



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

OFFICE OF COUNTY INVESTIGATIONS
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August 27, 2021

TO: Mark Pestrella, Director
Department of Public Works

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

SUBJECT: **IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW
#2018-14463**

NUMBER OF RECOMMENDATIONS
PRIORITY 1 2 CORRECTIVE ACTION REQUIRED WITHIN 90 DAYS
PRIORITY 2 3 CORRECTIVE ACTION REQUIRED WITHIN 120 DAYS
PRIORITY 3 0 CORRECTIVE ACTION REQUIRED WITHIN 180 DAYS

During a limited review at the Department of Public Works (DPW or Department), we noted areas where DPW can strengthen its internal controls over procurement, specifically in the areas of equipment rentals and materials/supplies at field locations, to reduce the risk of inappropriate purchases and procurement fraud. Please see Attachment I, Table of Findings and Recommendations for Corrective Action, for details of our observations and recommendations.

Review of Report

We discussed our report with DPW management. The Department's response (Attachment II) 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 contact me at (213) 893-0058 or rcampbell@auditor.lacounty.gov, or your staff may contact Tim Takara, Supervising Investigator, at (213) 893-0918 or ttakara@auditor.lacounty.gov.

RGC:GH:TT:glS

Attachments

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

REPORT #IOR-2018-14463

LOS ANGELES COUNTY AUDITOR-CONTROLLER

Peter Hughes
ASSISTANT AUDITOR-CONTROLLER

Robert G. Campbell
DIVISION CHIEF

Office of County Investigations

Report #IOR-2018-14463

**DEPARTMENT OF PUBLIC WORKS
IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW #2018-14463**

BACKGROUND

The Department of Public Works (DPW or Department) purchases approximately \$70 million in services and supplies each year (excluding contracts and capital asset purchases) while carrying out its mission of delivering regional infrastructure and services to improve the quality of life for people in Los Angeles County. Staff from DPW field offices initiated over half of those purchases. During a limited review of procurement transactions in DPW's Road Maintenance District 4 (RMD4) field office, including capital equipment rentals, and the purchase of materials and supplies to repair and maintain roads and bridges, we noted opportunities for DPW to improve its internal controls and oversight over purchases.

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

	ISSUE	RECOMMENDATION
1	<p>Documentation of Procurement Transactions – DPW does not always maintain an appropriate documentary trail for purchases. Specifically, DPW's RMD4 Bridge Maintenance Unit was not always able to provide documentation identifying the employee who requested equipment rentals or purchases of materials/supplies, justification for the purchases, or to identify the employee who ultimately approved the rental or purchase. In addition, RMD4 did not always document the process used for soliciting quotes and selecting the awarded vendor.</p> <p>The lack of documentation to memorialize purchase requests prevented us from determining whether these purchases were necessary or that the County received competitive pricing. It also impaired the potential detection of approximately \$14.3 million in conflicted purchases involving a County employee and related vendors.</p> <p>Impact: The lack of formal documentation by initial requestors/end-users who are non-Electronic Countywide Accounting and Purchasing System (eCAPS) users, impairs the ability of management or other reviewers to follow-up on questionable or potentially conflicted transactions and identify the staff responsible for them. This also prevents management from ensuring that procurement transactions are necessary and relevant to the specified DPW project.</p>	<p>Priority 1 - DPW management ensure that all business units maintain adequate procurement documentation, including:</p> <p>a) A detailed requisition for each purchase identifying the specific items requested with sufficient detail that someone not involved in the purchase could identify the items and obtain price quotes from other vendors, the purpose of the purchase, request date, and the name and documented approval (e.g., wet or electronic signature, initials) of the initial requestor and subsequent approver(s).</p> <p>b) Information about the vendor selection process including efforts to utilize existing master agreements, efforts to obtain competitive pricing/quotes, how/why the awarded vendor was chosen, name and signature of final approver, and a notation in any case where the requestor recommended reference vendors.</p> <p>Department Response: Agree Implementation Date: November 30, 2021</p>

