

LOS ANGELES COUNTY AUDITOR-CONTROLLER

John Naimo
AUDITOR-CONTROLLER

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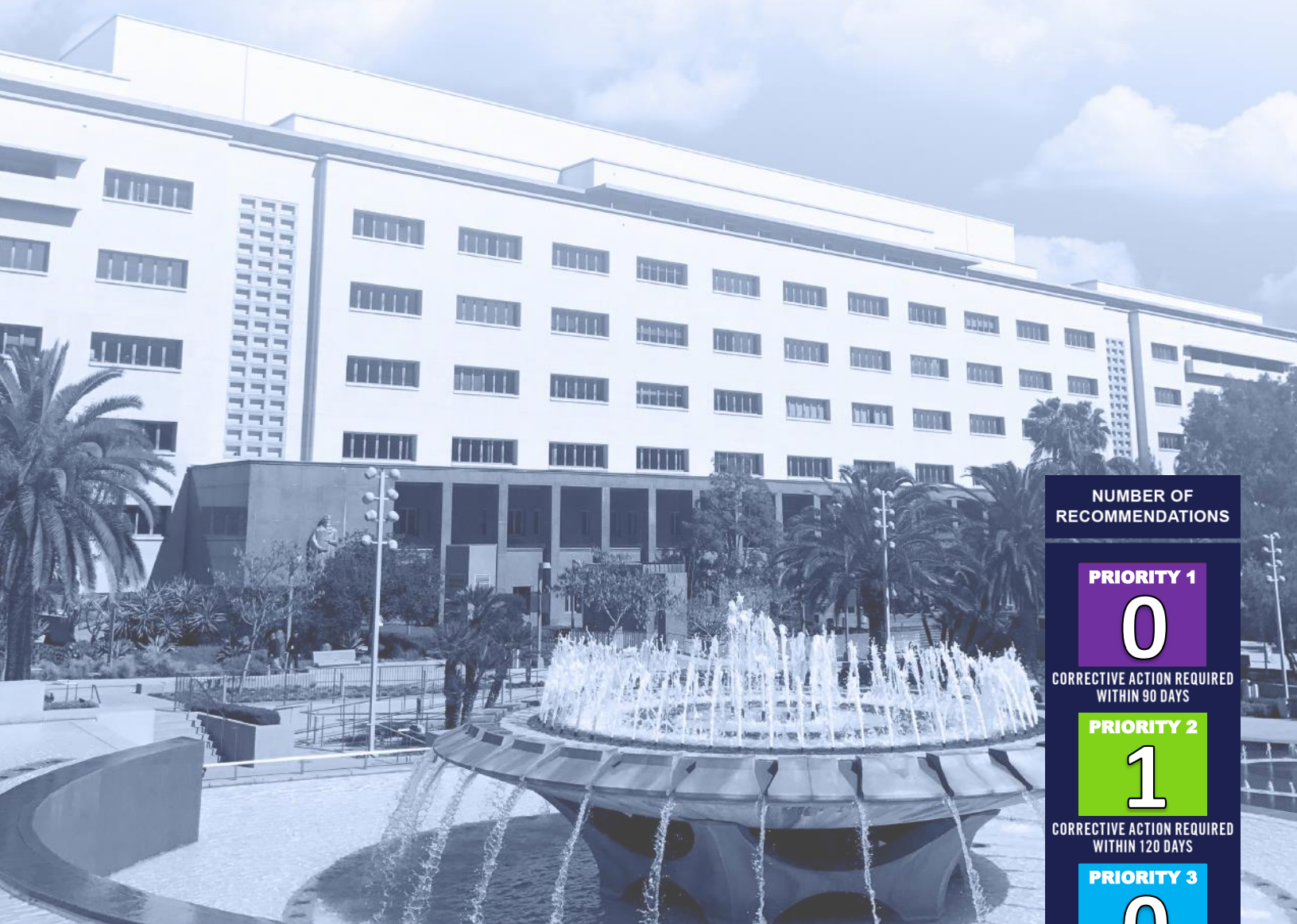
Peter Hughes
ASSISTANT AUDITOR-CONTROLLER

