Item #2

AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

THE PORT OF LOS ANGELES

DATE: **MAY 15, 2015**

TO: **AUDIT COMMITTEE OF THE BOARD OF HARBOR COMMISSIONERS**

SUBJECT: GOODS MOVEMENT DIVISION PROCESS AUDIT REPORT

Please find enclosed a copy of the Goods Movement Division process audit report. This audit was conducted by Harvey Rose Associates (HRA) under the direction of the Management Audit Divison. A PowerPoint slide presentation summarizing this audit will be presented by HRA at the May 21, 2015 audit committee meeting.

EUGENE D. SEROKA
Executive Director

Attachment:

Transmittal 2: Process Audits: Goods Movement Division Audit Report

Mb/jo/Management Audit Division
Author: J. H. Olds

Process Audits: Goods Movement Division

Port of Los Angeles

December 16, 2014

Submitted by

Harvey M. Rose Associates, LLC

http://www.harveyrose.com

HARVEY M. ROSE
ASSOCIATES, LLC
1390 Market Street, Suite 1150 • San Francisco, California 94102
(415) 552-9292 • (415) 252-0461 (FAX) • info@harveyrose.com

public sector management consulting

HMR

December 16, 2014

Mr. Jim Olds
Director of Internal Management Audit
Port of Los Angeles
425 S. Palos Verdes Street
San Pedro, CA 90731

Dear Mr. Olds:

Harvey M. Rose Associates, LLC is pleased to present this *Process Audit of the Goods Movement Division of the Port of Los Angles.* This report is one in a series of process audits being conducted of Port of Los Angeles divisions. The selection of divisions for the audits is based on a 2013 risk assessment of all divisions in the four audit scope areas: 1) human resource management, 2) financial controls, 3) contact management and 4) grants management.

This report contains findings, conclusions and 31 recommendations in areas related to the audit scope identified above. Of these recommendations, 14 are directed to the Goods Movement Division and 17 are directed to other Port of Los Angeles divisions that have a role in the functions and processes reviewed. Comments and input on a draft version of this report were solicited from the Goods Movement Division and other pertinent Port staff.

Thank you for providing our firm with the opportunity to conduct this process audit for the Port of Los Angeles. We are available at any time to respond to any questions about the report.

Sincerely,

Fred Brousseau
Project Manager

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Executive Summary

Harvey M. Rose Associates, LLC was retained by the Port of Los Angeles to conduct a risk assessment and process audits of Port policies and procedures in four functional areas, by individual Port divisions. The four functional areas under review are:

1. Human Resources
2. Finance (accounts payable, accounts receivable, budget and capital asset management)
3. Contracts
4. Grants Management

The risk assessment resulted in a risk score being assigned to each division of the Port of Los Angeles. After reviewing pertinent Port, division-specific and City policies and procedures in the four subject areas, risk scores were assigned to each division of the Port of Los Angeles (POLA) based on factors such as budget size, number of budgeted and filled positons, turnover rates, number of grievances, dollar value of expenditures on contractual services and through purchase orders, and dollar value of grants awarded to and executed by each division. The risk scores were reviewed by POLA management and four divisions were selected to be audited in the four areas shown above.

The four divisions selected for the first group of process audits represented different levels of risk and various sized divisions: Goods Movement, Information Technology, Port Police, and Wharfingers. Each division's compliance with its own, the Port's, and City policies and procedures in the four functional areas above were assessed. The adequacy of policies and procedures in place in the four functional areas under review were also evaluated. The time span covered by the process audits was Fiscal Year 2011-12 through 2013-14.

Goods Movement Division Results

The key function performed by the Goods Movement Division is identifying and helping secure grants for the Port, primarily in the areas of transportation and goods movement. The Division also plays a role in Port-wide grants administration. Prior to commencement of this audit, POLA maintained a separate Grants Administration division to oversee the application and execution of grants Port-wide.

The Division's originally approved budget was $651,129 for FY 2013-14 and $899,364 for FY 2014-15, the latter year reflecting integration of staff from the former Grants Administration Division in to the Goods Movement Division. The Division is budgeted for four full-time positions for FY 2014-15.

For FY 2014-15, the Port of Los Angeles had $276,781,690 in awarded Federal, State, and local grants as of August 2014. Of this amount, the Goods Movement Division was responsible for identifying and helping obtain $239,014,651, or 86.4 percent, which represents transportation and infrastructure related grants.

As grants management was one of the processes audited, the Division's role in identifying and securing grants was evaluated as part of this audit. Findings and issues in this area include:

- The Port is operating without formal grants management policies and procedures. Two draft sets of policies were developed in 2012 and 2014, but neither has been approved by executive management or the Board of Harbor Commissioners.
- Due to the absence of formally adopted POLA grants management policies and procedures, the Port does not consistently employ the following best grants management practices included in the draft grants management policies:
  - In coordination with POLA's Government Affairs division and in advance of applying for grants, define grants available that best address POLA's needs.
  - Conduct analyses of the financial impact of grants on POLA prior to applying for them.
  - Use POLA's Project Development Committee as a forum for inter-divisional review and assessment of grant applications and execution plans.
  - Conduct quality assurance reviews of applications prior to applying for grants.
- Though included in the draft grants management policies, a practice not consistently employed at the Port after grants have been awarded is preparation of a Project Execution Plan for each grant to determine and formalize the resources needed for the grant, its timelines and accountability for results.
  - We recommend that the Goods Movement Division finalize its grants management policies and procedures, to be formally adopted by POLA executive management to ensure consistent implementation Port-wide.

A number of deficiencies identified in this audit were not exclusively due to the Goods Movement Division's processes and procedures, but, rather, were due to practices of some of POLA's centralized support divisions. Key examples include:

- Budget and expenditure information maintained on POLA's ERP system does not always match budget and expenditure records maintained by the Goods Movement Division.
- Monthly expenditure reports are not being effectively used by the Goods Movement or Financial Management divisions as a budget management tool.
- Adherence to and enforcement of American Express card, purchase order and contractor payment policies could be improved by the Accounting Division.
- Contract policies and procedures drafted by the Contracts and Purchasing Division have not been formally adopted by POLA management to ensure consistent Port-wide implementation.
- Training records maintained by the Human Resources Division do not allow for verification that POLA employees have obtained their required training without a manual review of each employee's records.

Controls and processes could be improved by the Goods Movement Division in a number of areas including: adherence to American Express card policies and procedures including timely submission of documentation of charged expenses, ensuring all approvals are in place before initiating vendor purchases and payments, and improved monitoring of expenditures throughout the year (in conjunction with the central Financial Management division). A summary of recommendations directed to the Goods Movement Division and other POLA divisions as a result of this audit is presented starting on the next page.

Summary of Recommendations

Human Resource Management		
Issue	**Recommendations**	
		The Goods Movement Division should
The Goods Movement Division does not monitor the length of the hiring cycle for its personnel.	1.1	Monitor the hiring cycle time to better manage its personnel and work capacity.
The Goods Movement Division does not keep records of its employees' training.	1.2	Establish a policy of keeping training records for each employee by name and date of attendance.
	1.3	The Human Resources Division should:
POLA's Human Resources Division employee training tracking reports generated are not adequate to confirm training requirements.	1.3a	Request that the City's vendor that tracks employee compliance with mandated training requirements produce a more detailed report showing when employees have attended required trainings, by name and POLA division; and
The Human Resources Division's verification of Division staff training is a time-consuming and tedious process that could be automated.	1.3b	Request a tool that allows the Human Resources Division to verify that the employees who are required to take training courses each year have completed the courses.
The Human Resources Division's centralized monitoring of employee mandated training compliance could be improved and should serve as a management reporting tool.	1.4	Monitor the new training tracking reports, regularly report the results to POLA's executive management, and continue to systematically notify divisions when their employees are not in compliance with State and City mandatory training requirements.
		The Goods Movement Division should:
The Goods Movement Division does not keep records of its employee's performance evaluations.	1.5	Establish a policy of keeping an electronic record of their employee performance evaluations by name and date and use it to monitor employee performance evaluation due dates. The Goods Movement Division should also allocate sufficient time to complete employee evaluations annually.

Issue	Recommendations	
		The Human Resources Division should:
The Port altered its performance evaluation process in 2010 but has not yet codified this new process in the Employee Manual.	1.6	Formalize the new approach to performance evaluation timing and codify these requirements for inclusion in the Port's Employee Manual, subject to approval by executive management.
The Human Resources Division does not systematically track employee performance evaluations.	1.7	Design a system that tracks employee names and dates of performance evaluations so they may remind divisions of their performance evaluation schedule and to be able to track and report division compliance with the requirements to third parties such as executive management and auditors.
Financial Controls		
		The Goods Management Division should:
The Goods Movement Division overspent on its monthly budget and for the overall year in FY 2013-14 by $19,950.	2.1	Work with the Financial Management Division to devise a budget at the monthly level that reflects the Division's needs and planned expenditures, including revised forecasts through year-end to avoid over-expenditures.
The Goods Movement Division does not adequately reconcile its internal records of budgeted and actual amounts to ERP budget data.	2.2	Reconcile its budgeted and actual expenditure records with ERP budget data, keeping adequate records of any transfers made throughout the year, to ensure that the Division does not exceed its spending allocations.
		The Financial Management Division should:
The Financial Management Division does not regularly make adjustments to the adopted budget to correct for monthly variances or changes in anticipated future spending.	2.3	Work with POLA divisions early in the fiscal year to make the adjustments to correct for underspending and future spending in order to better control the budget process.

Issue	Recommendations	
		The Financial Management Division should:
The Financial Management Division does not adequately budget for step increases and other MOU-mandated adjustments to a position's funding before the beginning of the fiscal year.	2.4	Factor in step increases and other MOU-mandated adjustments in position funding for the fiscal year in order to plan for Division salaries and benefits.
		The Accounting Division should:
The Goods Movement Division is not in compliance with all POLA purchasing procedures; orders to vendors were placed, received and invoiced prior to purchase orders being produced.	2.5	Work with POLA divisions to reconcile ERP and division records on a monthly basis.
The Financial Management Division does not adequately budget for step increases and other MOU-mandated adjustments to a position's funding before the beginning of the fiscal year.	2.6	Prioritize and expedite the implementation of calculating employee-specific benefits through ERP to better manage the budgeting and expenditures on POLA employee benefits.
No amounts were budgeted for Allocated Expenses, or Goods Movement expenses charged to POLA's capital budget for Fiscal Years 2011-12 and 2012-13 though costs were charged in both years, and a 20 percent variance was incurred between budgeted and actual Allocated Expenses in FY 2013-14.	2.7	Work with the Financial Management Division and the Goods Movement Division to ensure that budgeting for Allocated Expenses adequately captures the expenses Divisions incur to enhance Division management of the Allocated Expenses accounts.