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION	
ISSUE	RECOMMENDATION
<p>2 Segregation of Procurement Duties – DPW staff did not always segregate key responsibilities for procurement transactions. For example, we noted transactions processed in RMD4’s Bridge Maintenance Unit in which one individual initiated the request, specified the equipment rentals or materials/supplies to be purchased, and identified the vendor from which to procure the items.</p> <p>We noted that a single requestor/end-user frequently specified the materials/supplies to purchase, obtained quotes for the materials/supplies directly from vendors they selected, then forwarded the quotes to procurement staff for processing. For equipment rentals, a single requestor/end-user routinely specified the equipment to rent and the duration of the rental, selected the equipment rental vendor, and forwarded the request to DPW Fleet Management Division for processing. Staff from DPW Procurement and Fleet Management Divisions often issued the purchase orders and rental agreements to the requested vendors without soliciting other quotes. This enabled the requestor to control all significant aspects of the procurement process, and to direct \$14.3 million in procurement activity over a ten-year period to select vendors with which the requestor had personal, familial, and/or financial relationships.</p> <p>County Fiscal Manual (CFM) Section 4.1.3 – General Internal Controls, requires that a department’s internal controls over expenditures should at a minimum ensure the segregation of the following duties:</p> <ul style="list-style-type: none"> • Employees ordering goods or services must not approve purchases, receive goods, or account for purchases. • Employees approving purchases must be independent of the ordering function and the receipt and control of goods or services. • Employees receiving goods or services and certifying quantities received must not be associated with nor have responsibilities related to ordering the goods or services or accounting for purchases. • Employees making disbursements for goods or services (i.e., through the online vendor payment system) should not be associated with or have responsibilities related to the procurement, encumbrance, approval, and receiving functions. <p>Impacts: Increased risk of procurement fraud and conflicts of interest in the procurement process. Increased costs to the County and decreased opportunity for vendors due to the lack of a competitive procurement process.</p>	<p>Priority 1 - DPW management ensure that all business units maintain proper segregation of duties over procurement transactions including between the request/requisition, purchase approval, vendor solicitation and selection, and receiving processes.</p> <p>Department Response: Agree Implementation Date: November 30, 2021</p>

<p>3</p>	<p>Compliance Monitoring of Procurement Transactions – DPW did not have an effective process to continually monitor internal controls over procurement by periodically reviewing documentation supporting transactions processed in eCAPS. DPW conducted periodic eCAPS reviews, but they did not include reviewing documentation maintained at the field offices to support the transactions processed in eCAPS. As a result, RMD4 staff routinely did not maintain basic documentation supporting procurement transactions that were processed in eCAPS and did not segregate key procurement responsibilities (as discussed in recommendations 1 and 2 above), and these field office issues went undetected for at least 10 years.</p> <p>CFM Section 1.0 states that 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. The CFM also states that management must monitor internal controls on an ongoing basis to ensure that any weaknesses or non-compliance are promptly identified and corrected.</p> <p>CFM Section 4.1.3 requires management to continually monitor its control system to ensure all expenditures are necessary to perform departmental assigned functions and an adequate system of checks and balances (segregation of duties) exists to minimize the risk of fraud and abuse in the procurement/disbursement functions.</p> <p>Impact: Increased risk of procurement fraud when internal controls over procurement processes are not routinely reviewed. The absence of a comprehensive and effective review process increases the risk that improper purchase transactions and awards could go undetected. This also impairs the ability of management to assess the organization’s compliance and risk factors associated with procurement transactions.</p>	<p>Priority 2 - DPW Management develop a comprehensive and effective monitoring program to provide reasonable assurance that procurement controls are functioning as intended and procurement transactions comply with County and Departmental policies. The program should include reviewing required supporting documentation for a representative sample of procurement transactions.</p> <p>Department Response: Agree Implementation Date: December 31, 2021</p>
<p>4</p>	<p>Procurement Cross-Training – We noted instances where DPW staff involved in some aspect of reviewing, approving, and/or processing procurement requests did not understand the overall procurement process, and were not trained on risk factors/red flags, which should have triggered additional scrutiny. For example, RMD4 staff who processed requests for materials/supplies and equipment rentals stated they were not trained on other responsibilities such as the importance of obtaining independent vendor quotes, documenting communication with vendors, and understanding approval requirements to ensure the requested materials/supplies or equipment rentals were necessary. They also stated they were not instructed on indicators of fraud (e.g., a requestor regularly recommending awards to the same small group of vendors).</p>	<p>Priority 2 - DPW management:</p> <p>a) Train all employees with procurement responsibilities on the overall procurement process, the importance of and their role in internal controls over procurement, and red flags to look out for. The training should reinforce to employees that they are empowered to question, follow-up, and report to management on any irregular or suspicious transactions.</p>

