



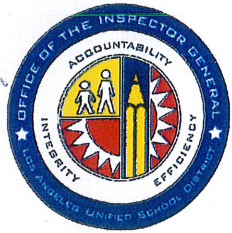
Los Angeles Unified School District
Office of the Inspector General
Audit Unit

Contract Audit Report

Incurred Cost Audit

The Gordian Group, Inc.

Contract No. 1590018 / 4400003096



Los Angeles Unified School District
Office of the Inspector General

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Independent Auditor's Report

Michelle King
Superintendent of Schools

January 8, 2018

Ken Bramlett, MPA, CIG
Inspector General

Mr. George Silva, Chief Procurement Officer
Procurement Services Division
Los Angeles Unified School District
333 S. Beaudry Avenue, 28th Floor
Los Angeles, CA 90017

Dear Mr. Silva,

This is our report on the incurred cost audit on the amount billed The Gordian Group, Inc. (TGG) for providing internet-based automated Job Order Contracting (JOC) system to the Los Angeles Unified School District (District) under Contract No. 1590018 / 4400003096 (Contract) for the period from November 1, 2014 through June 30, 2017.

Our audit determined that the amounts billed by TGG during the period from November 1, 2014 through June 30, 2017, were adequately supported and in accordance with the terms and conditions of the contract in all material respect. However, we noted the following findings and questioned cost:

- TGG overbilled the District by \$1,830 for licensing and service fees as a result of a job order cancellation not included in the eGordian® for TGG to properly compute the credit.
- The JOC Unit did not correctly calculate the California Consumer Price Index annual increase on the adjustment bid factor for 1 out of 25 job order contracts tested, resulting in the District awarding \$75,865 more in one job order contract and paying an additional \$1,289 in fees to TGG.

Furthermore, we determined that the Construction Task Catalog® (CTC) was updated to support the District's technical specifications; TGG provided initial and refresher JOC training for both District and JOC contractor staff; and TGG assisted the District in preparing bid packages for each Master JOC construction contract.

We appreciate your continued support of our contract audit services.

Sincerely,

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

Ken Bramlett, MPA, CIG
Inspector General

c: Richard Lui
Cheri Thomas

About the Office of the Inspector General

The Office of the Inspector General reports directly to the Board of Education. We conduct independent audits, reviews and investigations of District operations, contracts and vendors in order to:

- ✓ Find ways to improve processes, programs, functions and activities.
- ✓ Provide information that supports effective decision making.
- ✓ Identify real or potential misuse of District resources.
- ✓ Prevent and detect waste, fraud and abuse within the District.

Through our work, we strive to encourage a culture of accountability, transparency, collaboration and excellence and to assist the Board and the Superintendent in their efforts to provide a high quality education for the students and parents of the Los Angeles Unified School District.

EXECUTIVE SUMMARY

We have examined the amounts billed by The Gordian Group, Inc. (TGG) for providing internet-based automated Job Order Contracting (JOC) system to the Los Angeles Unified School District (District) under Contract No. 1590018 / 4400003096 (Contract) for the period from November 1, 2014 through June 30, 2017. The objectives of this examination were to determine whether (i) the billed amounts were adequately supported and in accordance with the terms and conditions of the contract; (ii) the Construction Task Catalog® (CTC) was updated to support the District's technical specifications; (iii) TGG provided initial and refresher JOC training for both District and JOC contractor staff; and (iv) TGG assisted the District in preparing bid packages for the Master JOC construction contracts.

TGG's management was responsible for complying with the terms and conditions of the contract. Our responsibility is to express an opinion based on our examination.

