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December 4, 2008

The Honorable Antonio Villaraigosa
The Honorable Rockard J. Delgadillo
The Honorable Members of the City Council

In the year 2000 Los Angeles voters approved Proposition F which earmarked over \$150 million for the repair, expansion, replacement and construction of animal care facilities. Prior to this the City's animal shelters were found to be obsolete, overcrowded and below standard.

My audit found that the Bureau of Engineering, which managed these projects, demonstrated adequate practices and applied a proactive approach to project management and program delivery. However, we found significant issues which resulted in problems with the building program.

The City's estimates for building costs were not reality based and were exceedingly low, and resulted in redesigning and scaling back projects. Animal Services and the Bureau of Engineering did not fully explore the impact of these changes, especially with stakeholders, which resulted in facility problems which could impact the welfare of the animals. For instance, design flaws at one shelter include a lack of a required misting system for the outdoor dog kennels.

The third most common animal in City shelters are rabbits. However in one shelter, space is so minimal it resulted in many rabbits being housed in storage with no air conditioning. At the same time there is a quite large reptile room which contained only two snakes.

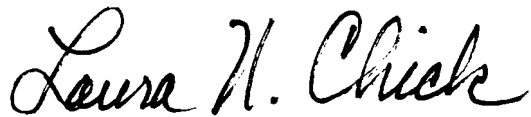
Design changes, cost escalation and budgetary constraints all contributed to each of the eight projects being delayed an average of about two years. Additionally, the South LA project is not expected to be completed until 2012.



The Northeast Valley shelter is operating below its capacity and is not open to the public for adopting animals. This is extremely disconcerting since a major goal of Prop F was to provide centers which fostered greater public access to increase animal adoptions and community involvement.

The issues revealed in this audit are certainly not unique to Los Angeles, but they are also problems which could and should have been anticipated and prevented. It is always important to look for more effective strategies and practices that protect and maximize scarce public dollars. How we use voter approved bond money to construct public facilities is no exception.

Sincerely,

A handwritten signature in black ink that reads "Laura N. Chick". The signature is written in a cursive, flowing style.

LAURA N. CHICK
City Controller



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December 4, 2008

Ms. Cynthia M. Ruiz, President
Board of Public Works
200 N. Spring St., Suite 361
Los Angeles, CA 90012

Mr. Edward A. Boks, General Manager
Animal Services Department
221 N. Figueroa St., 5th Floor
Los Angeles, CA 90012

Dear Ms. Ruiz and Mr. Boks:

Enclosed is a report titled "Audit of Proposition F Animal Facilities Bond Program." A draft of this report was provided to your offices on November 13, 2008 and discussed at a joint exit conference on November 21, 2008. We considered your comments prior to finalizing this report.

Please review the final report and advise the Controller's office by January 5, 2009 on planned actions you will take to implement the recommendations addressed to your office. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

FARID SAFFAR, CPA
Director of Auditing

Enclosure

Ms. Cynthia M. Ruiz, President, Board of Public Works
Mr. Edward A. Boks, General Manager, Animal Services Department
December 4, 2008
Page 2 of 2

cc: Robin Kramer, Chief of Staff, Office of the Mayor
Chris Espinosa, Associate Director-Public Works, Office of the Mayor
Nancy Sutley, Deputy Chief of Staff, Office of the Mayor
Gary Lee Moore, City Engineer, DPW-Bureau of Engineering
Kathleen Riordan, Vice-President, Board of Animal Services Commission
Raymond P. Ciranna, Interim City Administrative Officer
Karen E. Kalfayan, Interim City Clerk
Gerry F. Miller, Chief Legislative Analyst
Antoinette D. Christovale, Director, Office of Finance
Independent City Auditors

Los Angeles City Controller

Audit of Proposition F Animal Facilities Bond Program

December 1, 2008

Submitted by:



Table of Contents

Executive Summary1

Introduction.....9

 Background9

 Objectives, Scope and Methodology 11

Chapter I – Better Cost Planning Processes Are Needed To Ensure Program Meets Its Target Goals

 Seven of Eight Planned Projects Are Complete; and Nearly \$40 Million Is Available for Remaining Projects 15

 BOE Cost Estimates Did Not Reflect Market Conditions..... 17

 Cost Estimates Contained Varying Assumptions Regarding Project Contingencies and Profit Markup 20

 Although BOE Redesign Efforts Resulted in Program Cost Cutting, Construction Timeline Was Revised 21

 South LA Project Shows Significant Budget Increases, Project Delays and Cost Inefficiencies 24

 Chapter I - Recommendations 28

Chapter II – Stronger Controls over Cost and Design Changes Are Needed to Improve Program Efficiency.29

 Owner-Initiated Design Changes May Need Closer Review 29

 Design Lessons Learned 30

 DAS Concerns and the Need for Facility Training 32

 Chapter II - Recommendations 35

Chapter III – Other Areas for BOE and DAS to Consider36

 Documenting Consulting Contract Award Processes Needs Improvement..... 36

 Process to Address Stakeholders’ Concerns Warrants Greater Coordination..... 37

 BOE May Benefit From an Internal Audit Function..... 39

 Chapter III - Recommendations 40

Chapter IV – DAS Operating Budget Deficit Delays Full Operation of Northeast Valley Shelter41

 DAS Projections for Facility Needs Require Study..... 42

Chapter IV - Recommendations	43
Appendix A – Findings Summary with Ranked Recommendations.....	45
Appendix B – Program Administration Flow Chart	47
Appendix C – Projected versus Actual Program Schedules	48
Appendix D – Change Order Management.....	49

Executive Summary

City voter approval of Proposition F (Prop F) in 2000 earmarked \$154.1 million for the repair, expansion, replacement and construction of new animal care facilities throughout the City of Los Angeles. The City's Department of Animal Services (DAS) and Bureau of Engineering (BOE) undertook the challenge of renovating and expanding three existing shelters—West Valley, North Central and South Central Annex; replacing three existing shelters with new ones—East Valley, West Los Angeles and Harbor; and building two new facilities—Northeast Valley and South Los Angeles. The resulting Animal Facilities Bond Program (Program) is a multi-million dollar construction program and is the first of this scope and magnitude in the City's history to improve the animal care facilities. While the overarching goal stated in the Prop F Ballot was to deliver all projects by November 2007, the project schedule adopted by BOE required all Prop F shelters to be built by May 2006. Currently, seven of the eight facilities are complete and the remaining shelter in South Los Angeles is slated for completion in early 2012. Despite delays in completing the projects within the targeted timeframes, the overall estimated cost for all eight facilities is within the initially adopted program budget.

The design and construction of animal facilities involves a high degree of complexity because of their varied, unique and specialized uses resulting in additional demands over the construction of more common or traditional-use buildings. Over the eight-year animal facility design and construction program, DAS and BOE experienced several challenges affecting project schedules and budgets. For example:

- BOE and its cost-estimating consultants substantially underestimated the cost bids received for three projects. Insufficient estimation processes coupled with escalating construction costs in the early 2000's necessitated the need to revamp facility design features in order to meet original project budgets. As a result, BOE proposed cost cutting measures to keep projects within the approved scope and budget.
- Issues related to land acquisition and the City Council's decision to defer and relocate the South LA facility delayed the project delivery from the original estimated date in May 2006 to 2012.
- Changes in animal care regulatory requirements, including a Mayoral directive in 2003 to adopt a "no kill" policy, as well as increasing public concerns for improved animal safety, health, and welfare, triggered on-going design changes at animal shelter facilities throughout the City.

Additionally, we found that of the seven animal shelter facilities constructed for the DAS under Prop F, one shelter—Northeast Valley—is operating below its capacity and is not open to the public for adopting animals. Although the goal of Prop F was to provide facilities fostering public access to increase animal adoptions and community involvement, no additional operating budget was approved, and citywide budget cuts in fiscal year 2008-2009 significantly impacted DAS operations. As a result of insufficient

DAS staffing, the use of the Northeast Valley shelter is limited to housing only unadoptable animals and is operating at about 50 percent of its design capacity.

Overall, we found that for Prop F projects BOE demonstrated adequate practices and applied a proactive approach to project management and program delivery. However, our report highlights areas where controls over cost planning and design changes could be improved. Initial bids for construction far exceeded City estimates which required redesign and cost cutting measures. Although DAS provides critical information to BOE relating to its facilities space and needs requirements, and BOE presented and discussed the cost saving measures at public meetings of the Administrative Oversight Committee and the Citizens Oversight Committee, the design features to be deleted in the re-engineering process were not fully explained or vetted with stakeholders. DAS should establish protocols within the department to determine on-going and future facility use goals and strategies as well as processes to explore and address various stakeholders' concerns. Furthermore, with the design and construction planning still underway for the South LA facility, BOE and DAS should carefully review not only the issues outlined in this report to implement lessons learned, but also consider ongoing comments and feedback from DAS staff who are currently operating the new Prop F facilities and incorporate their ideas into the design work plan for South LA and other City facilities.

Chapter I – Better Cost Planning Processes Are Needed To Ensure Program Meets Its Target Goals

While overall we found that Prop F is meeting most of its goals and objectives, each of the eight projects were delayed an average of about two years, as compared to the project delivery schedule initially adopted by BOE. Five of the eight facilities were in operation before November 2007 (the date stated in the Prop F Ballot), and the other two facilities were in operation within the next six months. Additionally, the South LA project is not expected to be completed until 2012. While BOE generally demonstrated sound project and program management processes, further efficiencies could be achieved by strengthening controls over cost planning that are critical during early stages of a construction program.

Seven of Eight Planned Projects Are Complete; and Nearly \$40 Million is Available for Remaining Projects

Notwithstanding experiencing delays, design changes, cost escalation and budgetary constraints, seven of eight planned animal facilities projects are complete. The last project—the South LA facility—is slated for completion in 2012. Additionally, as part of the project budget review process—in an effort to cut expenses in an escalating construction market—Prop F's Administrative Oversight Committee authorized reductions in the scope of work for renovating the North Central and West Valley facilities, and set aside \$829,601 and \$797,913 respectively for these two shelters. The remaining work on these facilities is planned to begin after major construction concludes at the South LA shelter. In total, nearly \$40 million is available to deliver all of these projects.

BOE Cost Estimates Did Not Reflect Market Conditions

In the early years after 2000, the Program faced land and construction cost increases, yet BOE had limited processes to track current market prices and update project cost estimates. Although the construction materials price index for the Los Angeles area rose by approximately 13 percent between 2001 and 2005¹, when BOE advertised the West Valley project in October 2003, the bid results were on average more than 55 percent higher than the City's estimate because of market conditions for public projects bidding. BOE relied on two independent consultants for this project cost estimate that did not reflect current market and bidding climate conditions.

Subsequently, BOE adjusted animal shelter designs program-wide and developed new cost estimates; however, the bids for North Central and West LA were still significantly different from the City's budgets for these projects in part due to unforeseen construction market escalation conditions. Again, BOE used outside professional estimating consultants to prepare these estimates. The process of revising project designs and costs to bring the program within budget contributed approximately \$400,000, or nearly 4 percent of the total program design budget, in additional costs and caused a nearly two-year delay in construction.

Cost Estimates Contained Varying Assumptions Regarding Project Contingencies and Profit Markup

While best industry practices require the City to fully consider contractor markups in developing accurate cost estimates, we found no coordinated approach to estimating these cost elements when developing project budgets. Our audit found that project cost estimates on Prop F were prepared by professional estimating firms acting as sub-consultants of an architectural firm hired by BOE to design the facilities. Another professional estimator hired by BOE to assist in Prop F project management prepared separate independent estimates. However, neither of these estimates appear to reflect escalating market conditions that caused subsequent changes to project budgets. Though BOE held meetings and provided comments regarding the estimates, BOE did not review the detail behind the cost assumptions because each professional estimating architectural design firm used its own proprietary methods for developing total projects costs.

Our review of detail behind project cost estimates on Prop F projects revealed that varying assumptions were used to calculate project contingencies and contractor profit amounts. As a result of escalating market conditions coupled with inaccurate cost estimates, all Prop F projects required re-design to bring their costs within the approved project budget.

Although BOE Redesign Efforts Resulted in Program Cost Cutting, Construction Timelines Were Revised

¹ Construction Cost Increase, Los Angeles Area, January 2001 to January 2005

In October 2003, the high bids received on West Valley prompted BOE to reevaluate its design strategy. As a result of nearly 40 percent discrepancy between initial City estimates and the lowest contractor bid, the City engineers directed program-wide redesign, cost cutting and value engineering efforts in order to bring projects within the Prop F authorized budget.

As a result of market escalation and cost estimating discrepancies, BOE faced a challenge to find Program cost savings of over \$24 million and deliver the same projects with minimal time delay. To bring the projects to budget, BOE worked closely with outside architects and DAS designated Prop F representative to authorize removal of certain non-essential design features from Prop F facility designs. This process also involved cutting certain utility space from design plans, replacing extended warranty agreements with standard life warranties and deferring certain Prop F costs such as renovations at West Valley and North Central. However, some of these changes may simply be deferring expenditures rather than generating cost savings since shorter warranty periods and delaying renovations may actually increase City costs in the long run.

South LA Project Shows Significant Budget Increases, Project Delays and Cost Inefficiencies

In 2000, the South LA facility was a \$16 million new construction project that was identified in the Master Facilities Study leading to Prop F. Since the Program's inception, the South LA project budget has now nearly doubled to \$39 million in 2008. About \$32 million of the budgeted amount has not yet been expended because the facility is still in the design stage and not projected for completion until 2012.

Because the Administrative Oversight Committee put the project on hold for five years, the cost to complete the project has escalated. As a result of City Council's decision to change the project site, in addition to significant schedule delays, the project has incurred nearly \$7 million in land acquisition, legal and design costs that could have been better managed. Mitigating the additional costs, the City has identified an alternate City-owned site; if acquired at no cost to Prop F as planned, the transaction may help offset the \$7 million spent to date. Nevertheless, future land acquisition and related issues warrant further attention.

Chapter II – Stronger Controls Over Design Changes Are Needed To Improve Program Efficiency

Overall, BOE has controlled Prop F change order design costs within City and industry standards of 10 percent to 15 percent. Consequently, while change orders resulting from design errors were well controlled and tracked, modifications to facility designs by the project's owner were not monitored separately from other scope modifications, although these owner requested changes were identified in the overall change order documentation.