	<p>Impact: Reduced effectiveness in identifying questionable and/or inappropriate procurement transactions, and increased risk of fraudulent and/or conflicted procurement transactions going undetected.</p>	<p>b) Consider implementing an acknowledgment form for staff with procurement responsibilities to memorialize that they have been trained on and understand procurement functions.</p> <p>c) Consider periodically rotating staff with procurement responsibilities to facilitate cross-training and a more comprehensive and holistic understanding of the procurement process.</p> <p>Department Response: Agree Implementation Date: December 31, 2021</p>
<p>5</p>	<p>Equipment Rent-Lease-Purchase Analysis – DPW routinely rents construction equipment and spent over \$160.5 million on such rentals between July 1, 2011 and May 17, 2021. However, the Department has not comprehensively analyzed equipment rentals to determine whether purchasing or leasing commonly used equipment might be more cost effective. Periodically analyzing rental equipment utilization may identify opportunities to reduce costs and improve operational effectiveness by purchasing or leasing commonly used equipment, and to tailor/optimize equipment master agreements to better meet the Department’s needs.</p> <p>Impact: Without a periodic analysis of rental equipment utilization trends and costs, DPW management lacks the information necessary to optimize the Department’s equipment fleet or make fully informed cost-benefit decisions, potentially resulting in excess equipment rental costs and operational inefficiencies.</p>	<p>Priority 2 - DPW plan and perform a periodic analysis of rental equipment utilization and costs to provide Department management the information needed to optimize the composition of DPW’s equipment fleet, and to make informed cost-benefit determinations about renting versus buying commonly used equipment items.</p> <p>Department Response: Agree Implementation Date: December 31, 2021</p>

For more information on our auditing process, including recommendation priority rankings, the follow-up process, and management’s responsibility for internal controls, visit auditor.lacounty.gov/audit-process-information.

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency’s operations if corrective action is not taken.



MARK PESTRELLA, Director

COUNTY OF LOS ANGELES
DEPARTMENT OF PUBLIC WORKS

"To Enrich Lives Through Effective and Caring Service"

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ALHAMBRA, CALIFORNIA 91802-1460

IN REPLY PLEASE

REFER TO FILE:

FI-2

August 11, 2021

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

FROM: Mark Pestrella, PE
Director of Public Works

for

A handwritten signature in cursive script, appearing to read "Mark Pestrella".

**RESPONSE TO AUDITOR-CONTROLLER FINDINGS AND RECOMMENDED
CORRECTIVE ACTIONS – REPORT NO. 2018-14463**

Public Works has reviewed the Auditor-Controller's report and agree with the findings and recommendations. Attached is Public Works' plan of corrective action.