In our opinion,

- The amounts billed by TGG during the period from November 1, 2014 through June 30, 2017 were adequately supported and in accordance with the terms and conditions of the contract in all material respect. However, we noted the following findings and questioned cost:
 - TGG overbilled the District by \$1,830 for licensing and service fees as a result of job order cancellation not included in the eGordian® for TGG to properly compute the credit.
 - The JOC Unit did not correctly calculate the California Consumer Price Index annual increase on the adjustment bid factor for 1 out of 25 job order contracts tested, resulting in the District awarding \$75,865 more in one job order contract and paying an additional \$1,289 in fees to TGG.
- The Construction Task Catalog® (CTC) was updated to support the District's technical specifications.
- TGG provided initial and refresher JOC training for both District and JOC contractor staff.
- TGG assisted the District in preparing bid packages for each Master JOC construction contract.

Recommendations

The Procurement Services Division (PSD) should:

- Seek reimbursement from TGG for the overbilled fees of \$1,830.

- Amend the current adjustment bid factor (CABF) used in calculating the California Consumer Price Index (CCPI) from .08900 to .08498 to correctly reflect the eGordian fee base, reduce a total of \$75,865 from the job orders awarded to the contractor, and seek a refund of \$1,289 from TGG. Subsequent to our finding, the District Facilities Contract has started the process of issuing change orders to correct the over awarded amount of \$75,865.
- Thoroughly review the calculation of the annual California Consumer Price Index increase on the adjustment bid factors.

PSD's Response

PSD concurred with the overbilled fees and is seeking a refund of \$1,830 from TGG for the cancelled job order. PSD also amended the current adjustment bid factor used in calculating the CCPI, corrected the award amount by issuing deductive change orders totaling \$75,865, and is also seeking a refund from TGG in the amount of \$1,289. Furthermore, PSD revised the current CCPI calculation procedures by using an automated calculation to perform the CCPI calculations instead of transferring it from one document to another to avoid human errors in the transfer process.

TGG's Response

TGG did not provide a written response. However, TGG concurred with our audit findings during our exit meeting.

INTRODUCTION

On October 30, 2014 the District entered into Contract No. 4400003096 (Contract) with The Gordian Group, Inc. (TGG) to provide an internet-based, automated Job Order Contracting (JOC) system capable of generating JOC documents including contractor cost proposals, cost estimates, various other forms and management reports, in addition to support services. The original contract amount was not to exceed \$2,000,000. The initial term of the contract commenced on November 1, 2014 and extended through October 31, 2016 plus three one-year option periods. Amendment No. 1 was executed on August 31, 2016 to increase the contract amount to \$3,000,000 and extended the service period to October 31, 2017.

TGG was founded in 1990 and is based in Greenville, South Carolina. TGG provides construction cost data, software, and services for all phases of the construction lifecycle throughout the United States and Canada.

SCOPE AND OBJECTIVE

The objectives of the examination were to determine whether (i) the billed amounts were adequately supported and in accordance with the terms and conditions of the contract; (ii) the Construction Task Catalog® (CTC) was updated to support the District's technical specifications; (iii) TGG provided initial and refresher JOC training for both District and JOC

contractor staff; and (iv) TGG assisted the District in preparing bid packages for each Master JOC construction contract.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting TGG's compliance with the contract provisions and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provided a reasonable basis for our opinion.

We conducted the examination from August 24, 2017 to September 20, 2017.

METHODOLOGY

To accomplish our examination objectives, we (i) reviewed the contracts and obtained an understanding of contract requirements; (ii) interviewed District staff to obtain an understanding of the scope of work, billing review process, and other matters relevant to the audit; (iii) interviewed TGG's management regarding its internal controls and billing process; (iv) compared the job orders listed within the invoices to the job orders awarded in SAP; (v) verified the licensing fees percentage billed; (vi) analyzed invoices for duplicate billings; (vii) verified the mathematical accuracy of the billing; (viii) reviewed the various versions of the CTC; (ix) statistically selected a sample of 25 JOC contracts and reviewed the contractor's price proposal and compared the unit price used against the price listed on CTC; (ix) reviewed the relevant training materials and sign-in sheets to ensure that trainings have been provided to both District and JOC contractor staff; and (x) performed walkthrough with District management on how TGG assisted the District in preparing the bid packages for each Master JOC construction contract.