Robert Campbell
DIVISION CHIEF

OFFICE OF COUNTY INVESTIGATIONS

January 7, 2019

Department of Public Works **IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW #2018-13858**



NUMBER OF
RECOMMENDATIONS

PRIORITY 1

0

CORRECTIVE ACTION REQUIRED
WITHIN 90 DAYS

PRIORITY 2

1

CORRECTIVE ACTION REQUIRED
WITHIN 120 DAYS

PRIORITY 3

0

CORRECTIVE ACTION REQUIRED
WITHIN 180 DAYS



BOARD OF SUPERVISORS

Hilda L. Solis
FIRST DISTRICT

Mark Ridley-Thomas
SECOND DISTRICT

Sheila Kuehl
THIRD DISTRICT

Janice Hahn
FOURTH DISTRICT

Kathryn Barger
FIFTH DISTRICT

#2018-13858

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JOHN NAIMO
AUDITOR-CONTROLLER

COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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OFFICE OF COUNTY INVESTIGATIONS
500 W. TEMPLE ST., ROOM 515
LOS ANGELES, CA 90012-3756

January 7, 2019

TO: Mark Pestrella, Director
Department of Public Works

FROM: Robert G. Campbell, Chief
Office of County Investigations

SUBJECT: **IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW
#2018-13858**

During a limited review at the Department of Public Works (DPW), we noted areas where DPW can strengthen its internal controls over outside employment activities that could result in conflicts of interest. Please see Attachment I, Table of Findings and Recommendations for Corrective Action, for details of our observations and recommendations. The Auditor-Controller's follow-up process and internal control disclosures are included in Attachment II.

Review of Report

We discussed our report with DPW management. The Department's response (Attachment III) indicates general agreement with our findings and recommendations.

We thank DPW management and staff for their cooperation and assistance during our review. If you have any questions please call me at (213) 893-0058, or your staff may contact Jason Stempinski at (213) 893-0800.

RGC:JS:JC:wv
IOR-2018-13858

Attachments

c: John Naimo, Auditor-Controller
Audit Committee
Audit Division

**DEPARTMENT OF PUBLIC WORKS
IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW #2018-13858**

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

	ISSUE	RISK	RECOMMENDATION	P¹	SUMMARY OF RESPONSE
1	<p>Conflicts of Interest: Department of Public Works (DPW) employees are presently permitted to engage in outside employment performing private land surveying work within Los Angeles County, including submitting “corner records” that are then reviewed and approved by other DPW employees as part of their official duties. This appears to be inconsistent with County Code Section 5.44.010, which states that a County employee’s non-County employment may be prohibited if it involves the performance of an act in other than official capacity as a County employee, which may later be subject directly or indirectly to the control, inspection, review, audit or enforcement of any other County employee.</p>	<p>Allowing employees to engage in outside employment subject to the review or control of another County employee creates the potential for conflicts of interest, and increases the County’s exposure to financial losses and missed business objectives.</p> <p>DPW recently notified employees that they cannot submit corner records effective November 1, 2018. While a positive step, this does not prohibit employees from conducting other outside employment (e.g., private surveying, etc.) in Los Angeles County that may fall within DPW’s jurisdiction to review or approve.</p>	<p>DPW management work with County Counsel to develop and implement a new policy expressly prohibiting DPW employees from engaging in outside employment activity that may later be subject directly or indirectly to the control, inspection, review, audit or enforcement of another DPW employee. Once implemented, DPW should instruct supervisors to review their employee’s outside employment declarations and reject any incompatible outside employment.</p>	2	<p>Agree Target Implementation Date: February 15, 2019</p> <p>DPW indicated agreement with the findings and recommendation. DPW management immediately prohibited its employees from performing private land surveying work and is working with County Counsel to develop an accompanying written policy.</p>

¹ **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment IV for definitions of priority rankings.