Owner-Initiated Design Changes May Need Closer Review

Stakeholders' involvement in the design and construction of the Prop F facilities contributed to numerous design changes throughout the Program's life. Our audit found that these elective and owner-initiated design changes are not tracked separately by BOE.

While many design features were removed during the redesign and value engineering phase, increased stakeholders' concerns regarding facilities design prompted DAS to initiate design changes that may be classified as "elective", or initiated at the owner's request. Many of these changes were to restore facility designs to some of the original plans discussed with the stakeholders at the program outset in 2000. One of the major changes of this type was the request to design and install canopies and awnings at the seven facilities, costing Prop F nearly \$400,000. Another example was a request from the community and Council Office to restore to the design plans a clay tile roof that caused the project cost to increase by \$172,000. While the changes may have been necessary, BOE may benefit from closer monitoring of owner-initiated changes throughout the program's lifecycle.

DAS Concerns and the Need for Facility Training

Our visits and walk-throughs at selected animal shelter facilities identified numerous DAS staff concerns about operating the newly built facilities and an expressed need for additional on-site facility training. Although BOE has been proactive in addressing these issues, it should formalize lessons learned on the Prop F project. Our discussion focuses on examples highlighted by the DAS operational staff and some of the post-construction work completed by BOE in the last few years.

Chapter III – Other Areas for BOE and DAS Consideration

Over the Prop F lifecycle, the City expended over \$9.6 million in project design costs, including expenditures for outsourced project management and engineer consulting work. Our audit found instances where BOE practices could improve documenting contract award and consultant selection decisions-making process. Also, we heard various concerns raised by Prop F stakeholders and DAS regarding inadequate opportunity afforded for their participation in the redesign efforts to deliver projects on budget. This chapter highlights a wide range of issues that require both BOE and DAS attention, including contract award and monitoring, and DAS staff's concerns regarding the newly built facilities.

Documenting Contract Award Processes Needs Improvement

Our audit found insufficient documentation to support competitive contract award and task order solicitation practices at BOE. Further, the GSD consultant selection process to implement contracts was not sufficiently documented. Additionally, BOE invoice processing could be improved. Similar issues were noted during a previous audit of contracting practices at the Department of Public

Works, conducted by the Controller's Office in 2005. The vast majority of Prop F contracts were awarded between 2000 and 2005. We did not test more recent contracts as they were outside of the Prop F audit scope.

Process to Address Stakeholders' Concerns Requires Greater Coordination

In the Prop F lifecycle, the changing public perception of the adequacy of animal facilities played a significant role in creating the design plans for Prop F animal shelters. From the Program's outset, stakeholders were involved in the review and approval of the facility designs. However, as a result of BOE's cost cutting efforts in the late 2003 and early 2004, significant design features of animal shelters were changed. Substitution of lower cost options by BOE was not a true value engineering effort and because these design changes were not adequately discussed with DAS stakeholders, some had to be replaced at added cost to the City.

Although BOE and DAS demonstrated sufficient efforts to facilitate stakeholders' involvement in reviewing the original design plans, the cost saving design changes were not fully vetted with the stakeholders. While BOE has been proactively addressing the DAS requests for design changes, to mitigate stakeholders' concerns, any future significant design changes should be thoroughly disclosed throughout the redesign process.

BOE May Benefit From an Internal Audit Function

While the Prop F language requires the Program undertake annual audits, our review is the first external audit of the Prop F Animal Facilities Bond Program. To assist BOE in continuously identifying areas of improvement and ensuring the quality of work performed on Prop F projects, BOE should consider developing an internal audit function reporting to the Administrative Oversight Committee as well as the Public Works Board of Directors to continuously identify ways to increase its efficiency and effectiveness in meeting program-wide, as well as department-wide goals.

Chapter IV - DAS Operating Budget Deficit Delays Full Operation of Northeast Valley Shelter

Prop F requires animal care facilities be open to the public to increase adoptions. Because of severe budget cuts throughout the City, no funds are available to bring the Northeast Valley shelter to full operation. Currently, the facility is closed to the public and is only used as a holding place for sick or otherwise unadoptable animals. DAS is investigating various funding options from sources outside of the City in an effort to operate the Northeast Valley shelter.

DAS Projections for Facility Needs Require Study

Prop F provisions mandated the construction of eight animal shelters based on the Master Facility study conducted in 2000. However, the projections made in 2000 of the animal population may not hold true for 2008. Further, since the Program's

inception, animal care issues have markedly changed. Consequently, as the demand for animal services changes over time, DAS should reevaluate its facility needs and update projections for using the newly built shelters as it considers the ongoing design work for South LA.

Recommendations

Our recommendations to mitigate the issues identified in this report are addressed to both BOE and DAS, and are summarized on the following pages.

Recommendation Description/#		Report Page #
1	Develop a process to closely track market conditions. Review project cost estimates and update project costs on a regular basis to reflect current construction market conditions.	28
2	Establish cost estimating guidelines. Review design estimate work performed by outside consultants and validate assumptions for developing estimates for contingencies and profit margins.	28
3	Establish a formalized comprehensive approach to developing and monitoring cost estimates, including accounting for contingencies and contractor profit margins.	28
4	Develop a project risk management approach to project delivery to mitigate exposure and unnecessary costs. Specifically, the project risk assessment process should include identifying land acquisition and early design risks, cost escalation factors, and other risks to assist in better project planning and monitoring.	28
5	Consider monitoring owner-initiated design changes by separately tracking design change orders initiated by stakeholders and owners during design and construction.	35
6	Consider developing animal facility design and construction standards to ensure lessons learned are incorporated into ongoing work on future animal facilities.	35
7	Develop a “lessons-learned” document to memorialize design and project delivery issues and resolutions learned on Prop F projects.	35
8	Increase training assistance provided to DAS operational staff on facility operations.	35

Recommendation Description/#		Report Page #
9	Ensure proper documentation of contract award process including short-listing of firms for interviews, interview evaluations and ranking criteria.	40
10	Consider establishing an internal audit staff to monitor on-going Program activities, identify areas for improvement, and report to the Administrative Oversight Committee and Board of Public Works.	40
11	Assure payments are properly approved by the program and project managers.	40
12	Establish protocols outlining DAS internal roles and responsibilities relative to the Prop F animal facilities bond program.	40
13	Streamline stakeholders' and DAS-initiated design change request process by logging requests and monitoring progress made towards resolving issues throughout the project lifecycle.	40
14	Develop a strategic plan, department policy and standards to address facility-related issues such as animal care processes at animal shelter facilities, as well as financial forecasts for operating and maintaining DAS facilities.	43
15	Consider City and departmental policies and philosophies related to animal care when updating DAS facility design requirements, including making decisions about building indoor or outdoor rabbit facilities and other space considerations.	44
16	Perform internal capacity and needs assessment studies to compare the existing facility use with the projected animal population and demand for animal services. Report study results to the Administrative Oversight Committee for consideration of changes needed to facility design plans.	44
17	Establish sufficient policies and procedures for standard operation of animal shelter facilities that could aid in training staff in new facilities and equipment operations.	44

Background

Proposition F Animal Facilities Bond Program

In November 2000, the voters of Los Angeles approved a \$532.6 million Proposition F Fire and Animal Facilities Bond Program (Program), to protect public health and safety, improve paramedic and firefighting response time and to replace deteriorating facilities. In addition, Prop F calls for the building of 19 earthquake-safe neighborhood fire and paramedic stations, and a fire paramedic/emergency City helicopter center. \$154.1 million of the \$532.6 million Prop F funds were earmarked to renovate and expand three existing animal shelters, replace and renovate three additional facilities, and construct two new animal service facilities to provide better animal care and address community needs. Specifically, the animal shelter locations and original estimated budgets for the Prop F bond program are shown in *Table 1: Program Costs Authorized in 2001*:

Table 1: Program Costs Authorized by the Administrative Oversight Committee in August 2001

Project Name	Type of Facility Improvement	Projected Costs
West Valley	Renovation/expansion of existing building on same land site	\$10,716,000
North Central	Renovation/expansion of existing building on same land site	\$11,335,000
South Central Annex	Renovation/expansion of existing building on same land site	\$4,205,000
East Valley	Replacement of existing shelter/acquisition of new land site	\$20,256,000
West Lost Angeles	Replacement of existing shelter/acquisition of new land site	\$29,724,000
Harbor	Replacement of existing shelter/acquisition of new land site	\$14,394,000
Northeast Valley	New building construction and new land acquisition	\$18,956,000
South Central New	New building construction and new land acquisition	\$16,039,000
Other Costs:		
Program Contingency		\$6,548,000
PM/CM Consultant		\$5,000,000
City Staff		\$11,799,000
Bond Issuance Cost		\$5,169,000
Total Program Cost Estimate		\$154,141,000

Moreover, provisions of Prop F state that the bond funds will also pay to “provide space for Spay and Neuter clinics, vaccination, health care, and pet identification and adoption services.” However, only equipment and infrastructure were to be financed through sources outside of the Prop F funding.

Prop F included the following accountability measures applying to all funds:

- The City by ordinance, will institute a comprehensive set of controls to ensure that projects are delivered on time and on budget.
- The Mayor and City Council shall appoint members to an “oversight committee,” a “high-level management group empowered to make decisions to move capital

construction program and process quickly,”² having approval authority over the Prop F budget, timelines and changes in scope.

- Establish a citizen’s oversight panel consisting of “five professionals with expertise in the area of capital construction design and management”² to monitor the Program, gather community input, and bring related concerns to the Mayor and City Council.
- Program expenditures were to be authorized only for purposes of project construction and the direct salaries of management and administrative staff involved in the Program; and
- The City is to conduct annual audits to assess the Program’s effectiveness and efficiency.

Program Organization and Structure

In accordance with the Prop F bond measure, the City Council established a governance structure to oversee the Program’s operation, which included a Program Administrative Oversight Committee (AOC), consisting of representatives from the Bureau of Engineering, Department of Animal Services, Chief Legislative Analyst, City Administrative Office, and Mayor’s Office. The AOC provides administrative oversight and exercises its authority to approve the budget and expenditure of funds, timelines, and changes in scope. While the BOE is responsible for managing the Program and ensuring on-time and on-budget project delivery, the Bureau of Contract Administration, Department of Animal Services and General Services Department also have assigned Program roles and responsibilities as defined in a Memorandum of Understanding (MOU) of January 2001 outlining the following responsibilities for each entity:

Bureau of Engineering (BOE), Department of Public Works

The BOE is responsible for completing the Program’s design and construction projects on time and within the approved budget. The BOE also prepares requests for qualifications or requests for proposals to outsource work, as well as requests for contractors’ bids on construction projects. The General Services Department performs construction work under the direction of the BOE; however, the BOE may choose to hire outside contractors. The BOE monitors construction to ensure the work is completed according to standards and design specifications. The designated Program Manager for the Prop F Program is a BOE staff member.

Bureau of Contract Administration (BCA), Department of Public Works

The BCA inspects the contractors’ construction work and ensures that the completion of each construction task is done in accordance with standards and design specifications. The BCA staff does not, however, inspect construction work performed by the General Services Department.

² Prop F voter’s pamphlet, “Impartial Summary by Ronald F. Deaton, Chief Legislative Analyst.”

General Services Department - Asset Management Division (GSD-AMD)

GSD-AMD is responsible for facilitating land acquisition, relocation and appraisals for Prop F sites. While DAS and BOE develop land and property requirements for the animal shelter facilities, GSD-AMD assists in locating suitable property and, at the direction of the program manager and the Prop F Oversight Committee, GSD-AMD prepares land appraisals. Five of the eight projects mandated by Prop F required acquisition of land. On all five projects, GSD-AMD hired independent licensed appraisers to complete formal cost estimates prior to the City making an offer to purchase the land.

Department of Animal Services (DAS)

DAS is a party to the MOU with the other mentioned City departments. In this instance, the DAS is essentially the “client” as the other departments are providing collaborative services and assistance in the animal shelter construction projects. The overall mission of the DAS is to promote and protect the health, safety and welfare of animals and people in the City of Los Angeles. The DAS General Manager reports to the DAS Board of Commissioners—a five member committee appointed by the Mayor and the City Council—who have an advisory and a policy-setting role for the DAS operations. The Board of Commissioners generally holds bi-weekly meetings that are open to public and has a responsibility to report critical and significant issues to the Mayor and City Council.

Generally, DAS is responsible for providing expertise and assisting BOE in developing program design standards, tracking design and construction progress, reviewing and approving project proposals, organizing citizen outreach efforts and community forums during the design stage, and providing on-going feedback to the BOE for making any changes, including design, budget and schedule modifications. During the final stages of project construction, the DAS reviews project close-out documents, such as construction “punch lists” and signs off on the final building acceptance report, which is known as the “General Services Facility Conveyance and Building Maintenance Agreement” that formally conveys the facility to General Services Department for future maintenance purposes.

The MOU between DAS, BOE, GSD and BCA specifies that for managing the Prop F program, DAS has designated a staff member who is authorized by the General Manager to serve as the Program liaison between DAS and BOE. The Program liaison works closely with Program stakeholders and different City Departments’ representatives to coordinate land acquisition, design, construction and post-construction efforts. Throughout the Prop F lifecycle, DAS has experienced a high management turnover, with five different individuals holding the General Manager’s position in the last eight years. Despite this fact, the program liaison remained constant since 2000 over the Prop F lifecycle.

Objectives, Scope and Methodology

In May 2008, the Los Angeles City Controller contracted with Sjoberg Evashenk Consulting, Inc. (SEC) to conduct an audit of the East Valley Replacement Animal

Shelter and other projects funded by the Proposition F Animal Facilities Bonds, in conjunction with the City Controller's audit staff, to assess the Program's efficiency and effectiveness and make recommendations for improvement. Specifically, our audit objectives were as follows:

- Assess the efficiency and effectiveness of program activities related to the East Valley Replacement Animal Shelter;
- Assess the overall efficiency and effectiveness of Prop F Animal Facilities Bond Program to renovate, expand and build new animal service centers to improve public safety and animal care services throughout the City;
- Determine if adequate controls over project and program management exist, including:
 - Strategy, organization, and administration
 - Financial management, including expenditure authorization
 - Procurement management
 - Controls and risk assessment
 - Schedule management

To achieve the audit objectives we selected a broad cross section of bond-funded projects, and followed these projects "from cradle to grave."