Issue	Recommendations	
		Goods Movement Division management should:
The Goods Movement Division is not in compliance with all POLA purchasing procedures; orders to vendors were placed, received and invoiced prior to purchase orders being produced.	2.8	Take steps to ensure that Division staff is not receiving goods and services prior to an Authority for Expenditure (AFE) or purchase order being generated.
		The Accounting Division should:
The Goods Movement Division is not obtaining and submitting adequate and timely authorization for travel to the Accounting Division.	2.9	Adopt a policy of not processing invoices if the invoice date precedes a signed AFE or purchase order date without written explanation from a manager from the appropriate division.
		The Goods Movement Division should:
The Goods Movement Division is not consistently submitting required documentation for travel charged to its American Express card in advance of travel.	2.10	Take the necessary steps to ensure that proper authorization is obtained prior to travel and that the controls for timely review of expenditures are met after travel to ensure that funds are used properly, with documentation of such provided to the Accounting Division.
The Goods Movement Division is not obtaining and submitting adequate and timely authorization for Sacramento travel to the Accounting Division.	2.11	Take the necessary steps to ensure that proper authorization is obtained and notification is given prior to travel to Sacramento to ensure that the Division is complying with City travel policies, with documentation of such provided to the Accounting Division.
The Goods Movement Division is not consistently submitting the required documentation for travel charged to its American Express card to the Accounting Division within ten days of travel.	2.12	Submit expenditure reports with all supporting documentation to the Accounting Division in a timely manner in order to ensure timely and proper invoice payment of AMEX expenditures.

Issue	Recommendations	
		The Accounting Division should:
The Accounting Division is not adequately reviewing expense reports and supporting documentation for AMEX expenditures for compliance with relevant policies and procedures.	2.13	Enforce Division submission of expense reports with all supporting documentation in a timely manner in order to ensure compliance with the relevant policies and procedures.
The current AMEX Policy and Procedures are outdated and do not reflect practices and controls for the ERP system.	2.14	Review and update the AMEX Policy and Procedures to incorporate revised practices based on ERP implementation and use.
Contracts		
		The Goods Movement Division should:
The Goods Movement Division did not keep on file two required memorandums from the RFP process.	3.1	Perform all procedures listed on the RFP Checklist or the RFP Checklist should be modified if POLA management determines that some steps are no longer of value.
Several Goods Movement contract invoices submitted to the Accounting Division were not accompanied by a receiving report, were submitted to the Accounting Division several months after receiving the invoice or did not have all the required signatures.	3.2	Submit receiving reports for all contract invoices or receive items in ERP in a timely manner.
		The Contracts and Purchasing Division should:
The Goods Movement Division did not keep on file two required memorandums from the RFP process.	3.3	Require the Goods Movement Division to adhere to the procedures in the RFP Checklist and, to the extent some requirements are no longer practicable, make modifications to the RFP Checklist.

Issue	Recommendations	
The RFP Checklist and draft contract manual has not been approved by POLA management and/or disseminated to POLA Divisions.	3.4	Submit the RFP Checklist and the draft contract manual to the Board of Harbor Commissioners and/or POLA Executive Director for approval and to be disseminated to all POLA divisions so that all POLA employees are aware of what documentation is required to execute and manage a contract.
		The Accounting Division should:
A contract invoice was not paid until three months after the Goods Movement Division submitted their receiving report, or two months late.	3.5	Continue to adhere to City policy regarding vendor payments.
Grants		
		Goods Movement Division management should:
The Goods Movement Division has not conducted formal cost-benefit analyses for any of the grants in a sample reviewed. The lack of a formal review process raises the risk that Goods Movement or another division may apply for a grant that would result in a net cost to the Port.	4.1	Review and revise the draft Grants Administration Manual to include a requirement for a pre-application cost analysis, consistent with the draft Project Development Committee Procedure, prior to applying for grants and incorporate this practice in to their grant identification and application work.
Two sets of grants management policies were developed, one in 2012 and one in 2014. Goods Movement Division staff asserts that neither policy manual has been approved by executive management or the Board of Harbor Commissioners. The Goods Movement Division has not consistently followed these policies.	4.2	By December 31, 2014, finalize the Grants Administration Manual in consultation with executive management and submit it to the Executive Director for approval. Goods Movement Division management should also present the new procedures to the Audit Committee of the Board of Harbor Commissioners to inform the Committee of the changes. Once approved, Division management should disseminate the manual to appropriate Division Heads throughout the Port.

Issue	Recommendations	
		The POLA Project Development Committee should:
Two sets of grants management policies were developed, one in 2012 and one in 2014. Goods Movement Division staff asserts that neither policy manual has been approved by executive management or the Board of Harbor Commissioners. The Goods Movement Division has not consistently followed these policies.	4.3	Review, revise as appropriate, and approve the draft Project Development Committee Procedure, which includes a requirement that the committee approve all grant applications prior to initial submission to the granting agency. The approval process should include the project report template that has been drafted by Port staff and that has similarities to a cost-benefit analysis, including an assessment of the grant project's financial impact.
		Goods Movement Division management should:
	4.4	As part of the process outlined in Recommendations 4.1 and 4.2, review and revise the draft Grants Administration Manual to determine the necessary steps that the Goods Movement Division and other divisions should take during the application phase, which may lower the risk during grant administration. These steps may include a requirement for formal project execution plans prior to applying for grants, and formal notifications to the Budget and Finance Division and the Contracts and Purchasing Division of necessary budgeting changes and grant rules that affect procurement.

Process Audit: Goods Movement Division

Harvey M. Rose Associates, LLC was retained by the Port of Los Angeles to conduct a risk assessment and process audits of Port policies and procedures in four functional areas, by individual Port divisions. The four functional areas under review are:

5. Human Resources
6. Finance (accounts payable, accounts receivable, budget and capital asset management)
7. Contracts
8. Grants Management

Phase 1 Risk Assessment

During 2013, Harvey M. Rose Associates, LLC (HMR) completed Phase 1 of a planned risk assessment for the Port of Los Angeles. HMR worked with Port management to collect quantitative and qualitative data measures for each of the Port's divisions in the four functional areas and assessed risk levels for each division based on that information.

Qualitative measures of risk were collected through a questionnaire that sought to identify the internal controls and policies and procedures for each division across the four functional areas. Copies of policies and procedures were collected from each division and reviewed. The compiled quantitative measures of risk consisted of budget expenditures, employment statistics, including hiring, vacancy and employee grievance rates and the value of active contracts, grants and blanket purchase orders.

For the purposes of this engagement, risk is defined as follows:

> The threat to Port resources and services if the organization's divisions do not have adequate controls, policies and procedures in place to ensure efficient, effective and economical management of all key functions.

Phase 2 Audit Objectives

Building off the results of the Phase 1 Risk Assessment, HMR embarked on process audits of the four functions, to be conducted division by division over a period of at least one year. The objectives of the risk assessment and process audits are:

1. To assess the adequacy of the Port's and each Port division's internal controls and policies and procedures in the four functional areas under review.
2. To test sample transactions for each Port division's compliance with Port and division-specific policies and procedures in the four functional areas.

3. To identify possible changes needed in Port and/or division policies and procedures or division practices to minimize risk to the Port.

Process Audit Scope

Four divisions were selected by Port management for the first group of process audits, representing different levels of risk and various sized divisions: Goods Movement, Information Technology, Port Police, and Wharfingers. Each division's compliance with its own and the Port's policies and procedures in the four functional areas under review were to be assessed. In some instances, compliance with the City policies and procedures in the four functional areas were also tested when they are used by the Port in lieu of its own departmental policies and procedures. The adequacy of policies and procedures in place in the four functional areas under review were also evaluated. The time span covered by the process audits was Fiscal Year 2011-12 through 2013-14.

Overview of Goods Movement Division

The Port's Goods Movement Division is responsible for transportation planning and programming of the Port's landside access needs which include identifying and applying for local, State and federal funding as well as directing the preparation of traffic studies and preliminary design for the Port's transportation and operational projects. The Port's Goods Movement Division also works with the Mayor's Office and the Port's Legislative Affairs Division to develop and implement local, regional, State and federal transportation policy.

The Division's approved budget for Fiscal Year 2013-14 was $612,344, and three positions were budgeted for the Division in Fiscal Year 2013-14.

Four Functional Area Tests

Four functional areas were tested:

1. Human Resource Management
2. Financial Controls
3. Contracts
4. Grants

1. Human Resource Management

Why this function was audited

The specific Human Resource management areas tested for this audit were:

A. Turnover and hiring
B. Training
C. Performance evaluations
D. Grievance/discipline process

These areas were selected because of the risk posed to the Port if they are not efficiently and effectively managed. Salaries and benefits for the Goods Movement Division were budgeted at $524,863 in the Port's FY 2013-14 budget, or 85.7% percent of the Division's total operating budget for the year. To the extent that staff are not performing optimally, the work of the Port is not being executed as needed to accomplish the organization's mission and goals and Port dollars are not being well spent. Less than optimal staff performance could be indicated by high turnover rates, poor staff training, a lack of management guidance or direction for employees, and unfair treatment of staff.

The absence of staff training could indicate that employees are not adequately prepared to perform their jobs. Missing or delayed performance evaluations can indicate that staff are not receiving sufficient guidance and direction from their supervisors and managers and thus may not be performing at an optimal level. Finally, a high number of grievances filed in a division may indicate that employees are not treated fairly, which would impact their productivity. A high number of disciplinary proceedings may indicate that staff are not performing their jobs adequately. Lack of compliance with required grievance or disciplinary procedures may be exacerbating such problems.

The results of testing in each area for the Goods Movement Division are now presented.

1.A. Turnover and hiring

Standards and Procedures

The Port does not have its own specific policies and procedures related to turnover and hiring but, as a City department, it follows City protocols pertaining to the hiring process.

Risk

High turnover and vacancy rates for a division are problematic in that they take away from the organization accomplishing its mission, goals and objectives. If a division has high turnover or vacancy rates, this can be an indication of management needing to address a morale problem possibly due to management deficiencies, poor salaries and/or benefits relative to other opportunities available to the division's employees, jobs that do not offer much future, or inefficient recruiting and hiring processes. With a division as small as Goods Movement, a prolonged vacancy can have a significant impact.