If you have any questions, please contact me at (626) 458-4001, or your staff may 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 #2018-14463
DEPARTMENT ACTION PLAN/RESPONSE**

ISSUE 1: DOCUMENTATION OF PROCUREMENT TRANSACTIONS

A/C Recommendation	<p>DPW management ensure that all business units maintain adequate procurement documentation, including:</p> <ul style="list-style-type: none"> a) A detailed requisition for each purchase identifying the specific items requested with sufficient detail that someone not involved in the purchase could identify the items and obtain price quotes from other vendors, the purpose of the purchase, request date, and the name and documented approval (e.g., wet or electronic signature, initials) of the initial requestor and subsequent approver(s). b) Information about the vendor selection process including efforts to utilize existing master agreements, efforts to obtain competitive pricing/quotes, how/why the awarded vendor was chosen, name and signature of final approver, and a notation in any case where the requestor recommended reference vendors.
Priority	PRIORITY 1
Agree/Disagree	Agree
Department Action Plan¹	Public Works management will revise existing templates to include the recommended information and will conduct periodic reviews to ensure all business units' compliance.
Planned Implementation Date	November 30, 2021

ISSUE 2: SEGREGATION OF PROCUREMENT DUTIES

A/C Recommendation	DPW management ensure that all business units maintain proper segregation of duties over procurement transactions including between the request/requisition, purchase approval, vendor solicitation and selection, and receiving processes.
Priority	PRIORITY 1
Agree/Disagree	Agree
Department Action Plan¹	Public Works management will remind all business units to maintain proper segregation of duties over procurement transactions and will conduct periodic reviews to ensure compliance.
Planned Implementation Date	November 30, 2021

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.

ISSUE 3: COMPLIANCE MONITORING OF PROCUREMENT TRANSACTIONS	
A/C Recommendation	DPW Management develop a comprehensive and effective monitoring program to provide reasonable assurance that procurement controls are functioning as intended and procurement transactions comply with County and Departmental policies. The program should include reviewing required supporting documentation for a representative sample of procurement transactions.
Priority	PRIORITY 2
Agree/Disagree	Agree
Department Action Plan¹	Public Works management has established a review process to ensure that its procurement controls are functioning as intended and procurement transactions comply with County and Departmental policies. We will further enhance our process using this report's recommendations.
Planned Implementation Date	December 31, 2021

ISSUE 4: PROCUREMENT CROSS-TRAINING	
A/C Recommendation	<p>DPW management:</p> <ul style="list-style-type: none"> a) Train all employees with procurement responsibilities on the overall procurement process, the importance of and their role in internal controls over procurement, and red flags to look out for. The training should reinforce to employees that they are empowered to question, follow-up, and report to management on any irregular or suspicious transactions. b) Consider implementing an acknowledgment form for staff with procurement responsibilities to memorialize that they have been trained on and understand procurement functions. c) Consider periodically rotating staff with procurement responsibilities to facilitate cross-training and a more comprehensive and holistic understanding of the procurement process.
Priority	PRIORITY 2
Agree/Disagree	Agree
Department Action Plan¹	Public Works management will further enhance its existing training program by training all employees with procurement responsibilities – including those without eCAPS roles – on the overall procurement process, County and Departmental procurement policies, the importance of their roles, and common red flags to look for. Additionally, we will implement a training acknowledgement form for non-eCAPS users. Lastly, we will consider periodic rotation of staff with procurement responsibilities.

¹In 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.

ISSUE 4: PROCUREMENT CROSS-TRAINING	
Planned Implementation Date	December 31, 2021
ISSUE 5: EQUIPMENT RENT-LEASE-PURCHASE ANALYSIS	
A/C Recommendation	DPW plan and perform a periodic analysis of rental equipment utilization and costs to provide Department management the information needed to optimize the composition of DPW's equipment fleet, and to make informed cost-benefit determinations about renting versus buying commonly used equipment items.
Priority	PRIORITY 2
Agree/Disagree	Agree
Department Action Plan ¹	Public Works will establish a process to periodically analyze equipment rental expenditures and trends, to aid management in making decisions about renting or buying commonly used equipment.
Planned Implementation Date	December 31, 2021

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.