This audit focused on the full lifecycle of the Program including the pre-design activities, land acquisition, design, consultant and architect selection process, award processes, contract and contractor monitoring activities, contract administration, document retention, invoice processing, financial recording and reporting, governance and administration, and other related functions. We evaluated these activities for each project on a sample basis, including review of project original budgets, timelines, scheduling, design and construction review, budget change management and overall project delivery.

Specifically, our review of the Program's controls in place over key project delivery milestones included, but was not limited to the following:

- Planning and Budgets
 - To understand the legal, regulatory and governance environment, we reviewed the Prop F measure documents, the California State Statutes, the City Charter, Los Angeles Municipal Code, Los Angeles Administrative Code, Mayor's Executive Directives, and various policy statements written by the Department of Animal Services, the Internal Revenue Services (IRS) codes, and other authoritative sources.
 - Conducted interviews with Prop F management and staff and other City personnel to gain an understanding of the Prop F's structure, organization, administration, strategy, policies and procedures.
 - Reviewed Program Oversight Committee meeting minutes, including records showing budget and schedule revisions, decision-making process to review and approve any changes.

- Obtained Program budget and schedule records.
- Obtained, reviewed and documented Program accounting records and compared to Program monthly reports.
- Land Acquisition and Pre-Design
 - Reviewed Prop F existing processes and drew a sample of projects to assess practices to identify and survey the land, prepare appraisal estimate, review and confirm cost estimate, draw an offer, negotiate with owner, initiate eminent domain and condemnation processes, receive rights to title, and coordinate efforts between the land acquisition, pre-design and design efforts program-wide and on specific projects.
 - We also reviewed information provided by the City Attorney staff that oversees Prop F activities.
- Design
 - Assessed the Program's existing practices to develop designs, outsource design and other consulting contracts, contract solicitation and award process, project estimates development, coordination of efforts between design and construction.
- Construction
 - Reviewed construction bidding documents, assessed cost estimation practices, contract award practices, general approach to contracting, payment reimbursement procedures; contract monitoring, cost containment, budgets and schedules revisions and recording and reporting of expenditures.
 - Reviewed various contracting manuals for best practices; Board resolutions; capital improvement plans; contracting policies and procedures; pertinent general BOE and DAS financial and performance audit reports; and other background materials.
- Post-Construction
 - Identified post-construction activities on each project.
 - Determined scope of activities and compared with industry standards.

To evaluate whether the Program employed sound contracting practices and to determine whether contracts awarded were in the best interest of the City, we selected six construction contracts and seven consulting or architect contracts to review. For each, we evaluated the:

- Documentation associated with each contract;
- Adequacy of processes for determining the need to outsource work or whether City personnel could have more efficiently performed the work;
- Whether the Program employed proper contract monitoring activities;
- Degree of project managers' involvement as well as the Contract Administration involvement in determining whether deliverables were satisfactorily provided;
- Propriety of contract awards and if processes were appropriate, open, and competitive;

- Process for review and approval of invoices, and determining if expenditures were properly supported, in compliance with the contract terms;
- Appropriateness of change orders or contract revisions associated with each contract, and the processes employed to execute them;
- Processes used to adjudicate protests on contract awards, as well as disputes arising during the term of contracts;
- Adequacy of contract documentation and retention.

We conducted this audit in accordance with generally accepted government auditing standards. We limited our review and analyses to those areas described in the Scope and Methodology section of the report. The audit issues resulting from these analyses were presented and discussed with Prop F Management, specifically, the representatives of BOE and DAS prior to completion of the audit fieldwork. Management comments were considered in developing the draft report which was discussed at an exit conference held on November 21, 2008. We considered BOE and DAS comments prior to finalizing this report. We would like to thank the management and staff of BOE and DAS for fully cooperating with our audit.

Chapter I – Better Cost Planning Processes Are Needed To Ensure Program Meets Its Target Goals

The Program’s goals and objectives set forth in Prop F were to expand the City animal shelters to increase the number of dog kennels and cat cages to meet industry standards, increase number of animals reclaimed by their owners, and provide space for spay and neuter clinics, vaccination, health care, pet identification and adoption services. The City animal shelter facilities prior to Prop F were found to be obsolete, overcrowded and below standard, and required significant renovation, expansion, replacement and new construction efforts. The City’s undertaking of a \$154.1 million design and construction program to deliver eight animal shelters within seven years was the City’s first effort to build such facilities since the early 1970s, with the intent to improve the City’s infrastructure to support and increase animal care in Los Angeles. As of the Program’s May 2008 Status Report, the City completed seven of eight facilities that were promised to the voters in 2000 under Prop F, and thus far, all eight projects remain within the authorized budget.

Seven of Eight Planned Projects Are Complete; and Nearly \$40 Million is Available for Remaining Projects

Although experiencing delays, design changes, cost escalation and budgetary constraints, seven of eight planned animal facilities projects are complete. The last project—the South LA facility—is delayed and completion is not expected until 2012. It appears many issues surrounding the South LA facility are outside of the DAS and BOE’s control. Overall, our audit found numerous budget changes and project delays throughout the Program’s lifecycle, however, all major changes to the original budget that was formally adopted in 2001 were generally well documented and approved by the Prop F Administrative Oversight Committee.

Specifically, our review of accounting records found that between 2000 and 2008, the Program budget increased by nearly 16 percent, from \$154.1 million to almost \$178 million. These increases were due to additional funds accruing to the Program such as including almost \$18 million in interest income and \$3 million transferred from the City Capital Improvement and Expenditures Program (CIEP) funds for construction of spay and neuter clinics at five animal shelter facilities as shown in Table 2.

Table 2: Prop F Sources of Funding

General Obligation Bond Proceeds	\$ 156,920,505
Interest Earned Through June 2008	\$ 17,940,526
Miscellaneous Receipts (Lease Income & Reimbursements)	\$ 45,825
Spay & Neuter Buildout (CIEP)	\$ 3,000,000
Total	\$ 177,906,856

Source: Prop F Accounting Records, June 30, 2008

As of June 30, 2008, the Prop F approved budget was \$180.8 million, including the anticipated proceeds from the sale of a land parcel that was previously acquired for the South LA shelter. This sale is expected to generate \$4.875 million, although our audit found that the property had not been declared surplus by the City which is a necessary step before the sale can occur. With total expenditures through June 2008 of approximately \$141 million (which includes the expected proceeds of the land sale), nearly \$40 million in Prop F funds remain available. Of the funds remaining, about \$32 million are set aside to complete the South LA Shelter.

Notwithstanding the funding still available for Prop F projects, due to increasing construction and land acquisition costs in the early 2000s, the overall Program required revision of the individual project budgets in order to remain within the original overall Prop F budget. Some increases in project budgets were offset by steadily decreasing the Program contingency account—reduced from nearly \$6.55 million in 2001 to \$800,000 in June 2008. Overall, the cumulative budget changes specific to the eight sites as approved by the Administrative Oversight Committee are summarized as follows:

- ✓ \$23 million increase for South LA new construction project
- ✓ \$7.08 million increase for West Valley
- ✓ \$4.32 million increase for Harbor
- ✓ \$4.21 million reduction for West LA
- ✓ \$3.45 million reduction for South Central Annex
- ✓ \$3.19 million increase for East Valley
- ✓ \$1 million increase for Northeast Valley
- ✓ \$750,000 reduction for North Central

These budget changes total \$30.18 million. When changes in contingencies, and other associated costs are added, the total increase in the Project budget from 2001 to 2007 is approximately \$26.67 million. Additionally, as part of the project budget review process, in an effort to cut expenses in an escalating construction market, the Administrative Oversight Committee authorized reductions in the scope of work for renovating the North Central and West Valley facilities, and set aside \$829,601 and \$797,913 respectively for these two facilities for future construction to begin after major construction at the eight Prop F mandated sites is complete. Our review of Prop F accounting records shows that as of June 30, 2008, the Program has expended approximately \$138.5 million of the budgeted \$180.8 million, reflecting nearly all costs related to the seven completed sites. Table 3 on the following page summarizes the program's financial records from 2001 to 2008.

Table 3: Prop F Budgets and Expenses as of June 30, 2008

Project Name	Status	Original Budget 2001	Revised Budget 2007 ⁽¹⁾	Actual Expenses through June 2008 ⁽²⁾
East Valley	Complete	\$ 20,256,000	\$ 23,443,248	\$ 22,919,968
Harbor	Complete	\$ 14,394,000	\$ 18,714,000	\$ 17,908,187
West L.A.	Complete	\$ 29,724,000	\$ 25,510,000	\$ 24,556,354
North Central	Complete	\$ 11,335,000	\$ 10,585,000	\$ 10,505,178
South L.A. Annex	Complete	\$ 4,205,000	\$ 759,925	\$ 729,369
West Valley	Complete	\$ 10,716,000	\$ 17,800,000	\$ 17,014,371
Northeast Valley	Complete	\$ 18,956,000	\$ 19,960,000	\$ 18,402,904
South Los Angeles	In Design	\$ 16,039,000	\$ 39,047,115	\$ 7,094,432
North Central (Phase II)	Pending South LA	\$ -	\$ 829,601	\$ 11,527
West Valley (Phase II)	Pending South LA	\$ -	\$ 797,913	\$ -
Spay & Neuter Clinics	Complete	\$ -	\$ 3,750,000	\$ 3,846,346
Other Program Expense				
Program Contingency		\$ 6,548,000	\$ 800,000	\$ -
Arbitrage Liability		\$ -	\$ 500,000	\$ -
PM/CM Consultant		\$ 5,000,000	\$ 3,500,000	\$ 2,434,085
Bond Issuance		\$ 5,169,000	\$ 169,000	\$ 26,537
City Staff		\$ 11,799,000	\$ 14,644,000	\$ 13,090,885
Program Total		\$ 154,141,000	\$ 180,809,802	\$ 138,540,143
(1) Note: Source: BOE Program June 2008 Status Report				
(2) Source: Program Accounting records, June 30, 2008				

BOE Cost Estimates Did Not Reflect Market Conditions

While overall we found that Prop F is meeting its goals and objectives, each of the eight projects were delayed an average of about two years, and the South LA project is not expected to be completed until 2012, a six-year delay. The original project timelines were adopted by BOE in 2001. Although BOE generally demonstrated sound project and program management processes, efficiencies could be achieved by strengthening controls over cost planning which is critical during early stages of a construction program. Between 2001 and 2005, the construction materials price index for the Los Angeles area rose by approximately 13 percent³. According to BOE, data from other municipal construction projects during approximately the same time period indicates that bids escalated due to market volatility. BOE had limited processes to track current market prices and continuously update project costs to develop accurate project budgets. For example, the \$12.3 million West Valley project was advertised for bid in October 2003 and resulted in bids averaging 55 percent higher than the City Engineer’s estimate. The lowest bidder’s price for this project was \$17.3 million. As shown in Table 4 on the following page, most bids were at least 41 percent higher than anticipated—however, the

³ *Engineering News Record*, construction cost index data for Los Angeles area, January 2001 to January 2005

range of bids were fairly consistent, with the variance between the high and low at about 20 percent.

Table 4: October 15, 2003 Bid Results, West Valley

Contractor	Amount	Percent Over Budget
Contractor 1	\$17,320,000	41 percent
Contractor 2	\$18,645,000	52 percent
Contractor 3	\$18,910,000	54 percent
Contractor 4	\$19,396,000	58 percent
Contractor 5	\$19,868,000	62 percent
Contractor 6	\$20,245,000	65 percent
City Engineer Estimate	\$12,300,000	55.3 percent Average

According to the BOE Prop F management and staff, West Valley was one of the first projects to receive unusually high construction bids. Subsequent to the bid opening, the project management team contacted and met with various prime and subcontractors to discuss bid results and to determine the reasons the bids were considerably higher than the estimate. The contractors cited a saturated bidding market, the complexity of the job and rising building industry prices as reasons for higher-than-expected contractor estimates for the West Valley animal shelter. In reviewing the West Valley contractor bids and evaluating the gaps between the City estimates and contractor costs, BOE noted high variances between anticipated and contractor quotes for construction materials and labor prices. Steel, porcelain enamel, white concrete and plumbing work (due to the Prop F project’s complexity) accounted for significant cost discrepancies. Structural steel that the City estimated at \$500,000, was proposed at over \$1 million by the contractor, or nearly double the estimate. The BOE stated that conversations with bidders revealed that the contractors based their estimate for regular steel at \$3,000 per ton compared to the \$2,100 per ton the City estimated, causing a bid price difference of \$200,000 for 650 steel beams.

Similar escalating construction market conditions were noted by other city and county agencies throughout Southern California during this time. For example, the Caltrans 12 month construction cost index for Southern California reflects a nearly 60 percent increase between January 2004 and January 2006. Research conducted by BOE’s programming consultant to follow-up on bids for West Valley suggests that contractors had a general lack of interest, were concerned about project requirements and complexities, and the overall volume of work available in the region—including significant construction projects initiated by the LAUSD and Los Angeles County—were all factors making the climate very difficult to attract responsible low price bidders. Nevertheless, developing accurate project estimates is the key BOE responsibility during the design stage of a construction project.

The City Engineer’s estimate is used as a basis for the project cost in the construction bidding process. The Project Delivery Manual states that “City Engineer’s Estimate

should reflect the prevailing market conditions in the contracting community and provide a justification for the award of the contract to the lowest responsible, responsive bidder.” The purpose of the estimate is to establish a reasonable cost for the project and set a benchmark against which the bids received are to be evaluated. Generally, the BOE’s underlying goal in presenting the City Engineer’s estimate to the public is to invite contractors to competitively bid and establish certain administrative requirements for contractors to meet. Ultimately, the contract is awarded to the contractor with the lowest responsible cost bid. While the bidding process truly serves as a litmus test to determine how close the City estimate was to current market construction and labor prices, our audit found instances of significant discrepancies between the bidders’ prices and the City’s original estimates.