Audit Test and Results

Though a small division, where a single vacancy can result in a high percentage vacancy rate, we conducted the same tests for the Goods Movement Division as are being conducted for all POLA divisions being audited. In FY 2011-12, two positions were approved in the Division's budget. Three positions were approved in both the FY 2012-13 budget and FY 2013-14 budget. Due to limitations in data available at the Port and at the Division and due to the absence of City and Port policies and procedures regarding controls on turnover and hiring, we calculated two rates in order to assess the Division's turnover, vacancy and hiring practices compared to two benchmarks. First, we calculated the turnover rate, which is the number of employees that left the Division during a year compared to the average number of filled positions during the same time period and compared the Division's rate to a national standard. Second, we calculated the Division's vacancy rate, which is the number of vacant positions out of the total number of positions approved, and compared it to other POLA divisions.[1]

In FY 2011-12, 1 employee left the Division, which resulted in a turnover rate of 90.9 percent.[2] In FY 2012-13, no employees left the Division, which resulted in a turnover rate of 0 percent. In FY 2013-14, one employee was added to the Division, which resulted in a turnover rate of less than 0 percent .[3] The Division's turnover rate for FY 2011-12 is higher than the national turnover rates calculated by the U.S.

[1] We had data to compare the turnover rate for the Division to a national rate since we did not have the number of employees who left other Port divisions. However, we did have data to compare vacancy rates for the Division to other Port divisions, but we were not able to determine an appropriate comparison with BLS data for vacancy rates.

[2] The calculation for the annual turnover rate is as follows: (the number of separations in the year / average number of employees during the year) *100. Formula source: http://www.payscale.com/compensation-today/2012/09/turnover

[3] According to Division Management, the Grants Section was transferred to the Goods Movement Division mid-year at the behest of the Deputy Executive Director for the Finance Bureau, which resulted in the Division's staffing at a higher level than the budgeted positions.

Bureau of Labor and Statistics (BLS) for state and local government, the most comparable category in the BLS's calculations. However, the Division's turnover rate for FY 12-13 and FY 2013-14 is higher than the national turnover rates calculated by the BLS. BLS reported a turnover rate of 16.1% in calendar year 2011, 16.3% for calendar year 2012 and 16.0% for calendar year 2013 for state and local government in the United States, for an average of 16.1% for all three years.

For vacancy rates, Port records show that the Division's average vacancy rate for FY 2011-12 was 45.0%, for FY 2012-13 was 0.0%, and for FY 2013-14 was -13.9%[4]. The average vacancy rate for all divisions in FY 2011-12 was 7.0%, for FY 2012-13 was 4.2%, and for FY 2013-14 was 5.9%. Thus, the Goods Movement Division had a higher vacancy rate than other Divisions in FY 2011-12 but a lower vacancy rate than other Divisions in FY 2012-13 and FY 2013-14. Because the Division is small, the impact of the absence of one staff member is significant.

Exhibit 1.1: Goods Movement Division Vacancy Rates, FYs 2011-12 through 2013-14

	FY 11-12	FY 12-13	FY 13-14
GM Division Vacancy Rate	45.0%	0.0%	-13.9%[5]
POLA-wide Average Vacancy Rate	7.0%	4.20%	5.9%

Source: Human Resources Division

Conclusions and Recommendations

The length of time it took to fill vacant positions was not able to be examined as neither the Division nor Human Resources keeps records of this. While vacancies can occur through no fault of a division's management, a key consideration for POLA is whether or not such vacancies can be filled rapidly. This information should be tracked to ensure that POLA is doing all it can to expedite filling vacancies, including working with the City Personnel Department. The impact of the loss of one employee for a small division like the Goods Movement Division is significant, and an understanding of the hiring cycle time will better allow the Division to manage its workload and pursue alternative channels for hiring, if deemed necessary.

The Division's turnover rates for FY 2011-12 was higher than the national turnover rates calculated by the U.S. Bureau of Labor and Statistics (BLS) for state and local government, the most comparable category in the BLS's calculations. However, the Division had a much lower turnover rate than the national turnover rates in FY 2012-13 and FY 2013-14. The higher rate in FY 2011-12 is due to the small size of the Division in FY 2011-12, and losing one staff member had a significant impact on the Division's vacancy rate.

[4] This is a negative number because a position was added in the middle of the fiscal year, above the number of approved positions in the FY 2013-14 budget.
[5] See footnote above.

In FY 2011-12, the Division had a much higher vacancy rate than other division. However, in FY 2012-13 and FY 2013-14, the Division had much lower vacancy rates than the other divisions. The high vacancy rate in FY 2011-12 is due to the small size of the Division in FY 2011-12, and losing one staff member had a significant impact on the Division's vacancy rate.

Recommendation for Goods Movement Division

1.1 The Division should monitor the hiring cycle time to better manage its personnel and work capacity.

Recommendations for other Port Divisions

None.

1.B. Training

Standards and Procedures

California Government Code 12950.1 requires that all POLA supervisors and managers complete a sexual harassment prevention training every two years. All POLA employees must also complete a Disaster Service Worker Training course at least once in accordance with the City of Los Angeles' Executive Directive No. 16 issued March 17, 2011. Executive Directive No. 16 requires all non-sworn City employees to serve as Disaster Service Workers to provide services and aid in the event of an emergency. Other than these two trainings, there are no training requirements specific to Goods Movement Division staff such as receiving a certain number of hours of continuing education as required for some professions.

Moreover, the City of Los Angeles' Executive Directive No. 26 issued December 21, 2012 requires the City's Department of Disability (DoD) to assist City department managers with reviewing current programs, services and activities for compliance and to develop a transition plan to ensure such programs, services and activities are brought into compliance. As a result of Directive No. 26, the City's DoD developed an ADA training course that every City employee is required to complete and began leading the training in April of 2013. This training is facilitated through an ADA Coordinator in the Human Resources Division who is responsible for ensuring the Port's compliance.

Risk

POLA supervisors and managers attend periodic sexual harassment prevention training in order to identify and prevent discriminatory behavior or harassment of or by their employees. Not attending these trainings increases the risk of this behavior occurring which could result in reduced employee morale and productivity, possible litigation against the Port and potentially higher attrition rates.

With regard to Disaster Service Worker Training, if POLA employees do not receive this training, they may not be able to fulfill their responsibility as Disaster Service Workers and respond in a disaster or emergency situation, as required by the City's Executive Directive No. 16.

Audit Test and Results

To determine compliance with Port-wide training requirements, we: 1.) reviewed the Port-wide training completion reports provided by the Port's Human Resources Division and, 2.) conducted a manual review of the Goods Movement Division's employee personnel files. The training completion reports provide the names of POLA employees who completed each of the trainings but not the date of training which is necessary to test sexual harassment prevention training compliance as POLA policy requires that all managers and supervisors complete this training every two years. The completion date of the Disaster Service Worker Training is not necessary because this training simply needs to be completed one time only for each employee, though it would still be a more comprehensive record keeping system to have all names and dates reported.

Human Resources Division staff reported that their tracking system does record training dates; however, due to system limitations, reports cannot be produced showing dates of training completion by individual employee name. Such information would have to be manually retrieved, according to Human Resources Division staff. Therefore, a manual review of the Goods Movement Division's personnel files was conducted.

To determine who is required to take the training course, every two years the Human Resources Division requests the divisions to provide them with the names of the employees who are in management, supervisorial or lead roles and are therefore required to take the course. Human Resources Division staff consolidates all of the division lists and then manually checks off the names of the employees once they receive their certificate of training completion. The system will also produce a list of names of all employees who took the course so if an employee forgets to submit their certificate, Human Resources Division staff can use the system report to verify completion. If an employee that is required to take the course has not submitted a certificate, Human Resources Division staff will send reminder emails or notify their managers.

In FY 2013-14, two employees from the Goods Movement Division were required to take the City's sexual harassment prevention training on or before January 1, 2014. According to the Human Resources Division training completion reports and review of the personnel files, both employees completed the training in December of 2013. In 2011, two-years prior to the December 2013 training, only one employee from the Goods Movement Division was required to take the sexual harassment training; however, upon review of the employee's personnel file, there was no sexual harassment prevention training completion certificate from 2011 indicating that this employee was out of compliance with the training requirement previous to FY 2013-14.

We were unable to corroborate the 2011 non-compliance with the Human Resources Division reports because the Division was unable to provide reports for FY 2011-12. Human Resources Division staff reported that a vendor was hired by the City of Los Angeles to administer and track sexual harassment prevention training and attendance but this vendor's records are now inaccessible. The City of Los Angeles changed vendors the following year.

As of August 11, 2014, all Goods Movement Division employees had taken the City's Disaster Service Worker Training course, according to training completion reports provided by the Port's Human Resources Division. With regard to ADA training that the City's DoD is facilitating, there is currently no deadline to complete the training course; however, as of September 2014, one employee had not completed the training.

The Goods Movement Division did not report any elective training during our audit period.

Conclusions and Recommendations

Although the Goods Movement Division does not appear to have been in compliance with the sexual harassment prevention training requirement in 2011, the Division is currently in compliance. Keeping internal records by employee name and date of completion would help ensure that the Division continues to stay in compliance with this statutory requirement and would be a good practice to ensure third party review of compliance can take place.

Internal tracking would be valuable in the event that the vendor tracking training reports are inaccessible or if there is a recording error made by Human Resources Division staff. Furthermore, POLA's centralized training tracking methods could be improved to provide the dates on their completion reports and to automate the system so that Human Resources Division staff does not have to manually check for compliance.

Recommendations for the Goods Movement Division

1.2 The Goods Movement Division should establish a policy of keeping training records for each employee by name and date of attendance.

Recommendations for other Port Divisions

1.3 The Human Resource Division should:

   a. Request that the City's vendor that tracks employee compliance with mandated training requirements produce a more detailed report showing when employees have attended required trainings, by name and POLA division; and
   b. Request a tool that allows the Human Resources Division to verify that the employees who are required to take training courses each year have completed the courses.

1.4 The Human Resources Division should monitor the new training tracking reports, regularly report the results to POLA's executive management, and continue to systematically notify divisions when their employees are not in compliance with State and City mandatory training requirements.

1.C. Performance Evaluations

Standards and Procedures

The Port's Employee Manual Section 2.110 states that each employee who is not serving a probationary period will be evaluated each year for work performed over a year-long rating period which ends approximately three months prior to the employee's "salary anniversary" date, or the date an employee was given their most recent salary. After this rating period, an Employee Evaluation Report is to be filled out by the employee's immediate supervisor, approved by the next higher supervisor, and then presented and discussed with the employee.

The Human Resources Division reports that the policy in the Port's Employee Manual is no longer in effect and has been replaced by a new policy pursuant to a 2010 directive by the former Executive Director in which performance evaluations are to be conducted once a year for every employee, but not on a specific date. This directive was reportedly issued because step adjustments in newly negotiated MOUs were likely to not occur on the employee's salary anniversary but on a specific date, which could amount to longer than a 12-month evaluation period. Human Resources Division staff was unable to provide documentation of this policy change made by the Executive Director. However Human Resources Division staff sent an internal memorandum in May of 2010 to POLA senior managers and division heads requesting that they complete annual evaluations of their employees which should be returned to the Human Resources Division by May 31, 2010.

