

LOS ANGELES COUNTY AUDITOR-CONTROLLER

Arlene Barrera
AUDITOR-CONTROLLER

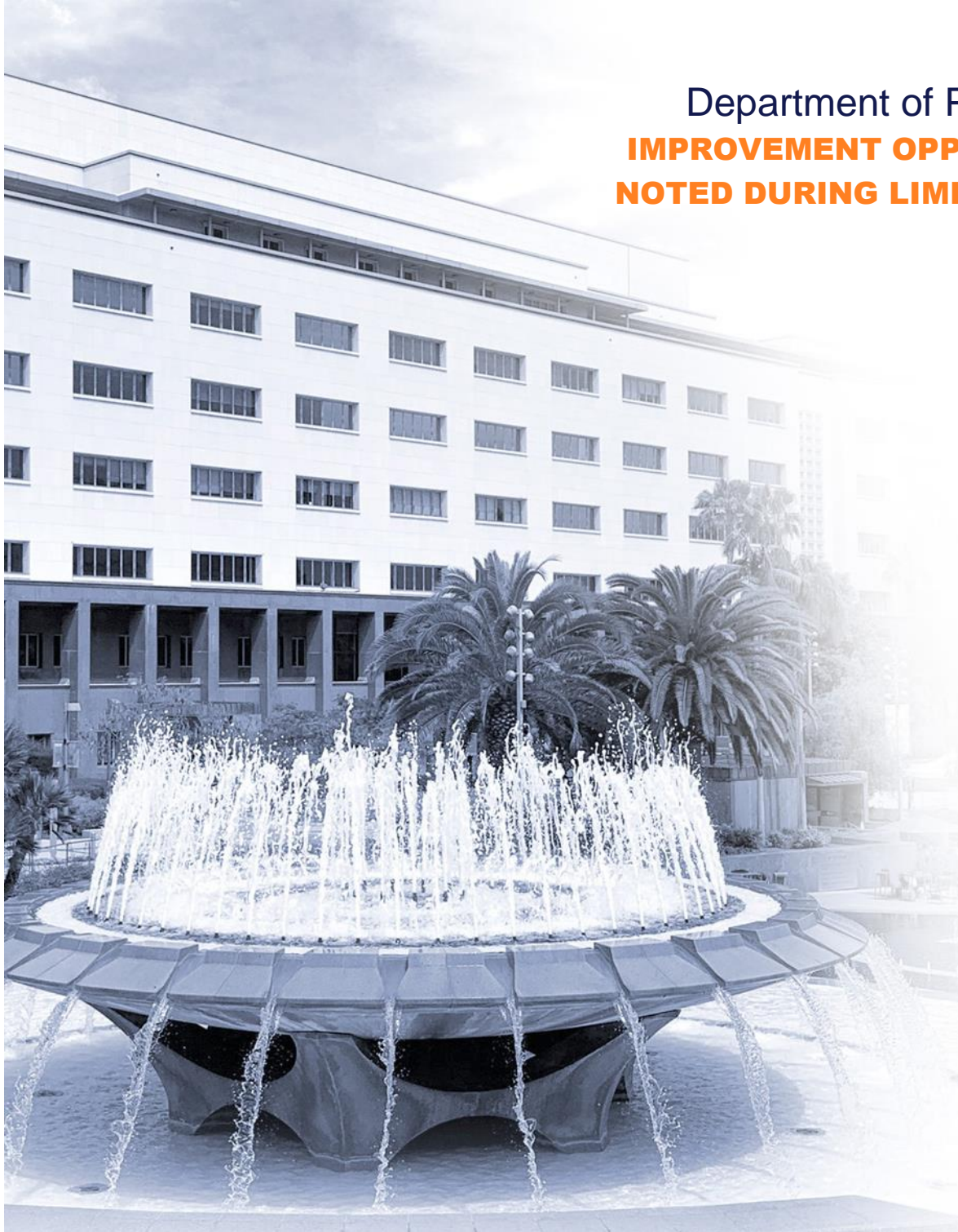
Peter Hughes
ASSISTANT AUDITOR-CONTROLLER

Robert Campbell
DIVISION CHIEF

OFFICE OF COUNTY INVESTIGATIONS

January 30, 2020

Department of Public Works
**IMPROVEMENT OPPORTUNITIES
NOTED DURING LIMITED REVIEW**
#2018-14398



NUMBER OF RECOMMENDATIONS
PRIORITY 1 1 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

#2018-14398

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ARLENE BARRERA
AUDITOR-CONTROLLER

COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

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

January 30, 2020

TO: Mark Pestrella, Director
Department of Public Works

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

SUBJECT: **IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW
#2018-14398**

During a limited review at the Department of Public Works (DPW), we noted areas where DPW can strengthen its internal controls over voided transactions to improve accountability and security over cash collections at the Building & Safety Division (BSD) Southwest Office. 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 Supervising Investigator Tim Takara at (213) 893-0918.