EVALUATION OF INTERNAL CONTROLS

TGG is responsible for establishing and maintaining effective internal control over compliance with the requirements of the contract. In planning and performing our examination, we considered TGG's internal controls over compliance with the requirements related to billing to determine the examination procedures for the purpose of expressing our opinion on whether the amounts billed were adequately supported and in accordance with the contract's terms and conditions.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct non-compliance with a type of contract requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material noncompliance with a type of contract requirement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

PRIOR AUDIT COVERAGE

On May 15, 2006, the Office of the Inspector General (OIG) issued Report No. CA 06-243 regarding an incurred cost audit of Contract No. 0590008 with TGG. The audit disclosed that TGG's billings under the contract were in accordance with the terms and conditions of the contract.

On December 16, 2011, the OIG also issued Report CA 11-892 regarding an incurred cost audit of TGG for Contract Nos. 0590008 and 1090001. The audit found that TGG overbilled the District by \$138,204 and TGG did not always correctly determine the adjustment factors and input the adjustment factor correctly into PROGEN®. The audit also found that the District users desired additional functions and controls in PROGEN® to increase usability and data security.

RESULTS OF EXAMINATION

Billed Amounts

During the period from November 1, 2014 through June 30, 2017, TGG billed the District \$1,898,201. Under the terms of the contract, the District agreed to pay TGG 1.40% for licensing and service fees based on the total construction amounts awarded during the first year of the contract. An additional 0.30% of contractor license fee, up to a maximum of 1.00%, is added annually to the licensing and service fees for the remaining years. To determine whether the amounts billed were allowable and adequately supported, we selected all the invoices billed for testing. We compared the job orders listed within the invoices against the purchase order (P.O.) in SAP for any cancelled or deductive change in job orders not credited or refunded back to the District. In addition, we analyzed the invoices for duplicate billings and verified the mathematical accuracy of the billings. We also verified that the licensing and service rate billed were the contract-approved rates. We found one cancelled job order contract for \$1,830 that was not credited back to the District. According to TGG, a change order of the job orders for the full credit amount was neither created nor entered into eGordian® for a credit due back to the District.

Since TGG's billings were based on our P.O., and the P.O. was derived from the approved cost proposal used to award job order contracts, on a statistical sampling basis, we selected a sample of 25 job order contracts for testing. We reviewed the job cost proposal of the approved job order contracts and noted that it consists of the quantity, unit prices, and adjustment factors. The adjustment bid factors provided by the contractor were used to determine the winning bidder and were also used to price individual job orders. The adjustment bid factors are adjusted annually based on the California Consumer Price Index (CCPI) increases. The JOC Unit calculates the

annual increase in CCPI and provides the new rate to TGG for inputting into eGordian®. During our testing, we found that one out of 25 adjustment factors was incorrectly calculated, resulting in the wrong adjustment factor being used for the job cost proposal. An adjustment factor rate of .8900 was used instead of .8681 to calculate the annual increase. As a result, the new adjustment factor used for the price proposals was .9091 instead of .8681. Having incorrect adjustment factors in eGordian® resulted in the District awarding \$75,865 more in job orders to one contractor. Furthermore, the error also resulted in additional fees paid to TGG in the sum of \$1,289.