Risk

Missing or delayed performance evaluations can indicate that staff are not receiving adequate feedback and direction from their supervisors and managers and thus may not be performing at an optimal level, potentially leading to reduced productivity.

Audit Tests and Results

Given the Port's actual reported practice of conducting performance evaluations on an annual basis as opposed to on the date of an employee's salary anniversary, we reviewed the dates of the performance evaluations that were retrieved from the personnel files for Calendar Years 2011, 2012 and 2013 to determine whether these evaluations were in compliance with the Port's practice.

In 2011, one Division employee did not receive a performance evaluation and in 2012, performance evaluations were not completed for two of the four Division employees as shown in Exhibit 1.2 below. One of the two employees that did not receive a performance evaluation in 2012 did not receive an evaluation in 2010 or 2011, which means this employee had not been evaluated in at least three years.

Due to these missing performance evaluations and one employee leaving the Division in 2013, compliance could only be tested for two employees in 2012 and one employee in 2013 as these were the only employees that had consecutive performance evaluations. For the two employee performance evaluations that could be tested in 2012, one employee's performance evaluation was completed within a month of the one year anniversary date of their 2011 evaluation. The second employee's performance evaluation was five months after the one year anniversary date of their 2011 evaluation. In 2013, one employee's evaluation was completed two months prior to the anniversary date of their 2012 performance evaluation.

Exhibit 1.2: Performance Evaluation Completion Rates
Goods Movement Division
Calendar Years 2011 through 2013

Performance Evaluation Status	Evaluations Completed in CY 2011	Percentage	Evaluations Completed in CY 2012	Percentage	Evaluations Completed in CY 2013	Percentage
Not Completed On-Time	2	50%	2	50%	3	100%
Completed On-Time	1	25%	0	0%	0	0%
Not Completed	1	25%	2	50%	0	0%
Total	**4**	**100%**	**4**	**100%**	**3**	**100%**

[1]The Goods Movement Division went from four employees to three employees in 2013.
Source: POLA Goods Movement Division employee records CY 2011, 2012 and 2013.

Goods Movement Division staff report that copies of employee performance evaluations are kept in the Division's files but are not monitored. Goods Movement Division staff also report that performance evaluations were not completed in 2011 and 2012 due to the Division's workload.

Human Resources Division Performance Evaluation Reporting

For management purposes, the information that POLA's Human Resources Division's performance evaluation tracking system provides is limited. Prior to reviewing the Goods Movement Division's individual employee personnel files, the Human Resources Division provided their performance evaluation tracking report to show which employees were in compliance. However, this report only lists the names of employees who have *not* received a performance evaluation and the date of their last evaluation. The report does not present the names and dates of all POLA employees' performance evaluations, making it impossible without physically reviewing individual personnel files for a third party to determine if performance evaluations are being conducted timely.

It should be noted that the current performance evaluation tracking report adequately serves the needs of Human Resources Division staff as the Division's priority is to ensure every employee have been evaluated. However, the tracking report is problematic for oversight purposes since a third party such as an auditor or executive management cannot get a snapshot of how well each POLA division is meeting its performance evaluation requirements.

Conclusions and Recommendations

The Goods Movement Division did not provide annual performance evaluations for one of their four employees in 2011 and two of their four employees in 2012. One of the two employees whose performance evaluation was out of compliance had not received a performance evaluation in at least three years.

According to POLA's reported policy of evaluating the employee every 12 months, the majority of performance evaluations that were conducted, two out of three, were within two months of their previous year's performance evaluation. However, to better ensure that performance evaluations are conducted in accordance with POLA's stated policy, the Division should begin to electronically track and monitor their employee's performance evaluation dates and allocate sufficient time to conduct them.

Recommendations for Goods Movement Division

1.5 The Goods Movement Division should establish a policy of keeping an electronic record of their employee performance evaluations by name and date and use it to monitor employee performance evaluation due dates. The Goods Movement Division should also allocate sufficient time to complete employee evaluations annually.

Recommendations for other Port Divisions

1.6 The Human Resources Division should formalize the new approach to performance evaluation timing and codify these requirements for inclusion in the Port's Employee Manual, subject to approval by executive management.

1.7 The Human Resources Division should design a system that tracks employee names and dates of performance evaluations so they may remind divisions of their performance evaluation schedule and to be able to track and report division compliance with the requirements to third parties such as executive management and auditors.

1.D. Grievance/discipline process

No grievances were filed for this division during the audit review period.

2 Financial Controls

Why this function was audited

The specific financial controls areas tested for this audit were:

A. Budget
B. Purchase Orders
C. Purchasing Cards
D. American Express Cards
E. Accounts Receivable: Vessels
F. Capital assets

These areas were selected because of the risk posed to the Port if they are not efficiently and effectively managed. Budgets are used for setting financial priorities and meeting strategic objectives and should be monitored throughout the year for compliance and accountability. If a division is not reviewing its expenditures to ensure agreement with the central accounting database (maintained centrally in the ERP system), it is at risk of spending beyond their allocations, or underspending and tying up Port resources budgeted for the division unnecessarily, or not completing projects due to funding deficiencies.

Controls over purchasing activities are in place to ensure that the Port is receiving the lowest price for goods and services and to protect the Port from vendor or employee fraud that could result from unauthorized purchases.

Uncontrolled use of purchasing or American Express cards can be problematic in that it can result in waste, abuse, and fraud. If a division does not monitor the use of its purchasing cards, the cards can be used for activities unrelated to POLA business, such as an employee using the cards for personal items. Inadequate tracking and monitoring of capital assets, including inventory inspections, reconciling centralized and division records, or poor controls over disposal, sale or salvage of assets could lead to potential fraud, abuse and misuse of POLA assets.

The results of testing in each area for the Goods Movement Division are now presented.

2.A. Budget

Standards and Procedures

POLA's Finance Division's Policies and Procedures Manual (as revised November 11, 2010) contains Budget Operating Guidelines that are to be followed by all POLA divisions. The Budget Operating Guidelines are based on the Financial Policies for the Harbor Department and cover budget monitoring, budget transfers supplemental appropriations, and budgeting for salaries and positions. The budget monitoring section of the Guidelines covers reviewing financial reports, reporting variances, and rectifying available funds.

Risk

Budgets are used for setting financial priorities and meeting strategic objectives and should be monitored throughout the year for compliance and accountability. If a division is not reviewing its expenditures and internal records to ensure agreement with the central accounting database (recorded in ERP), the Division is at risk of spending beyond their allocations, or of not completing projects on time if funds are exhausted due to inaccurate records kept at a division. Timely reconciliation of division records and central accounting records also prevents fraudulent activities and expenditures. On the other hand, if a division is consistently underspending relative to its budget, POLA is at risk of tying up its resources through budget appropriations in excess of actual need.

Audit Tests and Results

Annual adopted and adjusted budgeted and actual expenditure data for FYs 2011-12 and 2012-13 and monthly data for FY 2013-14 were obtained for review from two sources: 1) the Financial Management Division provided data from POLA's ERP system and, 2) the Goods Movement Division provided its internal budget tracking documents for FYs 2011-12 through 2013-14. We examined any over- or under-budgeting by fiscal year, by month, and by accounts; and we reviewed discrepancies between ERP data and internal budget tracking documents.

FY 2011-12 – 2013-14 analysis

The Division's total adopted budget increased from $612,130 in FY 2011-12 to $678,996 in FY 2012-13, then decreased to $651,129 in FY 2013-14. In FY 2011-12, the Goods Movement Division underspent its budget by $136,771, or 22 percent less than the budgeted amount. However, in FY 2012-13 and FY 2013-14, the Goods Movement Division overspent its budget by $34,819 or 5 percent and $19,950 or 3 percent, respectively, as shown in Exhibit 2.1 below. While, with the exception of FY 2011-12, these are not significant amounts, further analysis revealed some areas where budget controls and oversight could be improved.

Exhibit 2.1: Actual Expenses Relative to Budgeted Amounts for Total Expenses, Goods Movement Division, FYs 2011-12 – 2013-14

	FY 2011-12	FY 2012-13	FY 2013-14
Total Adopted Budget	$612,130	$678,996	$651,129
Total Actuals	$475,359	$713,815	$671,079
Actual less Budget	***($136,771)***	***$34,819***	***$19,950***
% Over/(Under) Budget	*(22%)*	*5%*	*3%*

Source: Financial Management Division (ERP)

The Goods Movement Division salaries and benefits budget increased for all three fiscal year examined and actual expenditures exceeded budgeted amounts in each year, as shown in Exhibit 2.2 below.

Exhibit 2.2: Actual Expenses Relative to Budgeted Amounts for Salaries & Benefits Expenses, Goods Movement Division, FYs 2011-12 – 2013-14

	FY 2011-12	FY 2012-13	FY 2013-14
Salaries & Benefits Adopted Budget	$354,306	$517,240	$524,863
Salaries & Benefits Actuals	$387,193	$686,204	$590,099
Actual less Budget	***$32,887***	***$168,964***	***$65,236***
% Over/(Under) Budge	*9%*	*33%*	*12%*

Source: Financial Management Division (ERP)

Division management explained that there have been increases in salaries and benefits expenditures due to changes in labor Memoranda of Understanding (MOU) contracts. POLA's Financial Management Division explained that the overspending on the salaries and benefits budget was due to mid-year promotions. These position upgrades are approved through POLA's Personnel Committee, and funds for the upgrades are identified at approval. The Financial Management Division monitors the budget for salaries and benefits enterprise-wide for POLA and verifies that additional expenses for promotions can be absorbed by the Port as a whole. According to the Financial Management Division, the division receiving the position upgrade is not required to adjust its budget to reflect the transfer of the promotional funds. However, the Budget Operating Guidelines requires that step increases, bonuses, and other MOU-mandated adjustments be added to the position's funding during the budgeting process. Thus, the Financial Management Division should take measures to include such step increases and other MOU-mandated adjustments into the position's funding before the beginning of the fiscal year.

Furthermore, the Financial Management Division stated that an average benefits rate is calculated and budgeted for every POLA employee enterprise-wide, which can result in over- or understatement of actual benefits expenditures for some divisions. Thus, the overspending identified in Exhibit 2.2 may also be attributed to the POLA-wide calculations for benefits. According to the Financial Management Division, the benefits can now be calculated more precisely for each employee through ERP. The Financial Management Division applied this calculation for employee-specific benefits in FY 2012-13, but the Accounting Division had not yet been able to adapt to this process. Thus, the Financial Management

Division reverted back to using the average benefits rate in FY 2013-14 and will continue to use this method until the Accounting Division is able to use the ERP function. According to the Accounting Division, no changes can be made until the Port alters its Payroll Accounting process.

The Goods Movement Division underspent on Other Direct Expenses (or all non-salaries and benefits expenditures) in all three fiscal years examined, as seen in Exhibit 2.3 below.