RGC:AMS:tt
IOR-2018-14398

Attachments

c: Arlene Barrera, Auditor-Controller
Audit Committee
Audit Division

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**DEPARTMENT OF PUBLIC WORKS
IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW #2018-14398**

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
1	<p>Voided Transaction Controls: Department of Public Works (DPW) does not have controls in place to prevent Building and Safety Division (BSD) staff from voiding their own transactions in the Development and Permits Tracking System (DAPTS), or to require supervisor approval of voids. In addition, supervisors do not consistently review or reconcile voided transactions.</p> <p>DPW Fiscal Division Reporting Procedure (RP) 30, Issue 2, states that Supervisory personnel must review and approve voided transactions immediately and document their approval on the voided receipt.</p> <p>County Fiscal Manual (CFM) section 1.3.3.2 – Controls Over Cash Registers, states that cashiers’ supervisors should void all incorrect or inaccurate transactions using their access key on the register.</p>	<p>Systems that lack physical or logical security controls to prevent a single user from voiding transactions expose the County and customers to potential losses from improper and unaccountable voids and increase the potential for fraud and theft.</p>	<p>DPW management should:</p> <p>a) Implement physical and/or logical controls within DAPTS to require supervisor approval of voided transactions and eliminate the ability for someone to unilaterally void receipts.</p> <p>b) Ensure that supervisors reconcile voided transactions daily and follow-up on any discrepancies.</p>	1	<p>Agree</p> <p>Target Implementation Date: March 1, 2020</p> <p>DPW’s response indicates they will:</p> <p>a) Implement controls within DAPTS and the Electronic Permitting and Inspections County of Los Angeles application (EPIC-LA) to require a manager’s approval to complete a voided transaction in the system. Permit technicians will not be able to void their own transactions.</p> <p>b) Ensure that a supervisor independently reconciles voided transactions daily. Permit technicians are currently required to obtain their supervisor’s approval for any voided transaction and prepare a daily summary of voided transactions for review by the supervisor along with the daily batching of</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.

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
					receipts.
2	<p>Voided Transaction Procedures: Staff do not consistently obtain original customer receipts and mark them "VOID", as required by DPW policy. Some staff also indicated they did not receive formal cash handling training and were unaware of the voided receipt policies.</p> <p>DPW RP 30 states that cashiers must clearly print "VOID" on the original receipt and any copies, and that supervisors must ensure cashiering personnel are properly instructed on void procedures and retain voided receipts permanently.</p> <p>CFM Section 1.3.3.2 – Controls Over Cash Registers, states the cashier should print "VOID" on the original receipt.</p>	<p>Failure to collect and retain a voided receipt could allow a customer to later present it as proof of payment, increasing the risk of fraud/loss in the permit fee collection process.</p> <p>Cash handling/cashiering training and a formal process for documenting staff's acknowledgement of related policies increase the likelihood of compliance and provide support for administrative action to address policy violations.</p>	<p>DPW management should:</p> <p>a) Ensure that staff with cashiering responsibilities are trained on and comply with voided transactions policies.</p> <p>b) Develop a process to consistently document staff's acknowledgement of policies.</p> <p>c) Consider implementing formal training for all staff with cash handling or cashiering responsibilities.</p>	2	<p>Agree</p> <p>Target Implementation Date: January 31, 2020</p> <p>DPW's response indicates they will:</p> <p>a) Provide a copy of DPW RP 30 to staff responsible for collecting permit fees to ensure they follow the proper void policies and procedures detailed in the policy.</p> <p>b) Upon conclusion of training, trainees will be required to sign a form acknowledging they have received, understand, and agree to follow the policies and requirements presented in the training.</p> <p>c) Develop new and further improve existing training manuals, as well as provide refresher training periodically to all staff and managers responsible for collecting permit fees.</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

