



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

OFFICE OF COUNTY INVESTIGATIONS
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LOS ANGELES, CALIFORNIA 90012

ARLENE BARRERA
AUDITOR-CONTROLLER

OSCAR VALDEZ
CHIEF DEPUTY AUDITOR-CONTROLLER

June 27, 2022

TO: Mark Pestrella, Director
Department of Public Works

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

**SUBJECT: IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED
REVIEW #2020-17348**

NUMBER OF RECOMMENDATIONS
PRIORITY 1 <div style="background-color: purple; color: white; text-align: center; padding: 10px; font-size: 24px; font-weight: bold;">1</div> CORRECTIVE ACTION REQUIRED WITHIN 90 DAYS
PRIORITY 2 <div style="background-color: green; color: white; text-align: center; padding: 10px; font-size: 24px; font-weight: bold;">2</div> CORRECTIVE ACTION REQUIRED WITHIN 120 DAYS
PRIORITY 3 <div style="background-color: blue; color: white; text-align: center; padding: 10px; font-size: 24px; font-weight: bold;">0</div> 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 collections, and more specifically, check payments received in the mail. 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 agreement with our findings and that they recently implemented our recommendations. Per our standard protocol, we will conduct a follow up review in six months to confirm the implementation status.

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 at (213) 893-0918 or ttakara@auditor.lacounty.gov .

RGC:GH:TT;jlc

Attachments

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

REPORT #IOR-2020-17348

LOS ANGELES COUNTY AUDITOR-CONTROLLER

Oscar Valdez
CHIEF DEPUTY

Robert G. Campbell
DIVISION CHIEF

Office of County Investigations

Report #IOR - 2020-17348

**DEPARTMENT OF PUBLIC WORKS
IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW #2020-17348**

BACKGROUND

The Department of Public Works (DPW or Department) receives a variety of collections via mail, including annual payments from more than 11,000 permittees related to the issuance and renewal of permits for the industrial waste and stormwater programs. DPW's Environmental Programs Division (EPD) is responsible for sending out annual industrial waste and stormwater fee collection notices to County permittees, and DPW's Fiscal Division is responsible for collecting and processing remittances. During a limited review of industrial waste and stormwater fee collections, we noted opportunities for DPW to improve its internal controls and oversight over collections received in the mail.

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

	ISSUE	RECOMMENDATION
1	<p>Accountability Over Collections/Deposits - DPW staff was not aware of County Fiscal Manual (CFM) Section 1.3.7.1 - General Controls Over Deposits, which requires payments be deposited within one day and that unidentified payments be posted to a departmental trust account until the proper revenue account is identified.</p> <p>We noted an instance where Fiscal Division mishandled an annual industrial waste fee payment received in the mail. Specifically, the permittee's check lacked sufficient information to credit it to a specific revenue account and Fiscal Division staff improperly gave it to another DPW employee who had no cash handling responsibilities to research it. Fiscal Division did not follow-up on the check, and the employee who received it later deposited it into his personal bank account.</p> <p>Approximately three months later, the permittee who remitted the mishandled payment contacted DPW after receiving the first of three late payment notices, and provided DPW evidence that the check had been negotiated. DPW ultimately credited the permittee for the prior year fee and reported this matter to the Office of County Investigations in accordance with County policy. The DPW employee who received the check claimed he deposited it in error, and subsequently repaid the Department.</p> <p>Impact: Failure to deposit checks timely increases the risk that payments may be mishandled or misappropriated.</p>	<p>Priority 1 – DPW management ensure that staff responsible for receiving and/or handling collections:</p> <ul style="list-style-type: none"> a) Deposit all collections by the end of the next business day after they are received. b) Post unidentified collections to a departmental trust account, and follow-up to reconcile unidentified collections in a timely manner. c) Receive periodic training on internal controls over handling cash, cash equivalents, and deposits, including relevant portions of the CFM. <p>Department Response: Agree Implementation Date: January 24, 2022</p>