Exhibit 2.3: Actual Expenses Relative to Budgeted Amounts for Other Direct Expenses, Goods Movement Division, FYs 2011-12 – 2013-14

	FY 2011-12	FY 2012-13	FY 2013-14
Other Direct Expenses Adopted Budget	$257,824	$161,756	$161,756
Other Direct Expenses Actuals	$90,909	$80,156	$123,396
Actual less Budget	***($166,915)***	***($81,600)***	***($38,360)***
% Over/(Under) Budget	*(65%)*	*(50%)*	*(24%)*

Source: Financial Management Division (ERP)

Exhibit 2.3 shows that the variance between budgeted and actual Other Direct Expenses expenditures has been decreasing since FY 2011-12. In FY 2013-14, the Division was instructed by Port management to decrease its Other Direct Expenses budget, and ERP records show an adjusted budget of $122,941 by the end of the fiscal year. As shown in Exhibit 2.3 above, the actual expenditures for FY 2013-14 was $123,396. Thus, the adjusted budget was close to the actual expenditures for FY 2013-14, and budget-to-actuals on Other Direct Expenses has shown improvement.

The Division has an Allocated Budget, which is made up of direct allocations and indirect allocations. According to Financial Management Division Management, direct allocations are billed to work orders paid by the capital budget and cover costs such as Goods Movement Division labor costs incurred on capital improvement projects. Indirect allocations cover Goods Movement Division overhead costs related to work on capital improvement projects performed by the Goods Movement Division. The amounts are typically negative in the budget and actual expenditure reports because these amounts are recovered from the capital budget. The Financial Management Division explained that Allocated Expenses should be budgeted as part of the regular budget process and that it works with the Accounting Division to budget for these expenses for all POLA divisions.

Exhibit 2.4 below shows the allocated budget to actuals for both indirect and direct costs.

Exhibit 2.4: Actual Expenses Relative to Budgeted Amounts for Allocated Expenses, Goods Movement Division, FYs 2011-12 – 2013-14

	FY 2011-12	FY 2012-13	FY 2013-14
Budgeted Expenditures	$0	$0	($35,490)
Actual Expenditures	($2,744)	($52,546)	($42,416)
Actual Less Budget	($2,744)	($52,546)	($6,926)
% Over/(Under) Budget	-	-	20%

Source: Financial Management Division (ERP)

As Exhibit 2.4 above shows, the Division recorded expenditures in FY 2011-12 and FY 2012-13 although no amounts were budgeted for Allocated Expenses. In FY 2013-14, the Division recorded Allocated Expenses 20% above the budgeted amount. The Division should work with the Financial Management Division and the Accounting Division to improve the budgeting and reporting of expenditures of Allocated Expenses.

The Accounting Division explained that each division inputs their own salaries and operating expenses for Allocated Expenses, and the Accounting Division will reconcile the budget and actuals monthly but does not necessarily make corrections unless the numbers do not appear reasonable. However, the variances in Exhibits 2.3 and 2.4 indicate that adjustments should be made to control expenditures. The Goods Movement Division should work with the Accounting Division to reconcile these variances to ensure that the Division is tracking expenditures accurately.

Month to Month Analysis for FY 2013-14

The Budget Operating Guidelines require that the Division operate within the adopted budget and therefore monitor their budget activities to ensure expenditures are transacted within allocations as approved by the Board of Harbor Commissioners. The monthly budgets are prepared by the divisions based on their planned expenditures for the fiscal year, and the Financial Management Division issues monthly Budget-to-Actual Reports to assist Divisions in monitoring their budgets each month.

We compared the monthly actual expenditures to the monthly budget and found that in three months, the Division significantly overspent on its monthly budget, as shown in Exhibit 2.5 below. The Division overspent its March 2014 budget of $14,302 by $45,399, or 317% over the month's budget, for a total spending of $59,701. In May 2014, the Division overspent its budget of $53,302 by $53,335, or 100% over the month's budget, for a total spending of $106,637. In June 2014, the Division overspent is budget of $54,602 by $40,046, or 73% over the month's budget, for a total spending of $94,649. By fiscal year's end, the Goods Movement Division was slightly over its FY 2013-14 budget by $24,354 or 4 percent.

Exhibit 2.5: Monthly Actual Expenses Relative to Monthly Budgeted Amounts, Goods Movement Division, FY 2013-14

FY 2013-14	Monthly Budget	Monthly Actuals	$ Variance	*% Over/(Under) Budget*
July	$53,302	$26,439	($26,863)	(50%)
August	$53,702	$32,745	($20,957)	(39%)
September	$61,784	$46,402	($15,382)	(25%)
October	$53,769	$48,853	($4,916)	(9%)
November	$53,369	$35,623	($17,746)	(33%)
December	$53,702	$40,256	($13,446)	(25%)
January	$53,302	$45,135	($8,167)	(15%)
February	$53,702	$52,307	($1,395)	(3%)
March	$14,302	$59,701	$45,399	317%
April	$53,702	$48,149	($5,553)	(10%)
May	$53,302	$106,637	$53,335	100%
June	$54,602	$94,649	$40,047	73%
END OF YEAR TOTAL	***$612,544[6]***	***$636,898***	***$24,354***	***4%***

Source: Accounting Division (ERP)

These overages in FY 2013-14 were primarily due to spending in account 51610 Employee Benefits Expenses, which is explained by the overspending shown in Exhibit 2.2 regarding the overspending in salaries and benefits.

The Division underspent on its budget in all other nine months, and the Financial Management Division explained that they will work with the Division to explain any overspending or underspending at the monthly reports to the Board of Harbor Commissions but typically do not make adjustments to correct for monthly variances and anticipated future spending as long as overall annual funding at the three digit level is sufficient to fund the relevant accounts. ERP has a control to prevent creation of requisitions if sufficient funds are not available at the annual three-digit level.

The Division overspent on its FY 2013-14 budget by $24,354 by year's end, and Exhibits 2.2 and 2.3 show that this variance was due primarily to staff promotions. However, the underspending for nine months out of FY 2013-14 indicates potential opportunity for greater controls over the monthly variances between budgeted and actual expenditures. In addition to the Financial Management Division budgeting at the beginning of the year for step increases and MOU-adjustments, the Division can budget its monthly budget according to its needs and work with the Financial Management Division to revise its monthly budget, in order to better monitor its spending in accordance with the budgeted amounts.

[6] The end-of-year total for FY 2013-14 in Exhibit 2.5 shows the adjusted budget, which captures the adopted budgets and any transfers made throughout the year, whereas Exhibit 2.1 shows only the adopted budget. Furthermore, at the time of this analysis, only preliminary FY 2013-14 monthly budget figures were provided. The final budget figures for FY 2013-14 were a budgeted amount of $612,323.92 and actuals of $671,079.14, an overspending by 10%.

Division Tracking v. Central ERP Tracking of Division Budget and Expenditures

POLA's Budget Operating Guidelines require that divisions operate within the adopted budget and therefore monitor their budget activities to ensure expenditures are transacted within allocations as approved by the Board of Harbor Commissions. The Goods Movement Division maintains its own set of records of its budgeted and actual expenditures, independent of the centralized records maintained in POLA's ERP system. The Budget-to-Actual Report provided to all divisions by the Accounting Division shows the fiscal year-to-date approved budget, actual expenditures, and unexpended budget, and assists Divisions in monitoring their respective budgets.

Discrepancies were found between the ERP and Division accountings of actual amounts for the Division's Other Direct Expenditures, excluding salaries and benefits, for each year between FYs 2011-12 and 2013-14. While not major, these differences indicate that the Division is not operating with the same set of financial records as in ERP.

Goods Movement Division records show that the Division spent significantly less than the ERP records show for all three years for Other Direct Expenditures, as shown in Exhibit 2.6 below. The Division explained that it works with the Accounting Division to reconcile any variances in actuals with each monthly Budget-to-Actual Reports. However, the Division was unable to explain all discrepancies between central and internal documentation for the actual expenditures.

Exhibit 2.6: Actual Other Direct Expenses as Reported by ERP Compared to Goods Movement Division Records, Goods Movement Division, FYs 2011-12 – 2013-14

Source	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**
Central (ERP) Actuals Amount	$90,909	$80,156	$123,396
Division Actuals Amount	$4,565	$34,709	$21,182
Division less ERP Records	***($86,344)***	***($45,447)***	***($102,215)***
Percentage variance	-95%	-57%	-83%

Source: Financial Management Division (ERP) and Goods Movement Division records

POLA's Financial Policies require producing budget information that is clear, comprehensible, and transparent, and spending beyond approved allocations is a high risk for a smaller division like the Goods Movement Division. The variance amounts between central and Division records of actual expenditures are significant, and the records should agree to ensure that Division management is controlling its expenditures.

Goods Movement Division staff explained that the Division maintains its own records and transmits these to the Accounting Division, and also informs the Accounting Division when there are discrepancies between central and Division records. Division staff explained that internal records are maintained as the integrity of central records is in question. Division staff also explained that efforts to reconcile records with the Accounting Division have not been met with cooperation by the Accounting Division staff.

Transfers

POLA's Budget Operating Guidelines require that divisions making transfers within or among the same 3-digit accounts complete the "Request for Transfer of Appropriations among Divisions" form with the approval signatures of respective division heads. The Budget Operating Guidelines furthermore require transfers within or among divisions within the same 2-digit accounts through the completion of the same aforementioned form and requires the approval of the respective division heads, senior management, and the Chief Financial Officer. However, according to the Financial Management Division, these guidelines are no longer being followed as of the implementation of the ERP system in 2012. All transfers for 2 digit accounts only require the approval of Division Heads. Transfers are initiated from the division providing the funds, and Division Head approval is required before the transaction is routed to the Budget Group at the Financial Management Division. After the Budget Group reviews the transaction, the transaction is approved and posted by the Budget Group. The Financial Management Division stated that the budget operating guidelines are in the process of being revised to reflect the ERP procedures.

Transfers account for the difference between the adopted budget at the beginning of the fiscal year and the adjusted budget at the end of the year. Below in Exhibit 2.7 below shows the sum of transfers as identified in ERP records.

Exhibit 2.7: Goods Movement Transfers as Reported by ERP
Goods Movement Division, FYs 2011-12 -- 2013-14

	FY 2011-12	FY 2012-13	FY 2013-14
Adopted Budget	$612,130	$678,996	$651,129
Adjusted Budget	$610,243	$674,132	$612,314
Adopted - Adjusted (transfers)	*$1,887*	*$4,864*	*$38,815*

Source: Financial Management Division (ERP)

A comparison of the record of transfers as identified in ERP records to the Division's internal record revealed variance between the two records, as shown in Exhibit 2.8 below.