Subsequent to the receipt of bids on the West Valley project and after discussions with the professional estimating consultant who prepared the project cost estimates for the City’s advertising of this project, the BOE pursued re-design, cost cutting and value engineering efforts which involved reassessing and prioritizing design features and deleting some of the higher-priced design items from the original plans to bring the Program within approved budget. However, partially due to the escalating market conditions coupled with insufficient cost estimating methodologies, even after the BOE changed its approach to adjust project costs by deleting some of the design features and revising materials and labor cost estimates to current values, the next project that was advertised for bid—the North Central—returned another round of higher than expected bid results. In 2004, the North Central bids were on average approximately 80 percent higher than the City Engineer’s revised estimate of \$4.87 million compared to a low bid price of \$7.35 million. Thus, the bids received again reflected significantly higher than expected project costs, showing that the City’s cost estimating processes did not sufficiently track current market conditions. The missed marks in the budget estimates delayed the Prop F project delivery cycle. Not only were various design features scaled back or removed from the original Program scope, but the lack of precision in cost estimates also caused additional redesign costs and project delays.

Project estimates are a critical element in the planning and delivery of projects. Best engineering and construction practices as well as the BOE Project Delivery Manual require developing accurate cost estimates for construction projects to ensure that the client or project “owner” can prepare reasonable budgets that will hold true throughout the project life. These estimates are critical because if the original estimate is less than the actual construction cost, the project “owner” may be unable to find the additional funds to cover the gap between the original estimate and actual costs. While the existing BOE process requires BOE project managers to review and periodically update project cost estimates throughout the cost development process, we found that project cost estimates on Prop F were prepared by professional estimators as sub-consultants working for architects hired by BOE. Another set of estimates were prepared by the BOE consultant in charge of the various project and construction management functions, including cost estimating, planning and project management support. However, BOE project delivery processes did not require BOE internal staff to validate and update these estimates. We were told that BOE did not perform a detailed review of cost assumptions

because each architectural design professional estimating firms used its own proprietary methods for developing total projects costs. Further, the independent estimates performed by two consultants were within 5 percent of each other. Nonetheless, the cost estimates did not appear to reflect current market conditions, and as a result, the West Valley and North Central projects received bids that were significantly higher than estimates. The City's estimate for West LA also failed to accurately capture the market conditions, showing only a minor improvement in estimating.

BOE states that the bid estimates discrepancies were studied with other public agencies and the resulting findings were presented in a written report in a public meeting of the Master Facilities Committee. However, to ensure a consistent approach to cost estimating and project budgeting, BOE should improve its practices to require project estimates be frequently reviewed and updated to reflect most current market conditions and represent reasonable cost estimates. Further, when using outside design consultants, BOE remains responsible for the accuracy and completeness of the cost estimates; thus, BOE must ensure cost projections developed by consultants capture and reflect current market costs. Furthermore, consistent with BOE's existing practices, BOE should continue to closely review and monitor significant cost discrepancies between contractor bids and City's estimates, and make necessary adjustments to cost estimates or project parameters as needed.

Cost Estimates Contained Varying Assumptions Regarding Project Contingencies and Profit Markup

Although all City-prepared construction estimates that we discussed previously are based on calculations of direct and indirect labor costs and construction material price and quantities, when contractors submit construction bids on City projects, the bids are not required to include the same level of cost detail. Specifically, based on city specifications, contractors submit the bid price as a lump sum total for the construction project. However, in calculating the proposed lump sum bid amount on any construction project, contractors, similar to the City's practice, prepare detailed cost estimates and calculate allowances for profit and contingencies. While best industry practices require the City to fully consider contractor markups in developing accurate cost estimates, BOE did not have procedures in place to require standardized cost estimating assumptions, with standardized documentation reviewed and approved by BOE project manager.

The City's cost detail related to contractor markups, project contingencies and local market condition was inconsistent between projects and ranged from four to five percent for profit margins and one to five percent of total costs budgeted for contingencies. Although these cost estimates were prepared by professional estimators as sub-consultants of outside architects who apply proprietary methods to prepare projections, the BOE has a responsibility to ensure that such estimates are reasonable. Though BOE held meetings and provided comments regarding the estimates, our audit did not find evidence that BOE conducted a detailed review of these estimates to assess the rationale or test calculations to assure that amounts published for profit and contingency allowances were reasonable. We were told by BOE that the concept of relying on outside

professional estimators to provide cost estimates is based on the premise that the professional estimators are experts in their professional field and reliance on such expertise is similar to using outside services for appraising land, and are independent from City staff. Nevertheless, in calculating a project cost estimate, the City remains responsible for determining the appropriate amount of funds set aside for “range-of-variance” or the deviation between the estimated costs and actual use of time and materials, as well as project contingencies; thus, BOE should carefully review and account for such estimates. The assumptions used to determine contingencies, profit margins, and overhead should be sufficiently assessed, disclosed and documented. For example, in considering the examples of West Valley, North Central, and West LA, we found that the cost estimates did not appear to reflect the current market conditions, which raises questions about the accuracy and appropriateness of costing methods and assumptions used when preparing these project budgets and elevates the need for BOE to closely review and monitor these particular cost elements.

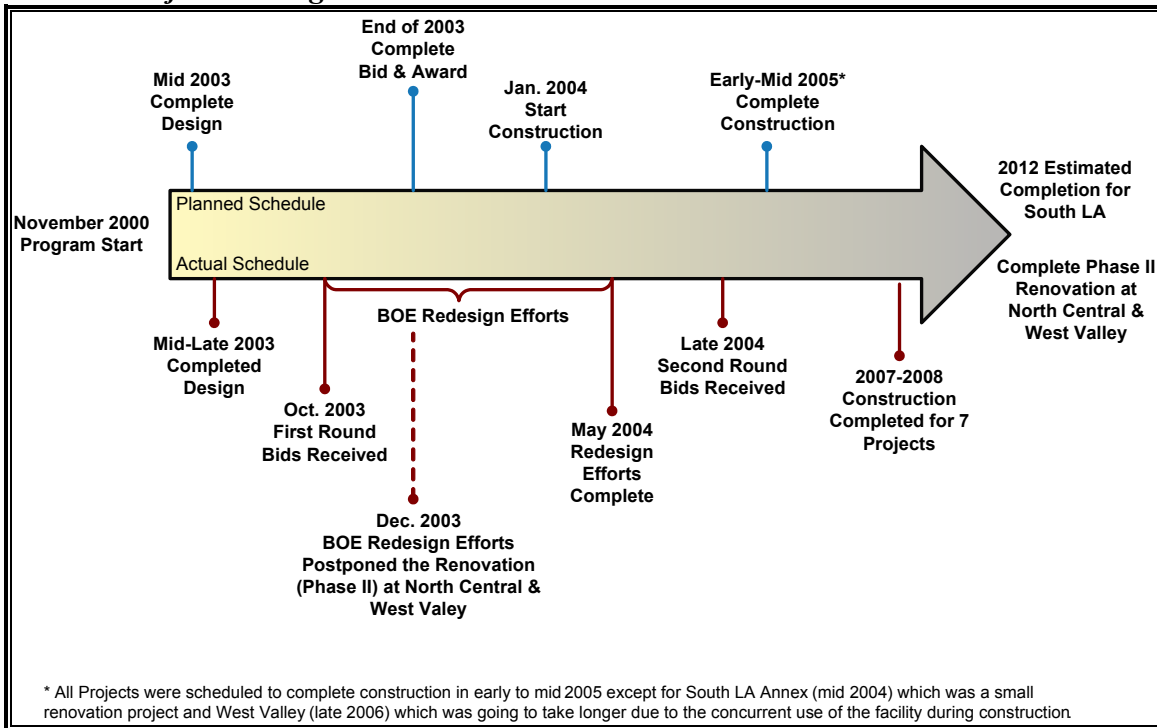
Further, contractor profit margins also reflect the risk undertaken by the contractor in terms of the project and the market climate. For example, knowing the economic climate during the bidding period, the North Central project would generally allow the contractor a higher provision for profit. However, the contractor’s profit was estimated by BOE’s consultant at only five percent, a margin likely to be seen in a highly competitive climate. We did note that a separate line item called “Local Market Conditions/Capacity Factor” was calculated on several cost estimates we reviewed; however, the cost allocated to this factor was a conservative one percent of the total project costs. When asked about these cost components, BOE stated it relied on independent consultants’ methodology to develop project costs, and the detail for individual cost items was not required from the architects. Moreover, various estimators employ different methodologies in developing project costs, and BOE did not perform comparisons of these cost development approaches. Although we found that the City made efforts to adjust project cost estimates in response to the higher than expected market prices in the examples of West Valley and North Central, the BOE should develop a standard approach to preparing cost estimates, both in-house and for work performed by outside consultants, that require frequently update of project costs to reflect market prices, and to apply consistent, relevant, and sound assumptions and methodologies for calculating project contingences and profit margins.

Although BOE Redesign Efforts Resulted in Program Cost Cutting, Construction Timeline Was Revised

The unusually high bids received in October 2003 for the West Valley facility prompted BOE to reevaluate its project delivery strategy. The higher than expected bid amounts revealed that Prop F projects could potentially be \$24.3 million over budget; thus, BOE faced a significant challenge to build eight animal shelters with significantly less buying power. To stay within the budget, the City engineers adopted a redesign, cost cutting and value engineering approach that affected all Prop F projects. This approach required carving out certain design features from each project in order to deliver Prop F facilities within established timeframes and within the original budget. Throughout this process,

BOE worked closely with outside architects and DAS’s Prop F representative in identifying various design features in the original blueprints that were acceptable to delete. Revising the design plans cost the City approximately \$400,000, or nearly 4 percent of the Prop F design budget, and the total impact on project delivery timeline was nearly two years. Prop F project schedules are presented in *Table 5, Project Redesign Schedule*.

Table 5: Project Redesign Schedule



At West Valley alone, as a result of redesign, cost cutting and value engineering, BOE consultants identified total cost savings of \$6.5 million. The changes made to the original plans included certain architectural, structural, mechanical, electrical, plumbing and renovation items that were deemed to not impede BOE’s progress in meeting the facility goals outlined in Prop F. Most of the design changes were reductions of non-critical and peripheral space, use of less expensive finishes, and the elimination of generally “nice-to-have” items that were not essential to the functionality of the animal care facilities. In Table 6 on the following page we highlight some of the redesign changes made at West Valley.

Table 6: Examples of Redesign Changes at West Valley

Description	Total Savings
Architectural/Structural Changes:	
Replace 5 year extended warranty with one year standard warranty	\$400,000
Eliminate “White Concrete”; use normal concrete painted at building walls, bare concrete on all kennels	\$715,000
Replace exterior porcelain enamel panels with painted, smooth trowel cement plaster	\$616,968
Reduce number of trees from 12 to 6	\$3,960
Mechanical Changes:	
Eliminate underfloor heating in kennels (cubbies remain heated)	\$45,000
Replace VAV system with multiple roof top packaged units	\$125,000
Electrical Changes:	
Eliminate Portable Generator Connection Box and manual transfer switches	\$20,000
Substitute lighting fixtures with equivalent photometric VE fixtures	\$50,000
Plumbing Changes:	
Eliminate medical gas system including nitrogen, oxygen, ISO manifolds, alarms	\$38,500
Renovation Changes:	
Savings resulting from the elimination of the kennel renovation (postponed until completion of South LA new facility)	\$1,170,549

Many of the decisions made during cost cutting and redesign efforts, such as deleting overhead radiant heating at some indoor kennels, for example, were considered critical to meet budgetary constraints. In making these strategic decisions, BOE worked closely with the design team, evaluating available options, and obtaining DAS consent on every design feature and budget item. During the process, the DAS representative objected to several proposed engineering changes. For example, the DAS representative objected to the proposal to eliminate radiant heating in half of the outdoor dog kennels. Currently, all outside dog kennels have heated floors in the area referred to as the “cubby area.” While overall, the BOE redesign efforts resulted in significant cost savings in the escalating construction market, some stakeholders argue that existing animal shelters lack certain desirable features. From a cost cutting perspective, proactive redesign and value engineering is one method to respond to escalating prices and maintain control over project budgets. However, the result was a decrease in the scope of all Prop F projects and the deletion of some of the design features from original plans. Additionally, at the West Valley and North East shelters it is anticipated that some deferred renovation features will be completed in 2012, pending availability of funds after construction of the South LA new facility.

South LA Project Shows Significant Budget Increases, Project Delays and Cost Inefficiencies

In 2000, the South LA facility (also referred to as “South Central”) was a \$16 million new construction project that was identified in the Master Facilities Study leading to Prop F. Since the Program’s inception, the South LA project budget has doubled to more than \$39 million as of June 2008, of which nearly \$32 million has not been expended. The new facility is still in the design stage and not expected for completion until 2012. In 2003, the Administrative Oversight Committee and the City Council put the project on hold for five years; consequently, the cost to complete the project has escalated. In addition to time delays on this project, our audit found that to-date, the City incurred nearly \$7 million in land acquisition and design costs that could be better managed. Mitigating the additional costs, the City identified an alternate City-owned property for construction of the South LA animal shelter facility. The design efforts at the new location have re-commenced in 2008. Currently, land acquisition and surrounding issues warrant further attention.

To gain a better perspective on the challenges the Program faced with the South LA facility, it is important to understand the timeline of events surrounding the land acquisition, design, redesign, and search for a new land parcel to build the facility. The sequence of events outlines significant land acquisition issues and the need for more coordination and risk management discussions preceding the design efforts and land acquisition on projects managed by BOE. In 2000, the construction of the new South LA shelter was deemed necessary to meet the City’s demand for animal shelters as outlined in the Master Facilities Study by Meyer & Allen Associates. Prop F authorized the design and construction of a new South LA animal shelter with a capacity of 270 dog kennels to be completed in 2005. In December 2000, the City advertised for consultants to develop design plans and provide construction estimates for a new South LA animal shelter facility, and the DAS began working with the General Services Department, Asset Management Division to identify desirable parcels of land for possible acquisition for this new facility.

When considering land parcels to acquire for the Prop F construction projects, DAS established definitive location requirements. Specifically, the land parcels needed to be between 50,000 to 100,000 square feet, and be located in high traffic areas to allow for public access and increased visibility. In 2000, DAS identified a property that the City already owned, a former police station location at 6000 St. Andrews Place, which satisfied the Prop F land requirements for the new South LA shelter. However, the property cost of \$3.45 million in 2001 was nearly double the Prop F budget for the South LA land acquisition. Additionally, the proposed land acquisition transaction was complicated by the fact that the property was originally purchased with funds from another bond program, Prop 2, and a direct sale was not permissible by the bond requirements. For Prop F to acquire that parcel of land, the City needed first to reimburse Prop 2 for the land using General Fund monies, and then sell the property to Prop F for the animal shelter project.

