bldg. girls RR	\$18,367.00
26	Madison MS - ADA Improvements	Concrete ramp at lunch shelter	\$18,291.00
27.	Monroe HS - Industrial Arts Building Replacement	Mitigate/abate unforeseen items related to Building S demo	\$36,710.00
28	66th St. EEC - Nature Explore Clsroom	24 auger drilling, compaction and soil test	\$7,550.00
29.	Reseda ES - ADA Improvements	CD_09 sinks at classrooms 1 & 2	\$24,814.92
30.	Widney Special Education HS - Seismic Modernization	Replace newly-installed wall studs in staff restrooms to match district standards	\$35,844.93
31.	Widney Special Education HS - Seismic Modernization	Remove unforeseen asbestos pipe elbows in staff restrooms	\$1,898.40
32.	Los Angeles HS - Gym Renovation	Install access doors for existing wall-mounted valve boxes in restrooms at basement of gymnasium.	\$1,420.69
33.	Western ES - Paving	Settlement of change order T-502 issued unilaterally	\$55,529.00

#	Project Name	CO Description	Amount (\$)
34.	Madison MS - ADA Improvements	Switchback ramp form work and utilities	\$59,988.00
35.	South Region HS #9	Chain-link fence enclosures and additional bracing for sinks	\$11,189.00
36.	Kim Academy - Synthetic Turf Field & Track	New drainage at S/W corner	\$19,836.88
37.	South Region HS #9	GFCI receptacle. FA conduit, and 120V	\$5,614.00
38.	Monroe HS - Industrial Arts Building Replacement	Unforeseen concrete encased asbestos insulated Pipe	\$21,015.00
39.	San Fernando MS - Seismic Retrofit & HVAC in Girls' Gym	In conformance with General Conditions provisions and applicable Specification Sections	\$2,205.00
40.	Reseda ES - ADA Improvements	Drinking fountains, RFC#8 1.	\$11,081.05
41.	Widney Special Education HS - Seismic Modernization	Electrical changes in staff restrooms and at west hallway fountain	\$3,839.76
42.	Los Angeles HS - Gym Renovation	Install double stud framing system of wheelchair lift enclosure, track backing and unistrut anchorage, in gymnasium building	\$2,852.52
<b>Total Value (\$) of Change Orders</b>			<b>\$809,632.41</b>

## **Know about fraud, waste or abuse?**

### **Tell us about it.**

Maybe you are a school district employee, a parent or just a concerned citizen. Regardless, you can make a difference!

Maybe you know something about fraud, waste, or some other type of abuse in the school district.

The Office of the Inspector General has a hotline for you to call. You can also email or write to us.

If you wish, we will keep your identity confidential. You can remain anonymous, if you prefer. And you are protected by law from reprisal by your employer.

### **Whistleblower Protection**

The Board approved the Whistleblower Protection Policy on February 12, 2002. This policy protects LAUSD employees who make allegations of improper governmental activity from retaliation or reprisal. To assure the reporting of any activity that threatens the efficient administration of the LAUSD, reports that disclose improper governmental activities shall be kept confidential.

### **General Contact Information**

Office of the Inspector General  
333 S. Beaudry Avenue, 12th Floor  
Los Angeles, CA 90017  
Phone: (213) 241-7700  
Fax: (213) 241-6826  
<https://achieve.lausd.net/oig>

**Fraud, Waste and Abuse Hotline**  
**(866) 528-7364 or (213) 241-7778**  
inspector.general@lausd.net