Exhibit 2.8: Goods Movement Transfers as Reported by ERP and Goods Movement Division Records
Goods Movement Division, FYs 2011-12 -- 2013-14

	FY 2011-12	FY 2012-13	FY 2013-14
Adopted - Adjusted (transfers)	$1,887	$4,864	$38,815
Transfers in Goods Movement Records	$699	$1,364	$2,555
Variance between ERP and Police Records	*($1,188)*	*($3,500)*	*($36,260)*
% Over/(Under) ERP	*(63%)*	*(72%)*	*(93%)*

Source: Financial Management Division (ERP) and Goods Movement Division

The Goods Movement Division provided the supporting documentation for its internal record of transfers. However, the Goods Movement Division's internal records of transfers is not complete and does not reconcile the differences between the adopted and adjusted budgets in ERP, as shown in Exhibit 2.8 above. The Division should have worked with the Financial Management Division to reconcile discrepancies in transfers.

Conclusions and Recommendations

Though not large amounts, the Division overspent its total budget in FY 2012-13 and FY 2013-14 and has overspent on its salaries and benefits budget for all three fiscal years examined. The Division explained that staff promotions contributed to this overspending, and the process of calculating benefits may also have contributed to the overspending. However, POLA's Budget Operating Guidelines requires that step increases, bonuses, and other MOU-mandated adjustments be added to each division's approved budget. The Financial Management Division should take greater effort in budgeting salaries & benefits with this anticipated increase in spending. Furthermore, as the ERP system now allows more precise calculations for benefits per employee, POLA should expedite the implementation of calculating employee-specific benefits through ERP. Management and oversight of salaries and benefits budgets is limited by the current method of benefits calculation, which contributes to overspending or underspending by divisions on their salaries and benefits.

Though its overspending for FY 2013-14 overall was minor, the Division overspent its monthly budget in three months of FY 2013-14 and overspent on its annual FY 2013-14 budget by 4%. The Budget Operating Guidelines require that the Division operate within the adopted budget and therefore monitor their budget activities to ensure expenditures are transacted within allocations as approved by the Board of Harbor Commissions. While circumstances can change throughout the year, resulting in variances between actual and budgeted monthly expenditures, the Division should attempt to budget its monthly budget according to its needs and work with the Financial Management Division to revise its monthly budgets for the fiscal year, in order to better monitor its spending and avoid year-end shortfalls or over expenditures.

The Division has significant discrepancies between its actual expenditures compared to ERP records. Spending beyond approved allocations is a higher risk for a smaller division like the Goods Movement Division. The records should agree to ensure that Division management is controlling its expenditures. The Financial Management Division explained that the discrepancies were due to transfers, but the Goods Movement Division did not have records to reconcile the full variance amounts.

Internal and central ERP budget records are not being adequately used as a management tool by the Goods Movement Division. The budget is not adjusted based on overspending or underspending in ERP or in Division records, and there is a lack of reconciliation of Division records with the ERP records. The Division explained that the lack of reconciliation is due to the Accounting Division not cooperating to reconcile records.

Recommendations for the Goods Management Division

2.1. The Goods Management Division should work with the Financial Management Division to devise a budget at the monthly level that reflects the Division's needs and planned expenditures, including revised forecasts through year-end to avoid over-expenditures.

2.2. The Goods Management Division should reconcile its budgeted and actual expenditure records with ERP budget data, keeping adequate records of any transfers made throughout the year, to ensure that the Division does not exceed its spending allocations.

Recommendations for other Port divisions

2.3. The Financial Management Division should work with POLA divisions early in the fiscal year to make the adjustments to correct for underspending and future spending in order to better control the budget process.

2.4. The Financial Management Division should factor in step increases and other MOU-mandated adjustments in position funding for the fiscal year in order to plan for Division salaries and benefits.

2.5. The Accounting Division should work with POLA divisions to reconcile ERP and division records on a monthly basis.

2.6. The Accounting Division should prioritize and expedite the implementation of calculating employee-specific benefits through ERP to better manage the budgeting and expenditures on POLA employee benefits.

2.7. The Accounting Division work with the Financial Management Division and the Goods Movement Division to ensure that budgeting for Allocated Expenses adequately captures the expenses Divisions incur to enhance Division management of the Allocated Expenses accounts.

2.B. Purchase Orders

Standards and Procedures

Purchasing guidelines are outlined in Sections 370 and 380 of the City Charter and are further detailed in Divisions 9 and 10 of the City Administrative Code. Resolutions approved by the Board of Harbor Commissioners (the Board) also provide requirements for purchases that have been delegated to the Board for execution. The Port of Los Angeles' Contracts and Purchasing Division (CPD) developed a draft purchasing manual in 2012 that draws from all of these sources. The purchasing manual describes who can authorize purchases of certain dollar amounts, the Port's purchase requisition process, and the complete purchasing process for purchases of various dollar amounts.[7] According to the draft purchasing manual, the purchasing process includes the following steps, in this order:

1. The division completes a requisition form or Authority for Expenditure (AFE) form and obtains the Division Head's and any other necessary signatures. The division submits the form to CPD.
2. CPD requests a quote or multiple quotes from vendors for the good or service. Bids for the goods or services are requested from multiple vendors when the price exceeds a certain threshold.
3. CPD obtains required approvals for the purchase, ranging from approval by a CPD Purchasing Analyst to the Board of Harbor Commissioners, depending on the price.
4. CPD creates a purchase order and sends it to the selected vendor.
5. The vendor fulfills the purchase order by providing the good or service and sends Accounts Payable an invoice.
6. Once the invoice is received, Accounts Payable confirms with the division that the good or service was received.
7. The division authorizes Accounts Payable to pay the invoice and the invoice is paid.

The General Accounting Encumbrance Authority for Expenditure (AFE) is generally used to encumber funds for services such as training seminars or meeting expenses that are low-dollar, but too expensive for petty cash, or is for a short period of time where a formal contract would not be efficient. In accordance with the Los Angeles Administrative Code Section 10.2, all AFE's greater than $1,000 must be reviewed and approved by the City Attorney. Following City Attorney approval, the AFE must be submitted to the Controller before the service is provided.[8]

Risk

Controls over purchasing activities are in place to ensure that the Port: 1) is receiving the lowest price for goods and services through required competitive bidding, 2) is protected from vendor or employee

[7] The 2012 Purchasing manual provides different guidance for purchases less than $25,000; purchases between $25,000 and $100,000; purchases between $100,000 and $150,000; and purchases of $150,000 and above.
[8] Controller Manual Revised March 2013. 1.4.3.1 General Accounting Encumbrance.

fraud that could result from unauthorized purchases or preferential treatment of certain vendors, and 3) is only making purchases for which appropriated funding is available.

Audit Tests and Results

Based on the Goods Movement Division's internal records and central purchasing reports provided by the Port's Information Technology Division, the Goods Movement Division executed four procurements from FY 2011-12 to FY 2013-14 totaling $6,886 as shown in Exhibit 2.9 below. The Goods Movement Division reported 33 purchases from three Port-wide Office Depot blanket purchase order contracts during the audit review time period[9]. The California Dining Services purchase was an Authority for Expenditure (AFE) for meeting refreshments that the Goods Movement Division co-hosted with the Port's Business Development Division.

Exhibit 2.9: Goods Movement Purchase Order Summary, FY 2011-12 to FY 2013-14

Vendor Name	Number of POs/AFEs	Purchasing Authority
California Dining Services	1	$186.00
Office Depot	3	$2,122.27
Total	**4**	**$6,886**

Source: POLA Information Technology Division Central Purchasing Reports

As part of our sample, we reviewed the California Dining Services AFE and two purchases made from the Port-wide Office Depot blanket purchase orders to determine compliance with the City and the Port's purchasing policies and procedures.[10] From our review of purchase orders over a three-year period, we found one instance of non-compliance with Port policies. For the AFE with California Dining Services, approvals were not obtained by the Division and/or the Department Head for the AFE form and the purchase order until after the purchase was made.

The City of Los Angeles' Interdepartmental Memorandum No.07-026, issued by the City Controller on December 26, 2007 to all Department heads, states that City funds can be used to purchase beverages and light deserts if a meeting is over four-hours and conducted during regular business hours. Memorandum No.07-026 also states that in all cases, City departments must obtain prior approval for

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[9] The central report prepared by the IT division of all procurements for all POLA divisions reported only 10 purchase orders off the Office Depot blanker purchase order for the Goods Movement Division during the period reviewed for this audit. The audit team accepted the Division's records as the more accurate based on documentation provided by the Division.

[10] As part of our request for information, we requested all purchase orders made by the Goods Movement Division from FY 2011-12 through FY 2013-14. In response, the POLA Information Technology Division (IT) provided their central purchasing reports for this time period which showed the AFE with California Dining Services but only ten purchases made off of one Office Depot blanket purchase order. The sample was drawn from IT's central purchase order reports. Upon consultation with the Goods Movement Division after audit field work was completed, Goods Movement Division staff provided their internal purchase order records which showed 33 purchases made off of three blanket purchase orders during the audit period indicating that IT's central records are not consistent with the Goods Movement Division's records. Due to the timing, we did not expand the sample as it is still representative of the 34 total procurements.

expenditures for meetings by submitting a written request to the City Controller's Office that includes the following:

- Appropriate justification for the meeting;
- Agenda or program;
- Listing of attending employees;
- Quotations or invoices for all vendors associated with the meeting;
- Identification of the funds to be used from the budget for the City department or office.

Goods Movement Division staff provided all the required documents except that the written request to the Controller identifying the funds to be used for the purchase differed from the actual funding source used. In the Division's request for approval from the City Controller's Office, staff stated that specific funds from the Goods Movement Division's FY 2013-14 budget would be used to purchase refreshments. This request was approved by the Controller's Office; however, the purchase was actually made using funds from the Business Development Division's budget.

Accounting Division staff reported that it is acceptable for one division to submit a requisition for refreshments and for another division to pay the requisition; reportedly, this often occurs when two divisions are co-sponsoring a meeting. Accounting Division staff further noted that in this situation, both divisions must agree on the funding source and the correct funding source must be identified on the purchase requisition form. The California Dining Services AFE met both these requirements.

Accounting Division staff further noted that when memorandums for meeting expenses are sent to the City Controller's Office for approval, the City Controller's Office checks for compliance with City policies and/or contract terms and not available funding. Accounting staff advised that the reason funding sources change are because Division staff are not always certain which account to charge to when drafting the memorandum to the City Controller's Office. Accounting staff explained that it is the Port's prerogative to decide which account to charge to as it often depends on the availability of funds on the day that the payment is processed. Accounting staff reported that the City Controller's Office is aware of this practice.

Conclusions and Recommendations

While the Goods Movement Division's purchase order portfolio is small and of a low dollar amount, the Division should adhere to the Port's purchasing policies and procedures. Goods Movement Division staff should adequately plan ahead for known expenditures so that purchase orders and AFEs are completed prior to ordering a good or service.