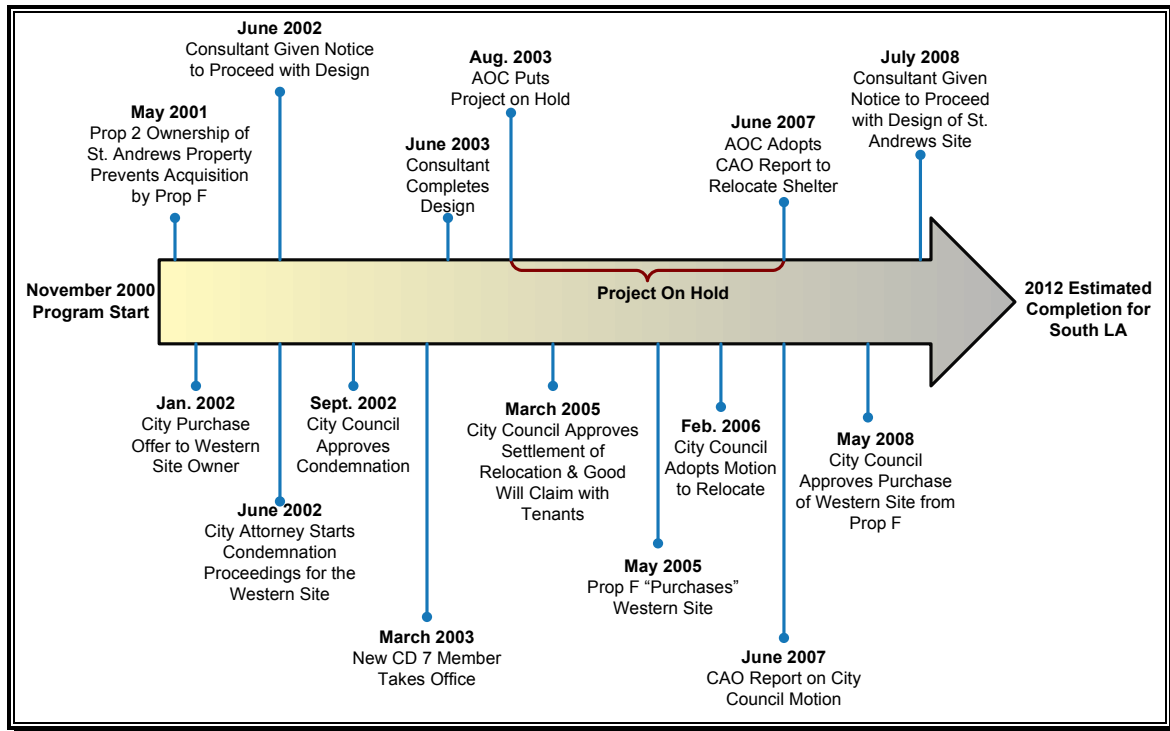
Because of these considerations, Prop F continued searching for additional land parcels and in 2001, DAS identified another location at 5975 Western Avenue located within one block of the previously discussed Prop 2 property. This new location fit the DAS animal shelter space and high traffic requirements. While several other location options were considered, issues relating to high purchase price, inadequate parcel size, and tenants' lack of willingness to negotiate the sale persisted. The City appraised the Western Avenue property and in January 2002, made an offer for \$1.9 million; however, the property owner was not responsive, and the City began a condemnation process. By December 2002, all the tenants and the owner had been served with court orders of 'Order of Immediate Possession' for the City, which started the condemnation process. City ownership was granted in 2005 at a cost of over \$5.8 million including land, tenants' relocation and legal costs. During the three years of legal process to acquire a parcel of land for the South LA shelter, in 2002, BOE issued a "notice to proceed" to an architect consultant for an animal shelter design that addressed the space and environmental requirements of the Western Avenue property. The Administrative Oversight Committee made an assumption that the land acquisition issues would be soon resolved and the construction phase would follow. The architect completed design plans for the South LA shelter on Western Avenue in June 2003. However, the City did not receive rights to the property until May 2005. Subsequently, the City Council made a decision to relocate the South LA animal shelter to a new location, thus, further delaying the project completion.

South LA Costs Incurred To-Date, 2000-2008	
Land Acquisition- Original Site	\$5,876,796
Design Cost:	\$1,010,856
Construction Cost:	\$25,672
Other Direct Costs:	<u>\$126,008</u>
Total:	\$7,039,332

Of the \$7 million costs incurred to-date, the City expended nearly \$1 million in design costs prior to completion of the land acquisition. Nearly \$6 million was spent on land acquisition and legal costs surrounding the condemnation proceedings. When discussing the

series of events that occurred on the South LA project with the BOE project management, we are told that the project planning and phasing for South LA were similar to other Prop F projects where in order to meet tight project deadlines, many of the project activities were performed simultaneously. Specifically, on this project we found that the pre-design, land acquisition and design activities took place as the City was trying to settle the condemnation process and finalize the purchase of land for this project. From the onset of the Program, the South LA project followed the same processes and procedures for a new construction facility project required for the purchase of land as for the other Prop F sites. For this parcel, the key milestones included finding land meeting the DAS facility location requirements, surveying land, obtaining geotechnical reports, acquiring the land, developing pre-design estimates, and preparing designs.

Table 7: South LA Key Project Milestones



In the summer of 2001, the programming consultant, Meyer & Allen Associates outlined key milestones, including pre-design, escrow period, architectural design, relocation demolition, bid and award, construction and move-in. While the Program schedule was generally adopted based on Meyer & Allen’s analyses and estimates, there was little mention of issues related to land acquisition and no accounting for “escrow” delays. According the communications between BOE program manager and the City-hired architect, the assumption was that “the escrow period would take six months which would be more than sufficient and need only be this long if discretionary approvals, such as conditional use permits are required. Normally, the escrow is timed to close when the pre-design activities are complete and is extended if the pre-design activities require more time. The escrow period can be as short as three months.” Thus, in early phases of the projects, pre-design activities such as geotechnical surveys and reports, environmental impact studies and conditional use permit review and approvals, as well as preliminary site designs and master planning would take place parallel to the “escrow” phase. While this approach worked at the Harbor, Northeast Valley, West LA, and East Valley—each project requiring new site acquisition—the plan did not work for South LA. The land acquisition phase extended from 10 months as originally planned to nearly five years—from June 2001 to May 2005 when the City signed the deed for the parcel on Western Avenue.

While the City expected to gain ownership of the property prior to starting the design, and certainly by the time design was completed, the City was not able to resolve the land acquisition issue in time for the Program to seamlessly transition to construction on this project. There is no specific requirement at the BOE that prohibits the start of design

efforts prior to completing land acquisition, and this process appears to be the general practice. Additionally, we are told that current City procedures relating to land acquisition as a result of eminent domain or condemnation proceedings allow BOE to start construction as soon as the City is granted ownership rights, which implies that BOE can have the design work completed prior to that date. Specifically, when issuing the “notice to proceed” to consultants for design work, the BOE is not required to ensure that the City has ownership of land of choice for project location. However, as BOE incorporates the lessons learned from Prop F, we recommend BOE to establish a process for identifying potential land acquisition and design related issues and evaluating the effect these risks might have Program-wide. Towards this end, BOE should establish a project risk management approach; work closely with the City’s designated land acquisition group to identify and review potential land acquisition issues to minimize potential design cost losses due to the unrealized purchase of land.

Relocation of South LA Project to a New Site

In addition to the South LA project experiencing cost increases due to land price escalation and legal costs related to the condemnation process, in March 2003, another challenge arose that contributed to additional project costs and time delays. Specifically, the newly elected Councilmember to the 8th District did not share a vision of his predecessor in building an animal shelter facility at 5957 Western Avenue site. Rather, he advocated expanding commercial and light industrial uses along Western Avenue. Although the City was still in condemnation proceedings for the property, in August 2003, the Administrative Oversight Committee decided to place the South LA project on hold. A formal decision specifying a new location for the South LA shelter was not made until February 2006 when the City Council approved the site located at 6000 South St. Andrews Place—the former police station property—the location originally considered for acquisition back in 2000. In November 2005, the City Council directed the Chief Administrative Officer (CAO) to report on the “feasibility of moving the location for the South LA shelter from the Western Avenue to the St. Andrews Place location.” Subsequently, in June 2007, the CAO presented its report to the Administrative Oversight Committee, that approved construction at the former police station site (St. Andrews). As a condition of the transaction, due to the nature of the public bond financing, the City was required to acquire the property first using General Fund monies at which point it could rededicate the land use for Prop F.

Recognizing that Prop F expended over \$7 million on the Western Avenue site, according to the reports issued by CAO in May and June of 2008, the City is proactively looking for ways to recover these Prop F funds spent. Specifically, the City has determined that the Community Redevelopment Agency (CRA) will acquire the Prop F property for its currently estimated market value of \$4.875 million. Prop F will acquire the St. Andrews parcel City property valued at \$3.975 million at no cost to the program which will help offset the previous land acquisition costs and will use the site for the new South LA animal shelter. However, our audit revealed that of the \$4.875 million, CRA identified only \$4.2 million for the property acquisition, and the City is currently looking for additional funds to cover a \$675,000 shortfall. Additionally, as of June 2008, neither of the properties discussed had been declared as “surplus” properties, a necessary step

before the City can authorize the sale of these land parcels. Given the time required to complete these transactions, the plans to finance the new South LA project should be carefully monitored. As of June 2008, although the new site is owned by the City, the Prop F has not finalized the land acquisition transaction. Without the land acquisition being finalized, the City Council has directed to begin preliminary design work on the new location.

Chapter I – Recommendations

To ensure Program planning and delivery on time and on budget, we recommend the BOE consider the following:

1. Develop a process to closely track market conditions. Review project cost estimates and update project costs on a regular basis to reflect current construction market conditions;
2. Establish cost estimating guidelines. Review design estimate work performed by outside consultants and validate assumptions for developing estimates for contingencies and profit margins;
3. Establish a formalized comprehensive approach to developing and monitoring cost estimates, including accounting for contingencies and contractor profit margins; and
4. Develop project risk management approach to project delivery to mitigate exposure and unnecessary costs. Specifically, the project risk assessment process should include identifying land acquisition and early design risks, cost escalation factors, and other risks to assist in better project planning and monitoring.

Chapter II –Stronger Controls Over Cost and Design Changes Are Needed To Improve Program Efficiency

Overall, BOE has controlled Prop F change order design changes within the City and industry standards of 10 percent to 15 percent. Further, change orders resulting from design errors were well controlled and tracked. Overall, all project-related data was well organized and readily available in an electronic database, including project documentation, communication and correspondence, key project milestones, drawings, and various other information. Although the change orders totals were tracked by separate categories, such as errors and omissions, unforeseen conditions, and scope changes, the dollar value of facility changes initiated by DAS and other stakeholders was not identified as a separate category. The individual change orders contained information showing owner-initiated requests, however, these changes were intermingled with all other scope changes. While we noted frequent communications between DAS and BOE related to design modifications, BOE may benefit from closer monitoring of owner-initiated design changes, which could assist in the overall project management. Further, better controls and protocols over elective design changes are needed.

Owner-Initiated Design Changes May Need Closer Review

Over the Program's life, changing statutory requirements, increasing animal advocates' involvement, and the City's adoption of the "no kill" policy in August 2003 had a significant impact on the public perception of the adequacy of animal facilities as they were being built to provide animal care and promote animal adoptions throughout the City. Specifically, the DAS change in practice to increase the number of days to hold animals at these facilities coupled with the Department's goal to improve the quality of animal life prompted DAS to request special features to be built at the new animal shelter facilities. Also, throughout the life of Prop F, DAS has had five different General Managers to oversee the facilities design and implementation that may account for a lack of consistent coordination of the DAS internal decision-making processes relative to developing and modifying design features of the new DAS facilities.

Although design changes during construction are typically controlled through change orders, BOE reported nearly \$1 million in additional construction work that was procured outside of the general contract and included improvements to facility design implemented at the project owner's request. Such changes are referred to as "elective" design changes. Additionally, the Prop F total change orders were over \$6.5 million, nearly \$2 million of which were project scope changes, including changes initiated by DAS during the construction, that were not monitored as a separate change order category. The total impact of the owner requested changes, however, were identified in the description of reasons for changes in the change order documents. Although BOE's philosophy is to accommodate the client's request and work closely with the owner to resolve any facility issues, (which are typically made based on availability of project funds), Prop F and DAS should consider a more proactive approach to tracking these design changes, as well as the status of stakeholders' and DAS requests to modify facility designs. Further, these design changes should be reviewed and noted as "lessons learned" to be applied on future animal facility projects.

As the Prop F facilities were being built, frequent complaints about the new facilities not able to provide protection from inclement weather for dogs prompted the DAS to request BOE to install additional awnings and canopies that were not part of the approved design plans and accounted for additional \$400,000 during the construction. Another example illustrating an owner-initiated request is the replacement of an asphalt roof with a clay roof at the Northeast Valley shelter, which increased project cost by nearly \$170,000. In the Northeast Valley example, the DAS and the BOE organized community meetings to introduce animal shelter projects and solicit public feedback on facility designs. The Northeast Valley animal shelter was initially designed to resemble a historic mission located in the vicinity. In 2003, to deliver the projects within budget, BOE proposed cost cutting changes to replace clay tiles with grey asphalt shingles for construction of the shelter roof. However, at the ground breaking ceremony in late 2005, the Council Office Member and the Community members requested that asphalt roof be restored to the original clay roof emphasizing the importance of an overall “mission style” appearance. The DAS Program liaison as well as the BOE Program manager supported the change to help address similar requests received from members of the community and DAS. The elective change initially was estimated at \$87,000, however, four subsequent change orders deemed necessary to complete the design change increased the total cost to approximately \$170,000 or 14 percent of nearly \$1.2 million in change orders incurred at this location.