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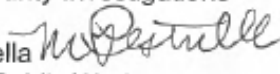
900 SOUTH FREMONT AVENUE
ALHAMBRA, CALIFORNIA 91803-1331
Telephone: (626) 458-5100
<http://dpw.lacounty.gov>

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

IN REPLY PLEASE
REFER TO FILE: **FI-2**

January 15, 2020

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

FROM: Mark Pestrella 
Director of Public Works

RESPONSE TO AUDITOR-CONTROLLER IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW – CASE NO. 2018-14398

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

We will implement additional internal and system controls to further strengthen our existing internal controls over voided transactions. This effort will improve accountability and security over cash collections. Additionally, we plan to retrain staff and managers responsible for collecting permit fees, to ensure they follow the proper policies and procedures on processing voided transactions. Attached is the Public Works' plan of corrective actions.

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@pw.lacounty.gov.

VW:dbm

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Attach.

DEPARTMENT OF PUBLIC WORKS IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW #2018-14398 DEPARTMENT ACTION PLAN/RESPONSE	
ISSUE 1: VOID TRANSACTION CONTROLS IN THE DEVELOPMENT AND PERMITS TRACKING SYSTEM (DAPTS)	
A/C Recommendation	DPW management should: <ul style="list-style-type: none"> a) Implement physical and/or logical controls within DAPTS and any related cashiering systems to require supervisor approval to complete a voided transaction. b) Ensure that a supervisor independently reconciles voided transactions daily using DAPTS Fee Balancing sheet and follow-up on any discrepancies. c) Take other steps necessary to eliminate the ability of any one individual to unilaterally void transactions.
Priority	PRIORITY 1
Agree/Disagree	Agree
Department Action Plan ¹	We will implement new internal controls and improve existing process and procedures as described below: <ul style="list-style-type: none"> a) We will implement controls within DAPTS and Electronic Permitting and Inspections County of Los Angeles application (EPIC-LA) to require a manager's approval to complete a voided transaction in the system. Permit technicians will not be able to void their own transactions. b) Currently, permit technicians are required to notify their supervisor and obtain approval of any individual voided transaction. Additionally, permit technicians prepare a daily summary of voided transactions for review by the supervisor along with the daily batching of receipts. We will ensure that a supervisor independently reconciles voided transactions daily. Furthermore, the improvement to DAPTS and EPIC LA will ensure that supervisors are immediately informed when a VOID is initiated in the system. c) We will take other steps necessary to eliminate the ability for any individual to unilaterally void transactions.
Planned Implementation Date	March 1, 2020.
Additional Information (optional) ²	

¹ In this section the Department should only describe the efforts they plan to take to implement the recommendation. Any other information should be included in the Additional Information section below.

² In this section the Department can provide any background or clarifying information they believe is necessary.

ISSUE 2: VOIDED TRANSACTION PROCEDURES – PERMIT TECH PROCEDURES	
A/C Recommendation	<p>DPW management should:</p> <ul style="list-style-type: none"> a) Ensure that BSD staff responsible for collecting permit fees are trained on and follow department policies on processing voided transactions, marking original receipts "VOID" and retaining them whenever they void a transaction, in accordance with DPW RP 30 and the CFM. b) Consider implementing formal cash handling training for BSD staff responsible for collecting permit fees and retaining documentation of the training, such a signed acknowledgment from each trainee that they received, understand, and agree to follow the policies and requirements presented in the training.
Priority	PRIORITY 2
Agree/Disagree	Agree
Department Action Plan¹	<p>BSD currently provides training to staff responsible for collecting permit fees. Considering the findings of this review, we plan to implement the following:</p> <ul style="list-style-type: none"> a) Provide a copy of RP 30 to staff responsible for collecting permit fees to ensure they follow the proper policies and procedures on processing voided transactions detailed in RP 30. b) Develop new and further improve existing training manuals; provide refresher training to all staff and managers responsible for collecting permit fees to ensure they follow the proper policies and procedures on processing voided transactions. Upon conclusion of the training, trainees will be required to sign a form acknowledging that they have received, understand, and agree to follow the polices and requirements presented in the training. We will provide refresher training periodically.
Planned Implementation Date	January 31, 2020
Additional Information (optional)²	

¹ In this section the Department should only describe the efforts they plan to take to implement the recommendation. Any other information should be included in the Additional Information section below.

² In this section the Department can provide any background or clarifying information they believe is necessary.

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.