Recommendations for the Goods Movement Division

2.8 Goods Movement Division management should take steps to ensure that Division staff is not receiving goods and services prior to an Authority for Expenditures (AFE) or purchase order being generated.

Recommendations for other Port divisions

2.9 The Accounting Division should adopt a policy of not processing invoices if the invoice date precedes a signed AFE or purchase order date without written explanation from a manager from the appropriate division.

2.C. Purchasing Cards

The Goods Movement Division was not assigned a purchasing card during the audit review period.

2.D. American Express Cards

Standards and Procedures

American Express (AMEX) card usage is governed by the Port of LA's American Express Charge Card Policy and Procedures, revised July 16, 2008 (AMEX Policy and Procedures), and by the City Controller's Manual, revised March 2013, Section 1.8 Travel (Controller's Travel Manual). Furthermore, there are procedures that are not formalized but are reportedly followed by Division management and the POLA Accounting Division.

Risk

Uncontrolled use of AMEX cards can be problematic in that it can result in waste, abuse, and fraud. If a division and/or centralized POLA staff does not monitor the use of its AMEX cards, the cards can be used for activities unrelated to the business of the Goods Movement Division. For example, an employee may be using the cards to purchase personal items or travel for personal reasons, and a lack of controls would allow such abuse of public funds. Controls are lacking if management does not approve expenditures charged to AMEX cards in advance or if documentation confirming receipt of items is not provided to the Accounting Division in advance of card balances due being paid.

Audit Tests and Results

To test the Goods Movement Division's compliance with the AMEX Policy and Procedures, the Goods Movement Division provided the charges for the card assigned to the Division for FY 2013-14. During FY 2013-14, there were a total of 27 transactions made with the AMEX card for the Goods Movement Division for a total of $2,644.96. All purchases were made on one card assigned to an employee of the Division. A judgmental sample of four transactions, or approximately 15 percent of the Division's 27 total transactions during the period reviewed, was tested for the Goods Movement Division against pertinent Port and City policies procedures. Supporting documentation of the application for the Purchasing Card, proof of purchase, the expense report, and payment by the Accounting Division were examined. Additionally, one Division transaction charged to the Central Port AMEX card for a trip to Sacramento was tested.

Of the transactions made on the Division AMEX card, two transactions were travel-related, and two were local business expenses, which are expenses at local businesses that are incurred in the normal course of conducting Port business. All were paid by the Accounting Division timely, but supporting documentation for the transactions was not submitted to the Accounting Division timely.

According to the AMEX Policy and Procedures and the City Controller's Travel Manual, it is the cardholder's responsibility to secure all the appropriate written approvals prior to travel. The Controller's Travel Manual requires the cardholder to create and submit an encumbering document called the General Accounting Encumbrance Travel (GAETL) document to the Controller's Office ten business days prior to travel. According to the Accounting Division, the Controller's policies have changed and now the requisition (which shows the three lines: Registration, Airfare, Expenses) along with the supporting documents (the travel memo and Travel Authority Form) serves as the GAETL. The requisition and supporting documents must be submitted to the Controller's Office 10 business days prior to travel per the travel policy. However, for two of the four tested transactions, the requisition with supporting documentation was inputted into ERP 14 business days after the travel commenced. The Division was therefore noncompliant for 24 business days (10 days prior to travel + 14 days late).

According to the AMEX Policy and Procedures, the cardholder should submit the receiving report or personal expense report to the Accounting Division within ten calendar days after the purchase of an item or a service or a return from a trip. However, none of the four transactions for the Division AMEX card tested were in compliance with this requirement. The reports for the four transactions were submitted from between 39 days to 112 calendar days after the purchase of an item or service or the completion of a trip. Thus, the Division was noncompliant for 29 to 102 calendar days (number of days late less the ten days allowed to provide documents). The card balances were paid off without documentation that the services had been received.

For the one tested transaction that was charged to the Central Port AMEX card used by the Goods Movement Division for Sacramento travel, the transaction did not have the Division Head's signature on the Travel Authorization Form, which is required by the Controller's Travel Manual.[11] The Controller's Travel Manual also requires notification of Sacramento travel plans to the Mayor, the Chair of the City Council Committee that oversees the Intergovernmental Relations function, and the City's Chief Legislative Analyst prior to travel. While notification to the Mayor was provided, notification to the Chair of the City Council Committee that oversees the Intergovernmental Relations function and the City's Chief Legislative Analyst was not. Furthermore, the expense report was submitted six business days after the travel commenced. Thus, the Division was noncompliant for 16 business days. Furthermore, the expense report was submitted 141 calendar days after the travel was completed. Thus, the Division was noncompliant for 131 calendar days.

Other Comments on Port and Division AMEX Procedures and Controls

The latest AMEX Policy and Procedures were adopted in 2008 and should be updated to reflect changes in POLA operations due to implementation of the ERP system. For example, the ERP system does not use the GAETL. Furthermore, the ERP system does not make a distinction between a receiving report for non-travel expenses and personal expense statements for travel expenses. The ERP system calls both expense reports. Also, the AMEX Policy and Procedures require submission of receiving reports or personal expense statements to the Accounting Division with "Attention American Express Program Administrator" written on them as part of supporting documentation for all charged items. This process

[11] In this case, the Division head and the employee travelling were the same, a situation not explicitly addressed in the Controllers' manual. However, we assume that the form should still be submitted, signed by the Division head or someone higher in the organization.

of submitting these documents to the Accounting Division is now automated within the ERP system, where non-Accounting Division staff can create and submit expense reports that will automatically populate in the Accounting Division's expense report audit module.

Conclusions and Recommendations

None of the required supporting documentation for the four transactions charged to the Division's AMEX card were submitted in compliance with POLA and City timing requirements. Furthermore, the AMEX Policy and Procedures and Controller's Travel Manual guidelines are out of date and should be updated to reflect the ERP system.

Regarding the one transaction for the Central Port AMEX card used by the Division for Sacramento travel tested, the transaction lacked required authorization and notifications and lack of timely submission of supporting documentation.

Recommendations for Goods Movement Division

2.10 The Goods Movement Division should take the necessary steps to ensure that proper authorization is obtained prior to travel and that the controls for timely review of expenditures are met after travel to ensure that funds are used properly, with documentation of such provided to the Accounting Division.

2.11 The Goods Movement Division should take the necessary steps to ensure that proper authorization is obtained and notification is given prior to travel to Sacramento to ensure that the Division is complying with City travel policies, with documentation of such provided to the Accounting Division.

2.12 The Goods Movement Division should submit expenditure reports with all supporting documentation to the Accounting Division in a timely manner in order to ensure timely and proper invoice payment of AMEX expenditures.

Recommendations for other Port divisions

2.13 The Accounting Division should enforce Division submission of expense reports with all supporting documentation in a timely manner in order to ensure compliance with the relevant policies and procedures.

2.14 The Accounting Division should review and update the AMEX Policy and Procedures to incorporate revised practices based on ERP implementation and use.

2.E. Accounts Receivable

The Goods Movement Division was not responsible for any accounts receivable activities during the audit review period.

2.F. Capital Assets

The Goods Movement Division did not have, obtain or dispose of any capital assets during the audit review period.

3. Contracts

Why this function was audited

Professional service contracts were reviewed because the responsibility for awarding and managing high-dollar professional service contracts adds risk to a division. From FY 2011-12 to FY 2013-14, the Port executed 255 professional contracts amounting to $995,073,848. Awarding professional service contracts to the most qualified bidder helps to ensure that the services provided to the Port are of the highest quality and appropriate price. Once awarded, the Port must manage their contracts effectively so that contractors are paid on time, for the agreed upon service and agreed upon price. Failing to adhere to the City's and Port's contracting policies and procedures could lead to increased costs to the Port, reduced productively if vendors are underperforming and poses a risk of non-compliance with other federal, state or local mandates if certain timelines and other requirements are not met.

3.A Professional Service Agreements

Standards and Procedures

Professional service agreement requirements are codified in the City of Los Angeles' Charter and Administrative Code and further qualified by Port memorandums and Board of Harbor Commissioners' resolutions. Among the requirements, the Charter and Administrative Code provide contract solicitation requirements and competitive bidding requirements to which the Port must adhere. The Administrative Code allows the Board of Harbor Commissioners to authorize the Port's Executive Director to execute contracts with values to $150,000 or less. According to the Contracts and Purchasing Division (CPD), there are several sections in the Administrative Code that the Port has not adopted as a policy such as certain vendor qualifications.

The Port of Los Angeles' Contracts and Purchasing Division (CPD) developed a contract procedures manual based on City Charter and Administrative Code requirements. The manual was last updated in January of 2013 and provides step-by-step procedures for how a professional service agreement should be executed. CPD management advises, however, that this manual is a draft and has never been approved by the Board of Harbor Commissioners or POLA executive management. However, all Port divisions reportedly use a Request for Proposals (RFP) Checklist, with many of the same requirements as in the draft manual, which was created by CPD in 2010, and updated in 2014, which lists all of the steps that the Division and CPD must complete in order to execute a contract.

Risk

Failing to adhere to the City's contract policies and procedures could lead to increased costs to the Port, reduced productivity if vendors are underperforming, possible vendor fraud and the risk of non-compliance with other federal, state or local mandates if certain timelines and other requirements are not met.

Audit Tests and Results

To determine Goods Movement Division compliance with the policies and procedures outlined in the City Charter and Administrative Code as well as the draft CPD manual and RFP Checklist developed by CPD, we manually reviewed the Goods Movement contract files from FY 2011-12 to FY 2013-14 which included documentation of the RFP process, the final contract and required approvals. We also reviewed a sample of eight out of 20 contract invoices and supporting documentation, or 40 percent of the 20 sets of documents, to ensure that the contract expenditures and payment procedures were consistent with the contract terms, scope of work and City and POLA contract and payment policies.

The Goods Movement Division had four professional service contracts that were active during the audit period, FY 2011-12 to FY 2013-14. The four contracts were selected as part of one competitive bidding process to serve as a pool of contractors for on-call transportation consulting services. Each contract was for a three-year term beginning June 6, 2011 and ending June 10, 2014. Each contract was for $60,000 a year for a total not-to-exceed amount of $180,000 per year.

Based on the review of the contract files, we found that these contracts were mostly in compliance with City and Port policies and procedures; however, we found two items missing from the file that were required as part of CPD's RFP Checklist including:

1) A memorandum from the Division Head approving the selection panel that evaluates and scores the candidates.
2) A memorandum from the Division to the Senior Manager requesting approval to move forward with the selected vendor after the evaluation process. Instead a post-it note was attached to the Board of Harbor Commissioners report stating that the Board Report satisfied this requirement; however, there was no documentation that showed the Senior Manager approved the selected vendor prior to the decision going before the Board.