Although the changes were appropriately approved and, in the Northeast Valley example, the contract bid permitted the additional cost, BOE should ensure appropriate consideration, review and approval of elective design changes, and ensure these changes are evaluated and prioritized. Also, BOE has been promptly addressing the changing needs of the DAS to improve certain facility features including installing water misting system at the Harbor shelter and modifying barn structures at Northeast and West Valley that were initially designed and subsequently scaled down to cut costs in 2004. Currently, BOE is working with DAS on placing additional wire mesh over kennels fences to protect the public from potential dog bites. The above examples show the need to better track and monitor design changes implemented at DAS and other stakeholders’ request. For instance, BOE should consider establishing a policy to prioritize elective design change orders and afford these changes a broader discussion at appropriate decision-making level.

Design Lessons Learned

Throughout this audit we talked to dozens of Program stakeholders, including members of the Citizens Oversight Committee, the DAS operational staff, Prop F management as well as the DAS Commissioners—for the most part, all had mixed responses when asked about the new facilities and Program’s achievements overall. While generally all stakeholders recognize that the new facilities increase animal holding space and provide an important alternative to the run-down shelters that the City had in 2000—for example, one of the old facilities was a single family home—only when we talked to the engineers and construction inspection staff did the magnitude and technical challenge of this Program come to light. In the construction industry, animal services facilities are considered projects of high complexity, each requiring specialized-use medical rooms,

unique drainage and plumbing requirements, air ventilation, sophisticated heated flooring devices in dog kennels, as well as other special equipment needs. Prior to Prop F, the City had not invested in an animal shelter facility for nearly 30 years, and the City lacked the design and construction expertise in building specialized animal care facilities.

In 2001, the BOE contracted with an architectural firm to design Micro-Level Space Program Requirements which served as a design specifications guide on all Prop F animal shelter projects. From the Program's outset, all eight facilities were planned to be launched at about the same time, which allowed for no time to apply "lessons learned" from one facility to another. In developing facility design blue prints, the City outsourced the Program design to consultants for all but one facility—the Harbor facility was designed in-house by BOE staff. After eight years of project delivery, the Program is now in a good position to consider design lessons learned for application on future projects, especially the ongoing South LA animal shelter project. While the following examples highlight some of the design improvements that have been made at the animal shelter facilities, BOE should begin a Prop F lessons learned process where post-construction issues raised by DAS are identified and solutions are implemented on a go-forward basis.

➤ Bird Aviaries

The DAS staff indicated that some of the animal shelters did not have a vestibule built as part of the bird aviaries. Our review of the Micro-Level Programming plan revealed that a vestibule, a feature that is required to keep birds from escaping into the open when feeding or cleaning their cages, was not included in the original specifications for bird aviary design. As such, architects who designed the facilities at West Valley, West LA, Northeast Valley, and East Valley omitted the vestibules in their architectural plans, and four animal shelters were built without the bird vestibules. Subsequently, BOE has corrected the issue by constructing additional gate structures to prevent the birds from flying out.

Additionally, we noted inconsistencies in implementing aviary designs across all animal shelter facilities. For example, at North Central and Harbor the vestibules were included in the facility-specific design plans. However, other facilities were built without the vestibules. It is important to note, that because the design and construction at Prop F facilities occurred simultaneously at all projects, BOE had little opportunity to apply the lessons-learned at Harbor and North Central at other facilities.

While this design error was corrected at East Valley during the construction phase, the vestibules were just recently added to the West LA, West Valley and Northeast Valley costing the Program approximately \$12,000 according to the Program Manager.

➤ Loading Dock

At the Northeast Valley shelter, we heard complaints from DAS operations staff stating that the loading dock area is not functional as the design specifications do

not meet the facility's need. Specifically, larger commercial vehicles delivering animal food, supplies and equipment cannot utilize the loading dock space due to a height clearance issue. We were told by DAS operational staff that trucks cannot use the dock because an architectural arch at the entrance to the driveway is too low for the trucks to access the area. As a result, supply deliveries must be carted-in. Our review of redesign documentation revealed that in June 2003, when BOE redesigned the loading dock, food and general storage areas at a request of the DAS, a design concern related to the loading dock was related to BOE. According to the Program Manager, the General Services Department is currently in the process of modifying the arched entrance into a straight edge design to allow for sufficient clearance for larger delivery vehicles.

➤ Awnings

At the request of DAS, the BOE separately procured and installed awnings and canopies covering dog kennel and public walkway areas (envisioned as part of the early Program design plans, but never approved nor incorporated into the final designs) at the Harbor, East Valley, North Central, Northeast Valley and West Los Angeles facilities for a total cost of nearly \$400,000. Because the awnings were not part of the approved design plans in 2004, the effect of these design features on the overall facility use was not considered. After the awnings were installed at East Valley and North Central, BOE received several complaints from DAS and stakeholders saying that the awnings caused rain water to accumulate behind the wall in the dog cubby area which resulted in water leaking into the cubby. To remedy the situation, BOE has since installed metal flashings to redirect the rain water flow away from the cubby area and towards the drain. The total cost of additional work at all Prop F facilities was approximately \$100,000.

DAS Concerns and the Need for Facility Training

Our visits and walk-throughs at selected animal shelter facilities revealed numerous DAS staff concerns about operating the newly built facilities. Additionally, public concerns about animal care at shelter facilities have been raised at DAS Commissioners' meetings. Generally, we are told that these concerns are addressed by DAS Management who forwards the facilities-related complaints to the Prop F Program manager for resolution. Although a certain amount of post construction work relating to equipment or facility defects may be anticipated on large construction projects, BOE should ensure that follow-up work that is currently required at the newly built facilities is considered as part of design development on future projects.

The following section provides anecdotal examples of some of the design and operational/training concerns and BOE's approach to address them. On a go-forward basis, our recommendation is for BOE to memorialize a design lessons learned document for Prop F, and for DAS management to ensure that adequate training is provided to DAS staff operating the new facilities.

Examples of DAS staff concerns:

- During our visit to the Harbor animal shelter that opened in June 2008, the main complaint from the DAS operational staff was the lack of a misting system for the dog kennels. Specifically, at the grand opening ceremony, community members raised concerns over the well-being of the dogs and their ability to cope with the high temperatures during the summer months. Our review of the Micro-Level Plan, which has the specifications for all shelter locations, showed that a misting system for the outdoor portion of the kennels was required. However, as a result of cost cutting and redesign measures, the misting system was eliminated based on “100 year climate data” which for the Harbor area indicated a mean temperature of 79 degrees according to the DAS Program Representative. As such, the cost cutting decision to omit the misting system appeared reasonable on the basis of the “100-year climate data.” Subsequent to our visit, we learned that by late July 2008, a misting system paid for by Prop F has been installed and shelter staff was given training on how to operate the system. Some additional concerns we heard regarding the misting systems at all shelters were related to misting system maintenance.
- The Harbor shelter staff also believed that the cat cage room where adoptable cats are held is not adequately designed to maximize the space for cat cages. The existing layout as defined in the Prop F Animal Facilities Micro-Level Programming document has 24 cat cages with mostly one cat in each cage. Yet, DAS staff indicated that the shelter currently has 109 cats that are kept in the isolation and/or quarantine rooms or other locations in the facility since there is no space in the cat cage room for them (the staff did not make a distinction if those 109 cats were adoptable or not). However, with only 24 cat cages accessible to the public, staff believed that the other cats are not given a fair chance at adoption. We were also told that there are too many cages installed in the isolation and quarantine room (12 cages in each room) that were not fully utilized. Overall, DAS management stated that the facility design plans that were developed in 2000, may not adequately address the Department’s current operating needs.

In contrast, shelter staff at other locations that had the same number of cat cages as Harbor did not indicate any issues with showcasing adoptable cats with the existing number of cages. However, the in-flow of animals may differ at various shelter locations. For instance, a West LA staff indicated 90 cats were held during our visit compared to 109 reported being housed at the Harbor location. Further, the West LA location seemed to have experienced more community involvement and better adoption rates than at Harbor.

- Similar to the space issue for the cats, staff at the Harbor location indicated that the reptile room is too large while the adjacent rabbit room is too small in proportion to the number of reptiles and rabbits being held. Unlike the other shelters where the initially designated rabbit area was outdoors and staff had to move the rabbits into makeshift rabbit rooms indoors, the Harbor facility had a

fully enclosed and air-conditioned rabbit room. The cages were single-stacked at eye-level for convenient viewing of the animals. However, shelter staff did not understand why the cages were only single-stacked instead of double or triple stacked for maximum holding capacity. This single-stack layout required staff to hold additional rabbits outdoors. On the other hand, the reptile room next door was quite large and only held one or two reptiles.

- Shelter staff at the Harbor location indicated that the radiant concrete floor heating in the dog cubbies cannot easily be “turned on and off” as needed to allow for cooler temperatures in the cubbies which may cause the cubbies to become very hot during the day. In discussion with the Program Manager, we learned that hot water circulation will only incur when the ambient temperature is less than 70 degrees Fahrenheit. Since the night-time temperatures can significantly drop, it is not recommended to manually adjust the temperature from day to night time since the concrete takes quite some time to warm up again once it’s been cooled down. Moreover, the heating concerns have since been addressed as DAS staff gains experience in operating these facilities. Also, BOE provided training on operating the heating system to both GSD and DAS staff. It appears the lessons learned in training need to be better disseminated among the DAS staff working at these facilities.
- DAS staff at the Northeast Valley shelter expressed concerns regarding the concrete flooring in the dog isolation kennels, where DAS claimed that the floors did not appear to dry easily due to inadequate sealing of the floors. However, according to BOE, if inadequate sealing were an issue, the water absorption would increase, which is not the issue. Later, the DAS Program Representative indicated that this concern has been resolved and the reason behind the floors not drying was because staff kept the doors to the isolation kennels open causing a malfunction of the air-conditioning system and consequently the moisture accumulating on the floors.
- Additional items of concern at different animal shelters included lack of a scavenger system in the spay and neuter clinics; cat rooms at the East Valley facility and reptile room at the Harbor facility having inescapable direct sunlight exposing animals to temperatures higher than they can withstand; DAS preference not to use heating rocks as a heating device at animal facilities; frequent drainage issues; lack of a safety rail; broken hose reels; among other operational issues. According to BOE, the sunlight control for the reptile room was to be accomplished with window coverings which could not be provided by the Prop F program due to the bond funding restrictions, as spending not allowed for any DAS equipment or operational items. The drains, as designed, are open trenches with removable covers to enable easy cleaning. The safety rail at the loading docks could not be provided because of the operational necessity for loading from the docks onto the Bureau of Sanitation trucks. Currently, all animal shelter facilities have been transferred to the General Services Department for maintenance.

Chapter II – Recommendations

To benefit from knowledge and experience gained in Prop F management and project delivery, the BOE should implement the following protocols:

5. Consider monitoring owner-initiated design changes by separately tracking design change orders initiated by stakeholders and owners during design and construction;
6. Consider developing animal facility design and construction standards to ensure lessons learned are incorporated into ongoing work on future animal facilities;
7. Develop a “lessons-learned” document to memorialize design and project delivery issues and resolutions learned on Prop F projects; and
8. Increase training assistance provided to DAS operational staff on facility operations.

Chapter III – Other Areas for BOE and DAS to Consider

Over the Prop F lifecycle, the City expended over \$9.6 million in project design costs, including outsourced project management and engineer consulting work expenditures. Given the volume of consulting work outsourced by BOE, documenting contract award procedures is a critical step in the project delivery process. Our audit found instances where BOE could improve its practices to document the consultant selection processes. Specifically, we found examples of insufficient evidence to support the competitive contract award and task order solicitation practices at BOE. Further, several contracts awarded by the General Services Department (GSD) lacked supporting documentation.

Additionally, we heard various concerns raised by the Program stakeholders and DAS regarding inadequate opportunity afforded for their participation in the redesign efforts and the decision-making processes to eliminate certain design features in light of cost cutting that was needed to realign projects given budgetary constraints. This chapter describes examples of areas that warrant BOE and DAS attention.

Documenting Consulting Contract Award Processes Needs Improvement

In December 2000, BOE released a Request for Qualification (RFQ) to 300 architectural and engineering firms for the design of city animal shelters. Our review of BOE contract award documentation revealed BOE Board minutes summarizing a competitive RFQ process. However, we found limited records of the supporting documentation showing the detailed review of the proposals, criteria used to invite firms for interview, evaluation records such as scoring sheets or interview notes to assure that each step of the contract award process occurred in accordance with the BOE policies and procedures as well as best contracting practices. These practices were described by BOE in their report to the Board of Public Works.

The RFQ for animal facilities design included information regarding the process for review and evaluation of consultants who submitted their statement of qualifications. The highest-ranked firms based on the evaluation criteria outlined in the RFQ were to be invited for interviews. The RFQ also specified that the selected consultant may be awarded a single or multiple projects because Prop F included eight facilities. Although BOE received 30 statements of qualification from prospective architects and engineers, there was no established process for selecting the firms for interview, and we found no interview records to support BOE's decision to award contract to 5 firms for Prop F program and construction management. While the Board of Public Works reports listed the individuals who were on the evaluation committee, including chief deputy engineer, City architect, staff architect, program manager, and the DAS Program representative reviewed prospective consultants' qualifications, we found limited copies of records supporting the decision-making process for inviting 11 of the 30 firms to interviews and subsequently awarding contracts to 5 of the 11 consulting firms. Though BOE described a competitive and systematic process in their report to the Board of Public Works, without documentation relating to the contract award process, BOE's contracting decisions can be challenged.

In another example, we found that the solicitation and evaluation documentation for two personal and professional services contracts procured through GSD and an additional four contracts solicited directly by BOE were not available for our review and appeared misplaced or lost by either party. Similar issues were noted in the 2005 City Controller's audit of contracting practices at the Department of Public Works. Because this audit covered contracts awarded during the same time frame, we believe that the issues described above may not be Prop F program-specific, but represent flaws in BOE's approach to contracting in general during the early 2000's. Because the vast majority of the Prop F consulting projects were procured between 2000 and 2005, contract review beyond that time frame was outside of this audit scope.

Additionally, when reviewing consultant invoices, we found three of the fourteen items that were not formally authorized by both the BOE's project and Program managers, and contained only one of the two required signatures. To strengthen the invoice review process, BOE should ensure that the appropriate staff completes all of the appropriate steps in the invoice approval process, including comparing the invoice amounts to contract agreement and reviewing the supporting records for evidence of the goods and services received.