FOLLOW-UP AND INTERNAL CONTROL DISCLOSURES

FOLLOW-UP PROCESS The Auditor-Controller (A-C) has a follow-up process designed to provide assurance to the Board of Supervisors (Board) that departments are taking appropriate and timely corrective action to address audit recommendations. Within six months of the date of an audit report, departments must submit a Corrective Action Implementation Report (CAiR) detailing the corrective action taken to address all recommendations in the report. Departments must also submit documentation with the CAiR that demonstrates the corrective action taken. We will review departments' reported corrective action and supporting documentation, and report the results to the Board. For any recommendations not fully implemented, departments must report the status of corrective action within six months after our first follow-up report is issued.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROLS As indicated in County Fiscal Manual Section 1.0, management of each County department is primarily responsible for designing, implementing, and maintaining a system of internal controls that provides reasonable assurance that important departmental and County objectives are being achieved. Internal controls should sustain and improve departmental performance, adapt to changing priorities and operating environments, reduce risks to acceptable levels, and support sound decision-making.

Management must monitor internal controls on an ongoing basis to ensure that any weaknesses or non-compliance are promptly identified and corrected. The A-C's role is to assist management by performing periodic assessments of the effectiveness of the department's internal control systems. These assessments complement, but do not in any way replace, management's responsibilities over internal controls.

LIMITATIONS OF INTERNAL CONTROLS Any system of internal controls, however well designed, has limitations. As a result, internal controls provide reasonable but not absolute assurance that an organization's goals and objectives will be achieved. Some examples of limitations include errors, circumvention of controls by collusion, management override of controls, and poor judgment. In addition, there is a risk that internal controls may become inadequate due to changes in the organization, such as reduction in staffing or lapses in compliance.



MARK PESTRELLA, Director

COUNTY OF LOS ANGELES
DEPARTMENT OF PUBLIC WORKS

"To Enrich Lives Through Effective and Caring Service"

900 SOUTH FREMONT AVENUE
ALHAMBRA, CALIFORNIA 91803-1331
Telephone: (626) 458-5100
<http://dpw.lacounty.gov>

ADDRESS ALL CORRESPONDENCE TO:
P.O. BOX 1460
ALHAMBRA, CALIFORNIA 91802-1460

IN REPLY PLEASE
REFER TO FILE: FI-2

October 1, 2018

TO: Robert G. Campbell, Chief
Office of County Investigations

FROM: Mark Pestrella
Director of Public Works

**RESPONSE TO AUDITOR-CONTROLLER IMPROVEMENT OPPORTUNITIES NOTED
DURING CONFIDENTIAL INVESTIGATION – CASE NO. 2018-13858**

We have reviewed the Auditor-Controller's report and agree with the findings and recommendations.

In compliance with Section 5.44.010 of the Los Angeles County Code governing conflict of interest, Public Works employees are immediately prohibited from performing private land surveying work and submitting their surveying maps and documents for review and filing by the County. In addition, Public Works is currently working with County Counsel to develop a written policy addressing employees engaging in outside employment that pose a conflict of interest to the County.

Thank you for the opportunity to respond to your report and for your staff's professional conduct during this investigation. If you have any questions or require additional information, please contact Vivian Wang, Head Compliance Officer, at (626) 458-6551 or vcwang@dpw.lacounty.gov.

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PRIORITY RANKING DEFINITIONS

Auditors use professional judgment to assign rankings to recommendations using the criteria and definitions listed below. The purpose of the rankings is to highlight the relative importance of some recommendations over others based on the likelihood of adverse impacts if corrective action is not taken and the seriousness of the adverse impact. Adverse impacts are situations that have or could potentially undermine or hinder the following:

- a) The quality of services departments provide to the community,
- b) The accuracy and completeness of County books, records, or reports,
- c) The safeguarding of County assets,
- d) The County's compliance with pertinent rules, regulations, or laws,
- e) The achievement of critical programmatic objectives or program outcomes, and/or
- f) The cost-effective and efficient use of resources.

Priority 1 Issues

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 90 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 2 Issues

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 3 Issues

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.