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September 7, 2023

TO: Mark Pestrella, Director
Department of Public Works

FROM: Greg Hellmold, Chief [Signature]
Office of County Investigations

SUBJECT: DEPARTMENT OF PUBLIC WORKS – IMPROVEMENT OPPORTUNITIES NOTED
DURING LIMITED REVIEW (#IOR-2018-14463) – SECOND AND FINAL FOLLOW-
UP REVIEW

We completed a second and final follow-up review of the Department of Public Works (DPW or
Department) Improvement Opportunities Noted During Limited Review dated August 27, 2021 (Report
#IOR-2018-14463). We reviewed the status of one Priority 1 recommendation that had been partially
implemented and one Priority 2 recommendation that was not implemented as of our first follow-up
report issued April 13, 2023. As summarized in Table 1, DPW fully implemented the two outstanding
recommendations to strengthen controls over procurement, specifically in the areas of equipment
rentals and materials/supplies at field locations.

Table 1 - Results of Second and Final Follow-up Review

Table with 5 columns: PRIORITY RANKINGS, TOTAL RECOS OUTSTANDING, FULLY IMPLEMENTED, PARTIALLY IMPLEMENTED, NOT IMPLEMENTED. Rows include PRIORITY 1, PRIORITY 2, PRIORITY 3, and TOTAL. A separate box shows 0 for FINAL OUTSTANDING RECOMMENDATIONS.

For details of our review and the Department’s corrective actions, see Attachment.

We thank DPW management and staff for their cooperation and assistance during our review. If you
have any questions, please contact me at (213) 893-0243 or ghellmold@auditor.lacounty.gov, or your
staff may contact Supervising Investigator Tim Takara at (213) 893-0918 or
ttakara@auditor.lacounty.gov.

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Attachment

c: Oscar Valdez, Auditor-Controller
Audit Committee
Audit Division

Report #F2-2018-14463

# LOS ANGELES COUNTY AUDITOR-CONTROLLER

**Robert G. Campbell**  
ASSISTANT AUDITOR-CONTROLLER

**Greg Hellmold**  
DIVISION CHIEF

## OFFICE OF COUNTY INVESTIGATIONS

Report #F2-2018-14463

### DEPARTMENT OF PUBLIC WORKS IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW #IOR-2018-14463 – SECOND AND FINAL FOLLOW-UP REVIEW

	RECOMMENDATION	A-C COMMENTS
<p><b>1</b> <b>Priority 1</b> - Department of Public Works (DPW or Department) 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><b>Original Issue/Impact:</b> Documentation of Procurement Transactions – DPW does not always maintain an appropriate documentary trail for purchases. Specifically, DPW’s Road Maintenance Division 4 (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</p>	<p><b>Recommendation Status: Implemented</b></p> <p>DPW management revised the Purchase Request (PR) form and sent an e-mail to all affected staff, requiring use of the new form for any requests starting August 1, 2022. On April 3, 2023, DPW also implemented a revised electronic rental request form containing the same information as the PR form. We reviewed a rental request submitted in April 2023 and noted the revised form includes fields documenting:</p> <ul style="list-style-type: none"> <li>• Specific items requested</li> <li>• Job description</li> <li>• Request date</li> <li>• Names and electronic signatures of the initial requestor and subsequent approvers</li> <li>• Existing agreement</li> <li>• Proposals from three vendors</li> <li>• Reason for award</li> </ul> <p>Additionally, effective November 14, 2022, DPW implemented a revised electronic Request for Service (eRFS) form for information technology purchases only. We reviewed an eRFS form submitted in November 2022 and noted the revised form includes the fields that are on the PR form.</p> <p>All electronic entries and approvals are defined by roles established by the divisions and controlled via Active Directory credentials (i.e., username/password).</p>	

RECOMMENDATION		A-C COMMENTS
	<p>conflicted purchases involving a County employee and related vendors.</p> <p>The lack of formal documentation by initial requestors/end-users who are not users of the County's enterprise accounting and purchasing system (eCAPS) 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>	
2	<p><b>Priority 2</b> - 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><b>Original Issue/Impact:</b> 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>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><b>Recommendation Status: Implemented</b></p> <p>DPW management provided a cost-benefit analysis completed by its Fleet Management Division (Fleet) identifying the top 10 commonly rented heavy equipment items for Fiscal Year 2021-22. We noted the methodology used in the analysis comparing the rental costs to costs of ownership over the respective item's useful life, appear to be reasonable. Based on the lower cost, Fleet made recommendations to purchase seven and rent three types of heavy equipment items.</p> <p>DPW management indicated Fleet will perform the analysis annually and generate a report that lists the top 10 most rented pieces of equipment. The report will provide a breakdown of rental cost history, the cost to purchase and own similar equipment, and a recommendation to buy/rent based on the lowest cost. This report will be distributed to the divisions that rent the most equipment. It will be the division's responsibility to review the report and make the final decision on whether to continue to rent the equipment or purchase it if it is a more viable option. The division will need to document the action taken and provide a response to Fleet.</p>

We conducted our review in conformance with the International Standards for the Professional Practice of Internal Auditing. 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](http://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.