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION	
ISSUE	RECOMMENDATION
<p>2 Researching Permittee Inquiries and Discrepancies - DPW staff did not thoroughly or timely follow-up on a customer-reported payment discrepancy (same instance as cited in Issue #1). Specifically, EPD did not notify Fiscal Division timely when a permittee reported that their industrial waste permit check was cashed but not credited to their account. Our review noted that the permittee remitted payment timely but it was mishandled by DPW. The Department subsequently sent the permittee three late payment notices, and the permittee responded by calling and e-mailing EPD and providing documentation that their permit fee check was cashed.</p> <p>EPD acknowledged the permittee’s communications and indicated they would follow-up. However, we found no record of any action for approximately 13 months after the permittee provided them with proof of payment and noted that it took approximately 23 months for DPW to credit the permittee’s account.</p> <p>Complaints of mishandled payments, particularly when accompanied by supporting documentation, should be investigated timely since they may indicate business process deficiencies or potential fraud.</p> <p>Impact: Not timely following-up and investigating mishandled payments increases the risk that lost, stolen, or misappropriated payments go undetected. This may also create a negative perception of the Department’s customer service and diminish public trust in the Department’s handling of collections.</p>	<p>Priority 2 – DPW management provide staff with guidance and/or training to ensure that customer inquiries, particularly late payment notices, are consistently logged, followed-up on, and resolved in a timely manner.</p> <p>Department Response: Agree Implementation Date: May 23, 2022</p>
<p>3 Reconciling Collections Received Via Mail - DPW Fiscal Division staff did not reconcile the log of checks received via mail with bank deposits. We noted an instance (same instance as cited in Issue #1) where Fiscal Division received a check via mail, which was initially received in the DPW mailroom and recorded in the mail log by mailroom staff, but the check was mishandled by Fiscal Division and never deposited to a DPW account. This mishandled check went undetected for approximately three months until the customer contacted DPW because they received a late payment notice.</p> <p>CFM Section 1.3.6 – Collections Received by Mail – Internal Controls, states that employees should reconcile mail receipts to checks and supporting documents to ensure that all receipts have been accounted for.</p> <p>Impact: Failure to reconcile checks received via mail to deposits increases the risk that mail collections are mishandled or misappropriated, and that missing checks go undetected.</p>	<p>Priority 2 – DPW management ensure that staff responsible for handling mail and collections log checks received in the mail, and reconcile those logs to bank deposit records in a timely manner.</p> <p>Department Response: Agree Implementation Date: May 17, 2022</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.



COUNTY OF LOS ANGELES
DEPARTMENT OF PUBLIC WORKS

"To Enrich Lives Through Effective and Caring Service"

MARK PESTRELLA, Director

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<http://dpw.lacounty.gov>

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

IN REPLY PLEASE

REFER TO FILE: **FI-2**

June 8, 2022

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

FROM: Mark Pestrella, PE
Director of Public Works

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

**RESPONSE TO AUDITOR-CONTROLLER FINDINGS AND
RECOMMENDED CORRECTIVE ACTIONS – REPORT NO. 2020-17348**

Public Works has reviewed the Auditor-Controller's report and agrees with the findings and recommendations. Attached is our 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.

ML:dbm

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Attach.

**DEPARTMENT OF PUBLIC WORKS
IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW #2020-17348
DEPARTMENT ACTION PLAN/RESPONSE**

ISSUE 1: ACCOUNTABILITY OVER COLLECTIONS/DEPOSITS	
A/C Recommendation	DPW management ensure that staff responsible for receiving and/or handling collections: a) Deposit all collections by the end of the next business day after they are received. b) Post unidentified collections to a departmental trust account, and follow-up to reconcile unidentified collections in a timely manner. c) Receive periodic training on internal controls over handling cash, cash equivalents, and deposits, including relevant portions of the CFM.
Priority	PRIORITY 1
Agree/Disagree	Agree
Department Action Plan¹	DPW management established a procedure that includes: a) Deposit all collections by the end of the next business day after they are received. b) Post unidentified collections to a departmental trust account, and follow-up to reconcile unidentified collections in a timely manner. c) Receive periodic training on internal controls over handling cash, cash equivalents, and deposits, including relevant portions of the CFM.
Planned Implementation Date	January 24, 2022
Additional Information (optional)²	

ISSUE 2: RESEARCHING PERMITTEE INQUIRIES AND DISCREPANCIES	
A/C Recommendation	DPW management provide staff with guidance and/or training to ensure that customer inquiries, particularly late payment notices, are consistently logged, followed-up on, and resolved in a timely manner.
Priority	PRIORITY 2
Agree/Disagree	Agree
Department Action Plan¹	DPW management will provide guidance and training to staff to ensure that customer inquiries are consistently logged, reviewed, and resolved in a timely manner. For example, we will create a SharePoint Excel

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: RESEARCHING PERMITTEE INQUIRIES AND DISCREPANCIES	
	spreadsheet to log all customer/cashier inquiries to track with due dates and response dates.
Planned Implementation Date	May 23, 2022
Additional Information (optional)²	

ISSUE 3: RECONCILING COLLECTIONS RECEIVED VIA MAIL	
A/C Recommendation	DPW management ensure that staff responsible for handling mail and collections log checks received in the mail and reconcile those logs to bank deposit records in a timely manner.
Priority	PRIORITY 2
Agree/Disagree	Agree
Department Action Plan¹	DPW management will ensure that staff responsible for handling mail collection log checks received in the mail and reconcile those logs to deposit records in eCAPS daily.
Planned Implementation Date	May 17, 2022
Additional Information (optional)²	