COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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AUDITOR-CONTROLLER

September 17, 2001

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **Audit Report on Billings for LEADER Project Acceptance Test Extension**

In December 1998, the Board of Supervisors approved Amendment #3 of the LEADER Agreement with Unisys Corporation. Amendment #3 outlined numerous changes in the scope of goods and services that Unisys was to provide for the LEADER project. One such change was an extension of the time period for User Acceptance Testing (UAT). Amendment #3 allowed Unisys to bill the County during the seven month UAT extension period for actual UAT costs up to $17.3 million. Unisys invoiced the County for approximately $16.3 million for the extension period.

At the same time, the Board of Supervisors ordered a Cost Reduction Oversight Group to be established. The Group was responsible for reviewing the remaining requirements of the LEADER Agreement to identify opportunities to reduce overall costs. It recommended an audit be performed of the costs Unisys billed for the UAT extension period. The Auditor-Controller hired MGT of America to perform the audit as Amendment #3 provides that the County, at its expense, may employ an independent auditor to audit the UAT extension period invoices. After prolonged discussions, a confidentiality agreement was negotiated with Unisys whereby MGT agreed not to disclose trade secret information to the County.

MGT's audit report is attached. MGT questioned over $2.6 million of the $16.3 million in costs Unisys billed for the UAT extension period. Questioned costs include approximately $1.5 million in labor costs for Unisys employees and subcontractors that MGT determined did not pertain to UAT. MGT also questioned $287,735 in various expenses incurred at the LEADER project site in Norwalk, because MGT concluded the costs were not normal or routine for UAT. Overhead charges of $277,117 were questioned, as was $515,406 that Unisys charged for the "cost of money." The cost of money represents interest that Unisys claimed it was due because

of the seven-month delay in receiving amounts withheld by the County pursuant to the LEADER Agreement as a result of the UAT extension period. The Unisys invoices were not in sufficient detail to allow the Department of Public Social Services (DPSS), the contract administrator, to identify these overcharges. A schedule of questioned costs may be found on page three of MGT's audit report.

In its formal response to the audit report, which is attached to the MGT audit report, Unisys agreed to credit $1,531,515 of UAT extension period costs it had billed to the County. Although Unisys acknowledged that it overcharged the County for $1,805,193 in costs for the UAT extension period, Unisys identified $273,678 in additional UAT extension period costs that it had not previously billed which MGT accepted. Subsequent to Unisys' formal response, MGT reported that Unisys agreed to credit the County another $310,395, bringing the total amount of the agreed upon credit to $1,841,910. However, Unisys continues to dispute questioned costs of $509,460, consisting of $478,342 in cost of money charges, $22,894 in labor costs, and $8,224 in overhead charges.

The audit report has been provided to the Department of Public Social Services (DPSS) which administers the LEADER Agreement. DPSS will attempt to resolve with Unisys the remaining disputed questioned costs. DPSS intends to withhold the questioned amount pending final resolution with Unisys.

Please call me if you have any questions or your staff may call Pat McMahon at 213/974-0729.

JTM:PTM
Attachment
c: David E. Janssen
Steve Golightly
Lloyd W. Pellman
Violet Varona-Lukens
Public Information Office
Audit Committee