JOC Project No.	Amount per Job Order Awarded	Amount per Audit	Over Awarded	Overbilled by TGG @ 1.70%
17-EBE-10108866.000	\$364,212	\$347,786	\$16,426	\$279
17-EBE-10367448.000	\$685,259	\$654,354	\$30,905	\$525
17-EBE-10367496.000	\$632,695	\$604,161	\$28,534	\$485
Total	\$1,682,166	\$1,606,301	\$75,865	\$1,289

Recommendations

We recommend that the Procurement Services Division (PSD) should:

- Seek reimbursement from TGG for the overbilled fees of \$1,830.
- Amend the current adjustment bid factor (CABF) used in calculating the California Consumer Price Index (CCPI) from .08900 to .08498 to correctly reflect the eGordian fee base, reduce a total of \$75,865 from the job orders awarded to the contractor, and seek a refund of \$1,289 from TGG. Subsequent to our finding, the District Facilities Contract has started the process of issuing change orders to correct the over awarded amount of \$75,865.
- Thoroughly review the calculation of the annual CCPI increase on the adjustment bid factors.

PSD’s Response

PSD concurred with the overbilled fees and is seeking a refund of \$1,830 from TGG for the cancelled job order. PSD also amended the current adjustment bid factor used in calculating the CCPI, corrected the award amount by issuing deductive change orders totaling \$75,865, and is also seeking a refund from TGG in the amount of \$1,289. Furthermore, PSD revised the current CCPI calculation procedures by using an automated calculation to perform the CCPI calculations instead of transferring it from one document to another to avoid human errors in the transfer process.

TGG’s Response

TGG did not provide a written response. However, TGG concurred with our audit findings during our exit meeting.

Construction Task Catalog®

The Construction Task Catalog® (CTC) is a comprehensive listing of specific repair and remodeling tasks together with specific units of measure and unit prices. CTC was originally developed by TGG and is updated each time the District solicits new JOC master contracts using current labor, material, and equipment costs. We reviewed various versions of the CTC within eGordian® and found that TGG revised the CTC each time a new JOC master contract was solicited. The latest version of the CTC was issued in June 2017 for the District's playground safety tile matting to include new line items and pricing to support the District's technical specifications. In addition, on a statistical sampling basis, we selected a sample of 25 job order contracts for review and found that the unit prices used on the cost proposals reflected the unit price on the construction task catalogs.

Training Services

TGG was required to provide initial and refresher software and JOC training to the District and JOC contractor staff. JOC Unit management confirmed that TGG has been providing initial training to the District staff and potential contractors involved in the JOC program. According to TGG and JOC Unit management, there is a mandatory pre-bid meeting held for potential contractors who intend on bidding on JOC Master Contracts. We reviewed sign-in sheets for the pre-bid trainings provided along with the power-point presentation and determined that initial trainings were provided to both District and potential contractors. Furthermore, we found that the District and JOC contractors were provided with hands-on training to fully utilize TGG's web based eGordian® management system. Therefore, we concluded that TGG provided initial and refresher JOC training for both District and JOC contractor staff.

Bid Packages

Under the terms of the contract, TGG was to assist the District in preparing bid packages for the JOC Master Construction contracts. JOC Unit management confirmed that TGG has been assisting the District with the bid packages during the prequalification and request for proposal processes. During the pre-bid meeting, TGG's account manager provided an overview of the methods of calculating the bid adjustment factor and filling out the bid form. As for the request for proposal process, if there was need for a certain master contract going for bid, TGG would develop a package with information for bidders that focuses on the necessary requirements for that particular field to include licensing, certain language provisions, and ongoing support to the contract, in addition to focusing on marketing and targeting a group of contractors. At the same time, TGG's Developmental and Implementation team is also dedicated to reviewing and revising JOC languages to include best practices to ensure consistency among JOC contract solicitation documents. Therefore, we concluded that TGG assisted the District in preparing bid packages for each Master JOC construction contract.

REPORT DISTRIBUTION

This report is intended solely for the information and use of the Procurement Services Division, and is not intended to be and should not be used for any other purpose. This report may not be released, in full or in part, to any entity outside the District, or to any internal department without the prior approval of the Office of the Inspector General.

ENGAGEMENT TEAM

This examination was conducted by the Office of the Inspector's General Audit Unit team:

Mindy Qu, Audit Manager
Silas Awujo, Principal Auditor
Ken Hong, Senior Auditor

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