Process to Address Stakeholders' Concerns Warrants Greater Coordination

During the Prop F lifecycle, the changing public perception of the adequacy of animal treatment necessitated various design changes at the animal shelter facilities. From the Program outset, stakeholders were involved in the review and approval of the facility designs. In late 2003 and early 2004, numerous design changes were made as a result of the BOE's cost savings efforts to deliver the projects on budget. Although the existing Memorandum of Understanding (MOU) agreement between BOE, DAS and GSD for delivering Prop F animal facilities specifies that the DAS authorized representative is responsible for "determining the appropriateness and organizing citizen outreach efforts," we found no additional DAS protocols outlining DAS internal roles and responsibilities to ensure DAS fulfills its obligation relative to the interdepartmental MOU. Although our review of the Citizen's Oversight Committee minutes and various correspondence showed sufficient efforts taken by the DAS representative to facilitate stakeholders' involvement in developing the original design plans, the cost saving design changes were not fully vetted with the operating staff and stakeholders.

The facilities design modifications that were authorized by the designated DAS and BOE staff, as appropriate, did not appear fully disclosed to the general public, nor the DAS Commissioners, which created gaps in public expectations of the new Prop F animal shelter facilities. While BOE was proactive in addressing the DAS requests for design changes, to mitigate stakeholders' concerns, any significant design changes should be thoroughly disclosed throughout the redesign process. Towards this end, DAS should establish necessary protocols to streamline the stakeholders' input, including logging concerns, complaints and requests, and tracking progress in addressing and resolving issues relating to such requests.

Although stakeholders' suggestions for animal shelter design were incorporated into the Prop F original program design plans between 2001 and 2003, the subsequent design changes that occurred during the cost cutting phase were not clearly communicated to the stakeholders. However, the design changes were agreed upon by the BOE Program Manager and a designated DAS Prop F representative in accordance with an existing agreement between BOE, DAS and GSD outlining key Prop F roles and responsibilities in delivering animal facility projects, and were presented and discussed at public meetings of the Administrative Oversight Committee and the Citizens Oversight Committee.

Addressing the development of shelter designs and incorporating stakeholders' suggestions into the design plans was the primary goal of Prop F between 2001 and 2003. During 2000-2001, DAS coordinated various meetings and sought out opportunities to organize community forums, focus groups and promote general discussions of Prop F animal facility plans. Unfortunately, we frequently heard in our interviews with the Citizens' Oversight Committee that during the early years, in 2000-2001, the public participation and interest in attending the Citizens' Oversight Committee meetings was very low. We were told that many times people would not show up to meetings that were held monthly. Records from those meetings also point to low levels of public participation. However, it appears the DAS and BOE staff put forth a reasonable effort to attend Citizens' Oversight Committee meetings and increase public awareness.

Also, our audit revealed extensive participation of the DAS operational staff in assisting BOE's architects to develop early schematic designs as well as providing input to make design adjustments during the design phase. Specifically, we identified the following various levels of involvement of DAS in the facilities design process:

- In 2001, focus group and interview sessions involved the BOE architects and the following key DAS operational staff:
 - General Manager
 - Chief Management Analyst
 - Director of Field Operations
 - Chief Veterinarian
 - Senior Management Analyst II
 - Operational staff including different animal care technicians, supervisors, registered veterinary technicians, animal control offices, supervisors, as well as district managers and clerical staff.
- DAS staff completed questionnaires and surveys to identify staff and space requirements of each animal shelter facility, which were reviewed and considered by engineers developing facility designs for Prop F.
- Facility tours were conducted by architects to interview operations staff and determine space requirements and needs of DAS at the planned facilities.

- The DAS representative worked closely with BOE engineers and the facility architects to develop space requirements for each facility, including working space requirements.
- In 2002, a Design Guideline Workshop was conducted by DAS and Meyer & Allen & Associates where desired features of animal shelter facilities were discussed and architectural designs were presented to DAS key management and operational staff.

While the above-mentioned efforts assisted the architects and the BOE to develop Micro-Level Space Requirement guidelines, each animal shelter project had a different architect. Every architect made three presentations of “alternative schemes” of the building facilities to the community, Animal Services Commission, as well as the City Engineer. The key points of the presentations involved analyses of the schematic alternatives, energy efficiency, indoor air and environmental quality, preliminary material selection and construction practice strategies, including implications to building form, construction costs as well as maintenance costs.

Also, the DAS Board of Commissioners bi-weekly public hearings provided an ongoing venue to voice public concerns regarding the animal facilities. The DAS General Manager and the DAS Prop F liaison were frequently part of these meetings, and usually, DAS Commissioners forwarded public complaints regarding facility use to DAS General Manager. Our review of the DAS Commissioners’ meeting notes revealed a wide array of public attitudes and opinions regarding the treatment of animals at the City facilities. Generally, the suggestions for improving animal shelters varied from person to person. Further, no clear protocols were established to facilitate a decision-making process to move the design-related issues forward for review and consideration. Additionally, when visiting the animal shelter facilities we found that the public perception of utility and aesthetic qualities can vary widely from person to person. Various DAS staff demonstrated different attitudes towards similar facility design features. This suggests that when building a new facility, choosing a particular design or room layout often could be a matter of personal preference. For instance, when commenting on functionality of a community room utilized for volunteer training and community events at the East Valley facility, one DAS staff stated that the room provides for large open space and is used for volunteer training and community events. In contrast, a different DAS staff member believes that the design layout for the facility, specifically the community room, did not adequately address the facility’s space needs. Nonetheless, to facilitate DAS stakeholders’ input into the overall design development, and using the experience and the lessons learned from this program, DAS should develop clear procedures and protocols to log, review, address and track stakeholders’ concerns regarding Prop F facilities and ensure the process is explained to the public at meetings with DAS Commissioners.

BOE May Benefit From an Internal Audit Function

While the Prop F language requires the Program undertake annual audits, our review is the first external audit of the Prop F Animal Facilities Bond Program. We found various examples where BOE’s cost management and redesign work processes could be

improved. Additionally, implementing the lessons learned will help maximize efficiencies in future projects. To continuously identify areas of improvement and ensure the quality of work performed for the Prop F as well as department-wide, BOE could consider developing an internal audit function reporting to the Administrative Oversight Committee and the Public Works Board of Directors.

Chapter III – Recommendations

To address issues described above, our recommendations for BOE are as follows:

9. Ensure proper documentation of contract award process including short-listing of firms for interviews, interview evaluations and ranking criteria;
10. Consider establishing an internal audit staff to monitor on-going Program activities, identify areas for improvement, and report to Administrative Oversight Committee and Board of Public Works; and
11. Assure payments are properly approved by the program and project managers.

To ensure DAS fulfills its roles and responsibilities outlined in the MOU relative to the Prop F animal facilities project delivery, DAS should:

12. Establish protocols outlining DAS internal roles and responsibilities relative to the Prop F animal facilities bond program; and
13. Streamline stakeholders' and DAS-initiated design change request process by logging requests and monitoring progress made towards resolving issues throughout the project lifecycle.

Chapter IV – DAS Operating Budget Deficit Delays Full Operation of Northeast Valley Shelter

One of the key goals of the Prop F is to increase the number of animal adoptions throughout the City. A way to achieve this goal is to keep the new animal shelter facilities open to the public and promoting community events and outreach. While the City has delivered seven of the eight facilities under Prop F, the newly built Northeast Valley shelter is currently not open to the public and operates at approximately 50 percent capacity. Severe budget cuts across the DAS in fiscal year 2008-2009 had a negative impact on shelter operations, which has made fully operating the Northeast Valley facility infeasible.

In fiscal year 2007-2008, the department's operating budget was \$21.3 million. With six of the eight facilities delivered to DAS in Fiscal Years 2006-2007 and 2007-2008, as of November 2008, the Department reports it is unable to fully staff and operate one of these facilities due to City-wide budget cuts. Although Prop F suggested DAS receive an additional \$300,000 as a one time set up fund from the General Fund for each facility opened, the City-approved DAS budget cuts for fiscal year 2008-2009 bringing its operating budget to \$20.3 million. DAS management stated that because DAS staff salaries also increased by 7 percent, and no budget adjustments were made to account for this increase, the Department is facing nearly a \$2 million budget shortfall. Notwithstanding the need to fund the Northeast Valley facility for full operation, the fiscal year 2008-2009 budget does not contain sufficient funding to staff this shelter and open it to public. Currently, the shelter is used to house evidence animals, those rescued during emergency evacuations, and sick or otherwise unadoptable animals, and is operating at about fifty percent capacity.

In fiscal year 2007-2008, the City required DAS to prepare a strategy for a budget reduction of \$1.78 million, or eight percent, which the department estimated would be approximately 40 positions. Considering that over 90 percent of the DAS's budget reflects salaries, the Department stated that an eight percent efficiency reduction would automatically result in a decrease in services to the public. Prior to the City's adopting its budget, the DAS was given an opportunity to present various case scenarios to achieve the required budget cuts. Although the Department was prepared to consider cutting costs based on one of the four proposed scenarios, the City selected two scenarios instead. Specifically, the cost cutting options involved the following:

- Scenario 1: Close one shelter altogether—estimated \$1.9 million savings and includes the elimination of 42 staff positions.
- Scenario 2: Close one shelter to the public and use it to hold evidence animals, house all special operation staff, conduct all training classes, and host community meetings at the facility—estimated \$1.3 million savings and includes the elimination of 29 staff positions.

Scenario 3: Open all shelters only four days a week with extended hours—Thursday through Sunday—estimated \$1.9 million savings and includes the elimination of 43 staff positions.

Scenario 4: Open all shelters for reduced hours—Tuesday through Saturday, seven hours a day, and five hours a day on Sunday—estimated \$1.9 million savings and includes the elimination of 43 staff positions.

To achieve the desired budget cut, City choose two of the proposed scenarios—Scenario 2 (evidence center) and 4 (reduced daily operating hours). This level of cutback required layoff of 31 workers to achieve the savings. According to DAS, ultimately, a few weeks before implementation of reduced hours and the September 30th layoff date, funds were added back to the DAS budget to avoid layoff and cancel the hours change. However, no additional funds were made available for full operation of the Northeast Valley shelter. While the DAS General Manager is currently working with the City Council to find additional resources, and is working with the General Services Department to assess the steps needed to engage in non-profit partnerships to increase the operation level, the lack of DAS funding to run Northeast Valley raises questions about the City’s compliance with the Prop F intent—to open the newly built facilities to animals and the public.

DAS Projections for Facility Needs Require Study

The underlying reason for renovating and expanding the City animal shelters was the need to bring the City up to industry standards as it relates to animal care and control. The Prop F objective was to increase the number of dog kennels and cat cages available at the new city animal shelters to comply with industry standards. Specifically, the Prop F measure mandated that the City’s 300 dog kennels be expanded to 1,200 kennels, however, BOE’s adopted objective was to build 1,234 kennels as part of the Prop F construction efforts. As of July 2008, of the 1,234 kennels, 964 have been delivered, and remaining 270 kennels are planned to be built at the new South LA facility by 2012.

However, the DAS facilities use and demand for space may have changed over the years. The Program goal to construct eight animal shelter facilities was based on projections and estimates presented in the Meyer and Allen Study in April 2000. The study developed recommendations for facility expansion and meeting industry standards based on animal population projections for 2000 through 2010. Specifically, projections regarding the City of Los Angeles’ population were made using the Southern California Association of Government (SCAG) estimates. In 2000, the City’s population was estimated to be 3.8 million residents. SCAG’s projection showed the City’s population growing to approximately 4.3 million by 2010. Based on a level of service and care equivalent to the best of the animal care not-for-profits corporations, the animal population projection was based on the assumption that the number of animals taken in by DAS was comparable with that handled by non-profit agencies—a ratio of 1.9 dogs per 100 residents. The Master Facilities study projected the City’s need for kennels to rise to 1,719 by 2010. Additionally, the study discussed key DAS operational statistics such as animal intake, adoption and euthanasia rates as compared to industry standards. Currently, DAS statistics in fiscal year 2007-2008 show that animal adoptions have increased by 39

percent since fiscal year 2001-2002, and animal euthanasia rates decreased by about 50 percent, which, according to DAS, places LA third among large cities, after New York and San Francisco, having the lowest animal euthanasia rates.

As of August 2008, the DAS statistics show that the number of animals held at each animal shelter facility has generally not increased compared to the early 2000's. While the adoption rates have nearly doubled and the euthanasia rates are low, to ensure the Program is meeting its goals and the animal shelter needs track with the DAS facility requirements, the DAS should perform internal needs re-assessment and facility space requirement studies. Since South LA has yet to be completed, and utilization of the other facilities are affected by budget cuts, updating the City's animal shelter needs can assure the best—and most needed—service is provided on a forward going basis.

Further, changes in DAS operational processes that have occurred since the Prop F program inception could have an impact on the DAS facility space requirements. For example, while the Prop F designs were established in 2000-2003, in May 2003, a “no kill” policy was adopted by the City that has had a significant impact on DAS operations by increasing the number of days animals are currently held at its facilities. Also, in September 2005, the City added legislation addressing dog care and establishing a requirement to protect all dogs, including those held at animal care facilities from the sun, cold and rain.

Moreover, in January 2005, additional public attention was generated by the revision of Federal CFR Title 9—Animal and Animal Products—that provided more detailed specifications for the humane handling, care, treatment and transportation of rabbits. In 2003, the approved animal shelter design blueprints showed no indoor rabbit enclosures at any of the eight planned facilities. Rather, the design plans showed rabbit cages single-stacked for ease of cleaning, and they were placed outdoors in an open area with a roof structure covering the area, but without walls. According to the approved Program plans, BOE delivered six facilities that have no enclosed rabbit areas, with the exception of West LA where a private donor contributed funds for the BOE to design indoor rabbit enclosures including air conditioned rooms, and Harbor where the BOE incorporated an air-conditioned rabbit room into the architectural plans at the request of DAS.

In light of various legislative and DAS operational changes, DAS should study its facility space requirements and provide ongoing feedback to BOE regarding potential design improvements at the South LA facility whenever appropriate. Further, DAS facility use guidelines and standards should be continuously considered in the design and construction of other similar City facilities.

Chapter IV – Recommendations

To address issues described above, our recommendations for DAS are as follows:

14. Develop a strategic plan, department policy and standards to address facility-related issues such as animal care processes at animal shelter facilities, as well as financial forecasts for operating and maintaining DAS facilities;

15. Consider City and departmental policies and philosophies related to animal care when updating DAS facility design requirements, including making decisions about building indoor or outdoor rabbit facilities and other space considerations;
16. Perform internal capacity and needs assessment studies to compare the existing facility use with the projected animal population and demand for animal services. Report study results to the Administrative Oversight Committee for consideration of changes needed to facility design plans; and
17. Establish sufficient policies and procedures for standard operation of animal shelter facilities that could aid in training staff in new facilities and equipment operations.

Appendix A – Findings Summary with Ranked Recommendations

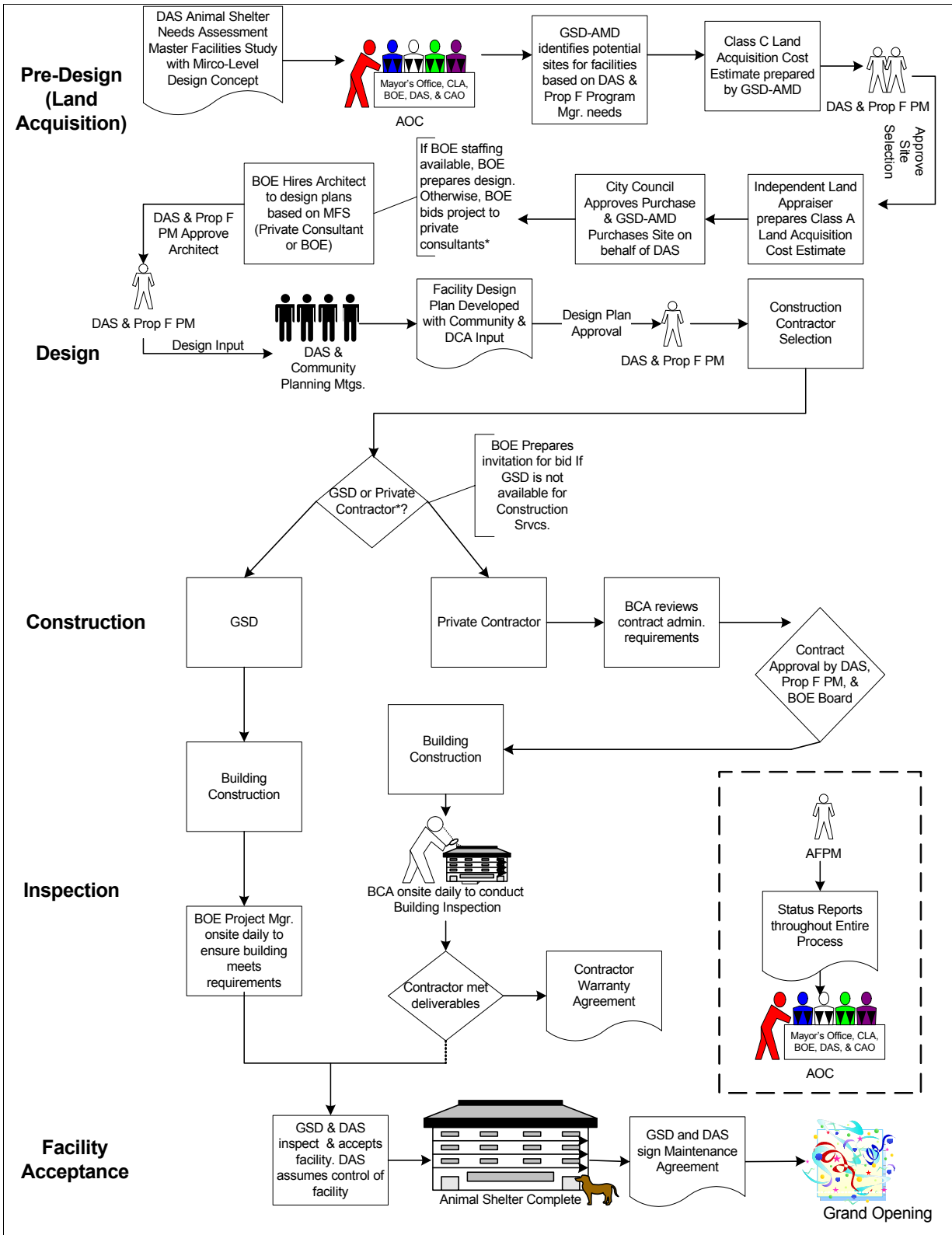
Section Number	Summary Description of Findings	Ranking Code	Recommendation
<p><i>Using the Prop F lessons learned, BOE should consider the following ways to improve processes to manage and oversee the design and construction of animal facilities projects. Specifically, BOE should:</i></p>			
I.	Better cost planning and budget processes are needed to track market conditions and to meet construction program goals and objectives—cost and schedules on budget and on time.	N	1. Develop a process to closely track market conditions. Review project cost estimates and update project costs on a regular basis to reflect current construction market conditions.
			2. Establish cost estimating guidelines. Review design estimate work performed by outside consultants and validate assumptions for developing estimates for contingencies and profit margins.
I.	Cost estimates contained varying assumptions with regard to elements such as project contingencies and profit markup.	N	3. Establish a formalized comprehensive approach to developing and monitoring cost estimates, including accounting for contingencies and contractor profit margins.
I.	Changes in the location and design of the South LA facility resulted in unneeded project designs and delays in the construction of the project.	N	4. Develop project risk management approach to project delivery to mitigate exposure and unnecessary costs. Specifically, the project risk assessment process should include identifying land acquisition and early design risks, cost escalation factors, and other risks to assist in better project planning and monitoring.
II.	Although change orders resulting from design errors were well controlled and tracked, modifications to facility designs by the project’s owner were not monitored as closely.	D	5. Consider monitoring owner-initiated design changes by separately tracking design change orders initiated by stakeholders and owners during design and construction.
		D	6. Consider developing animal facility design and construction standards to ensure lessons learned are incorporated into ongoing work on future animal facilities.
	N	7. Develop a “lessons-learned” document to memorialize design and project delivery issues and resolutions learned on Prop F projects.	
	D	8. Increase training assistance provided to DAS operational staff on facility operations.	
III.	Limited supporting documentation was available to support a detailed review of consulting and other contract proposals. Specifically, we found limited records of the criteria used to invite firms for interview, evaluation records such as scoring sheets or interview notes to validate that BOE followed a fair and unbiased contract award process.	N	9. Ensure proper documentation of contract award process including short-listing of firms for interviews, interview evaluations and ranking criteria.
		N	10. Consider establishing an internal audit staff to monitor on-going Program activities, identify areas for improvement, and report to Administrative Oversight Committee and Board of Public Works.
	D	11. Assure payments are properly approved by the program and project managers.	

Section Number	Summary Description of Findings	Ranking Code	Recommendation
<i>To ensure the Program is meeting DAS facility needs, DAS should:</i>			
III.	Process to Address Stakeholders' Concerns Warrants Greater Coordination.	N	12. Establish protocols outlining DAS internal roles and responsibilities relative to the Prop F animal facilities bond program.
		N	13. Streamline stakeholders' and DAS-initiated design change request process by logging requests and monitoring progress made towards resolving issues throughout the project lifecycle.
IV.	DAS projections for facility needs require study.	N	14. Develop a strategic plan, department policy and standards to address facility-related issues such as animal care processes at animal shelter facilities, as well as financial forecasts for operating and maintaining DAS facilities.
		N	15. Consider City and departmental policies and philosophies related to animal care when updating DAS facility design requirements, including making decisions about building indoor or outdoor rabbit facilities and other space considerations.
		N	16. Perform internal capacity and needs assessment studies to compare the existing facility use with the projected animal population and demand for animal services. Report study results to the Administrative Oversight Committee for consideration of changes needed to facility design plans.
		N	17. Establish sufficient policies and procedures for standard operation of animal shelter facilities that could aid in training staff in new facilities and equipment operations.

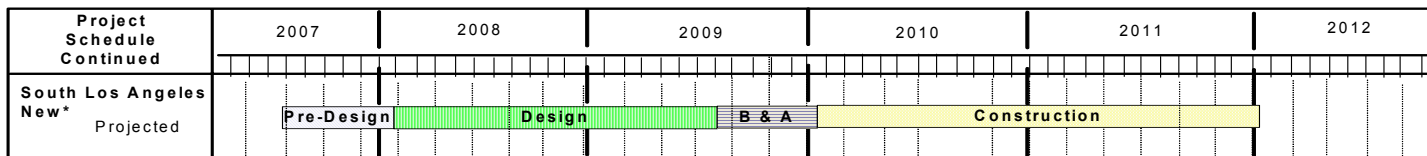
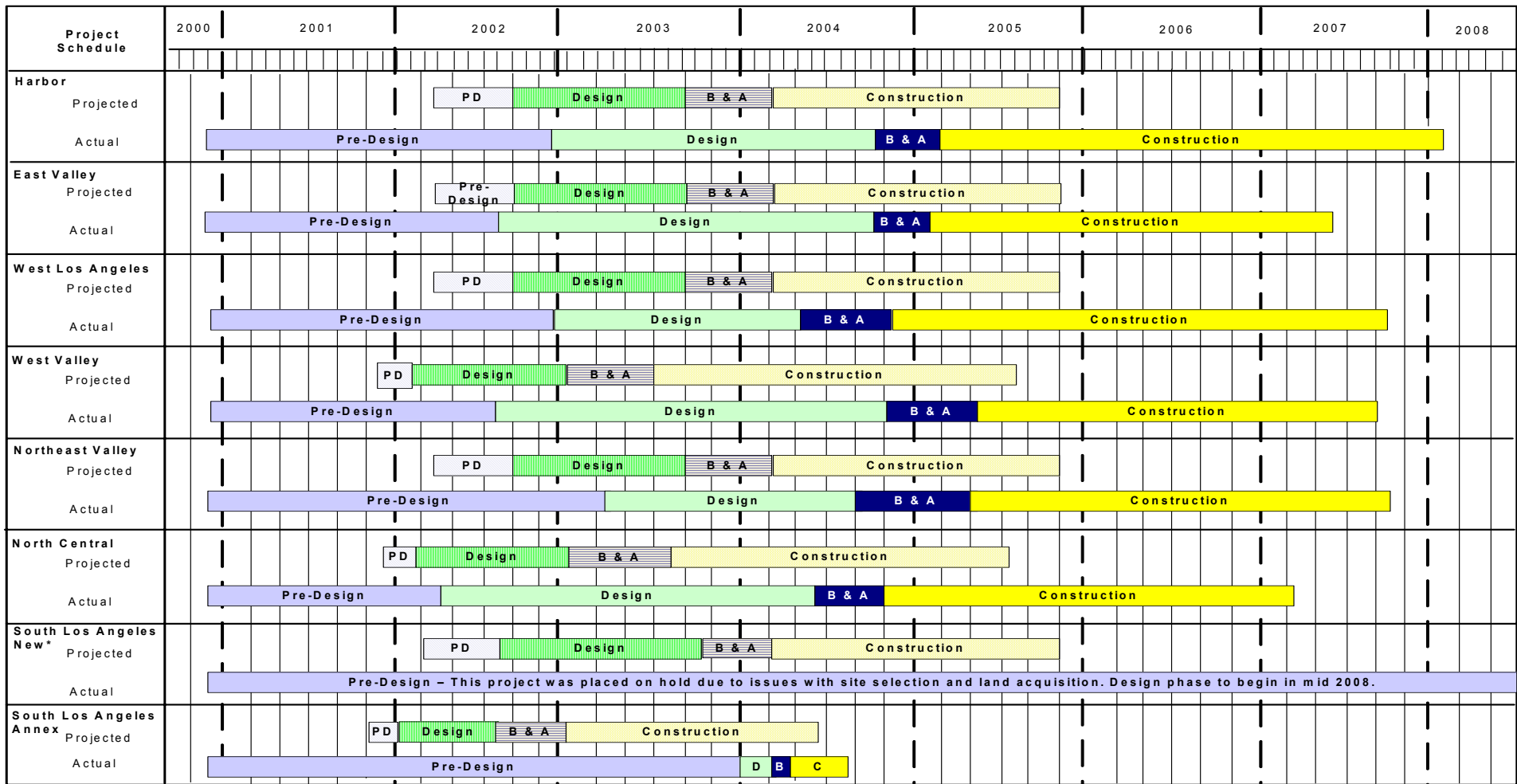
N = Necessary

D = Desired

Appendix B – Program Administration Flowchart



Appendix C – Projected versus Actual Program Schedules



Legend:
 PD = Pre-Design
 B&A = Bid Award
 D = Design
 B = Bid
 C = Construction

Appendix D – Change Order Management

Change Orders as % of Bid Amount and Total Construction Payments as of 7/23/08

#	Project/Facility	Bid Amount	CO Amount	Outstanding COs	Contractor Payment through 6/30/08	COs as % of Bid Amount
1	East Valley	\$ 11,362,000	\$ 1,205,553	\$ 89,582	\$ 12,421,679	10.6%
2	Harbor	\$ 9,584,000	\$ 1,286,274		\$ 10,584,580	13.4%
3	West L.A.	\$ 8,991,300	\$ 986,646		\$ 9,706,402	11.0%
4	North Central	\$ 7,350,000	\$ 738,252		\$ 8,116,175	10.0%
5	West Valley	\$ 12,706,000	\$ 1,303,042		\$ 14,008,972	10.3%
6	Northeast Valley	\$ 11,805,000	\$ 1,190,247		\$ 12,593,848	10.1%
		\$ 61,798,300	\$ 6,710,014	\$ 89,582	\$ 67,431,656	10.9%
				\$6,799,596		11% with outstanding COs

Change Orders by Category & Change Order Volume as of 7/23/08

#	Project/Facility	Changes in Scope	Error/ Omission	Unforeseen Conditions	Volume
1	East Valley	28%	59%	13%	105
2	Harbor	39%	59%	2%	208
3	West L.A.	34%	35%	30%	79
4	North Central	29%	54%	17%	63
5	West Valley	19%	64%	18%	108
6	Northeast Valley	29%	48%	22%	58
Average:		30%	53%	17%	621