Goods Movement Division staff reported that these two memorandums were consolidated into the report submitted to the Board of Harbor Commissioner's (Board Report) that was signed by the Goods Movement Division Head, the Deputy Executive Director of Development and the Executive Director. The Board Report summarizes the scope of work, the justification for consulting services, the solicitation and evaluation process, the consultant recommendation and the economic, environmental and financial impact. The Board Report is submitted with the final agreement which has been prepared by and approved by the City Attorney, signed by the selected consultant, approved for funding and awaiting Board approval. Goods Movement Division staff reports that the RPF Checklist should be modified so that the Board Report satisfies the two memorandums mentioned above.

If the two memorandums mentioned above are consolidated into the Board Report, there would be no management oversight over who is included on the selection panel prior to selection of the consultant and creation of the agreement. Similarly, the Senior Manager would not have the opportunity to approve the preferred consultant prior to the Division preparing the contract agreement and Board Report. If there are any issues with the panelists or selected contractor, it could result in significant delays as the Division may have to go back and repeat steps in the contract process.

We found two instances of non-compliance during our review of vendor invoices and payment. On two occasions, we found that the vendor was not paid within 30 days of the Port receiving the vendor's invoice which is required pursuant to City policy. [12] For the first invoice, the receiving report, which is the document that the Division signs affirming that the service or product was performed or delivered, was not submitted to the Accounting Division until three months after the vendor sent the invoice to the Port. Goods Movement Division staff reported that there may have been an issue with the contractor submitting invoices to the Port in a timely manner but Division staff could not provide documentation of any issues. The Accounting Division cannot pay an invoice until the service has been received as

[12] Controller Manual Revised November 2012 1.5.1 Policy and Internal Controls for Expenditures

evidenced by a receiving report. Late submission of the receiving report by the Goods Movement Division directly impacts the Accounting Division's ability to comply with the City's vendor payment policy.

For the second invoice, the receiving report was signed by the Goods Movement Division within one business day of the Port receiving the invoice; however, Goods Movement Division staff waited 19 business days to submit the receiving report to the Accounting Division for payment processing. This reduced the amount of time that the Accounting Division had to pay the invoice. After the Accounting Division received the receiving report, the invoice was not paid for over two months which is out of compliance with City policy.

Conclusions and Recommendations

In general, the Goods Movement Division's contract administration followed the City's and POLA's contract policies and procedures during the audit period but was either late or missing several documents that serve as controls during the vendor interview and selection and payment process and are required pursuant to CPD's RFP Checklist, draft contract manual and City policies. With the exception of one invoice, we found that the Accounting Division processed the Goods Movement Division's contract invoices in a timely manner.

Recommendations for the Goods Movement Division

3.1 The Goods Movement Division should perform all procedures listed on the RFP Checklist or the RFP Checklist should be modified if POLA management determines that some steps are no longer of value.

3.2 The Goods Movement Division should submit receiving reports for all contract invoices or receive items in ERP in a timely manner.

Recommendations for other Port divisions

3.3 The Contracts and Purchasing Division should require the Goods Movement Division to adhere to the procedures in the RFP Checklist and, to the extent some requirements are no longer practicable, make modifications to the RFP Checklist.

3.4 The Contracts and Purchasing Division should submit the RFP Checklist and the draft contract manual to the Board of Harbor Commissioners and/or POLA Executive Director for approval and to be disseminated to all POLA divisions so that all POLA employees are aware of what documentation is required to execute and manage a contract.

3.5 The Accounting Division should continue to adhere to City policy regarding vendor payments.

4. Grants

Why this function was audited

The specific grants management areas tested for this audit were:

A. Grant Research and Application
B. Grant Administration and Compliance

These areas were selected because of the risk posed to the Port if they are not efficiently and effectively managed. As of August 2014, the Port of Los Angeles had been awarded $276,781,690 in Federal, State, and local grants. Of this amount, the Goods Movement Division was responsible for obtaining $239,014,651, or 86.4 percent, which represents transportation and infrastructure related grants. To the extent that Goods Movement Division staff are not aware of grant opportunities or focus on potential grants that are not a net benefit for the Port, the work of the Port is not being executed as needed to accomplish the organization's mission and goals and Port dollars are not being well spent.

The results of testing in each area for the Goods Movement Division are now presented.

4.A. Grant Research and Application

Standards and Procedures

There have been two sets of policies developed since 2012 (one dated February 2012 and a second manual dated August 2014) that cover grants management at the Port of Los Angeles. However, Goods Movement staff asserts that neither policy manual has been approved by executive management or the Board of Harbor Commissioners and that both have always been considered draft procedures, which the Goods Movement Division has not consistently followed. This is in contradiction to staff in other divisions who assert that the Goods Movement Division acts as the Grants Management Office for the Port and the (draft) policies and procedures written by Goods Movement Division staff cover all divisions within the Port. For this review, we consider the February 2012 draft polices as best practices as they were prepared by POLA grants management staff and were at least informally used by Port staff during the sample period.

In relation to grant research and application, the 2012 Draft Grants Manual states that:

- The Grants Administrative Office is responsible for researching the "addressable universe" of grants (i.e. narrows the entire universe of grant opportunities to only those that have some potential relevance to POLA) thereby providing a filter for the divisions with respect to POLA strategy.
- Personnel from the Grants Administrative Office and deploying divisions should collaborate with Government Affairs personnel in defining POLA's needs, planning and performing advocacy-related activities, and following through to help ensure that POLA's objectives are met.
- Grant opportunities will be evaluated on a cost/benefit business case basis that takes into account total lifecycle costs.
- POLA will not pursue competitive grants with a value that is less than $1 million.
- Divisions are encouraged to utilize quality assurance reviews of their draft grant applications prior to submitting to the grantor agency. Quality assurance reviews may be staffed by a combination of expert authors, grants experts, and division-supplied subject matter experts.
- Prior to the Grant Application submission, divisions shall obtain approval by the Board of Harbor Commissioners when the Notice of Funding Availability has been released at or more than 30 days from the grant due date, as required by the City Administrative Code, unless a grant application is eligible and approved through "Fast-Track" approval processes (in which case the division should prepare an "Information Only" Board Report to notify the Board of Harbor Commissioners of such action). The Manual further states that the Grants Administration Office should log the various approvals that are necessary for each grant.

Risk

Inefficient and ineffective grant application decisions and processes are problematic in that they can take away a significant amount of resources from the Port, which it would otherwise receive from grants that are of a net benefit to the organization. This can happen if Port staff apply for grants that end up costing the organization more in staff time to apply, administer and maintain after the grant funding has been exhausted compared to the revenues provided.

Audit Tests and Results

A judgmental sample of seven grants were selected from all transportation and infrastructure grants based on dollar amount, grant status, and whether the grant was included in findings from the Port's most recent Single Audit. In addition, Goods Movement staff was interviewed to obtain a more complete understanding of the Division's roles and responsibilities as well as actual practices.

POLA's Grants Administration Office was dissolved in early 2014 with some staff shifted to the Goods Movement Division. According to Goods Movement Division staff, the Division has responsibility for researching, identifying and applying for infrastructure and transportation related grants, but does not have responsibility for overseeing, administering or closing out any grants, which were functions of the former Grants Administration Office. Therefore, individual divisions (other than Engineering, which works with the Goods Movement Division on transportation and infrastructure grants) are responsible for researching, identifying, applying, administering, and closing out grants that apply to their functions.

Although there is some collaboration between divisions for defining and meeting POLA's needs as well as planning and performing advocacy-related activities, collaboration could be improved. A Grants Oversight Committee, consisting of representatives from various divisions including Port Police, Goods Movement, Engineering, Finance, and Executive Management was created a few years ago and previously met on a monthly basis, but now typically meets on a quarterly basis to monitor the progress of grant projects and to ensure that grant funds are being drawn down properly. Staff has indicated that the Grants Oversight Committee does not pro-actively encourage collaborative grant planning and advocacy on behalf of the Port. However, Port Divisions would be required to submit a project summary for approval according to a draft procedure for the Project Development Committee, a separate committee charged with approving all funding for projects that aren't already approved in the Capital Investment Plan. The Project Development Committee should move forward by reviewing and approving the grant application procedure and project report template, which includes a summary of the financial impact of the project, for all future grant applications.

Contrary to the 2012 Draft Grants Manual, we did not find any evidence to show that the Goods Movement Division performed formal cost benefit analyses prior to applying for any of the grants in the sample.

Consistent with the 2012 Draft Grant Manual, we did not find any transportation or infrastructure grants that were for an amount less than $1 million.

Although staff indicated that the Goods Movement Division has an informal quality assurance process, we found no evidence of formal, team-oriented quality assurance reviews of grant applications staffed by a combination of expert authors, grants experts, and division-supplied subject matter experts.

Four of the seven grants in our sample did not include evidence of Board of Harbor Commissioners approval of grant funds prior to approval as stipulated in the 2012 Grant Manual and as required under Los Angeles Administrative Code, Division 14. However, all of the projects funded with the grants were included in the Harbor Department's Capital Improvement Plan, which is approved by the Board of Harbor Commissioners annually as part of the Department's budget process. We found no evidence that the Goods Movement Division or any other division at the Port is centrally logging approvals as they are received for each grant.

Conclusions and Recommendations

The Goods Movement Division has not consistently followed the Grants Administration Manual as drafted in 2012 and considered by the audit team as best practices as they were prepared by POLA grants management staff and were at least informally used by Port staff during the sample period.

Collaboration between divisions to define and meet POLA's needs as well as plan and perform advocacy-related activities could improve. Although there is a Grants Oversight Committee, its focus has been primarily on the status of existing grants rather than identifying and meeting the needs of the Port. Further, while the Project Development Committee has drafted a procedure for approving grant applications prior to initial submission to the granting agency, it has not yet been implemented.

The Goods Movement Division has not conducted formal cost-benefit analyses for any of the grants in the sample. Although Goods Movement Division staff asserts that the Division only applies for large grants that support infrastructure and transportation projects that are ready to commence construction, the lack of a formal review process raises the risk that Goods Movement or another division may apply for a grant that would result in a net cost to the Port. Further, although the 2012 Draft Grants Manual outlines the roles and responsibilities of various divisions and sets up detailed controls to minimize risk during the grant research and application processes, the controls were not consistently followed during the sample review period.

We found no evidence of formal, team-oriented quality assurance reviews of grant applications staffed by a combination of expert authors, grants experts, and division-supplied subject matter experts.

Recommendations for the Goods Movement Division

4.1 Goods Movement Division management should review and revise the draft Grants Administration Manual to include a requirement for a pre-application cost analysis, consistent with the draft Project Development Committee Procedure, prior to applying for grants and incorporate this practice in to their grant identification and application work.

4.2 By December 31, 2014, Goods Movement Division management should finalize the Grants Administration Manual in consultation with executive management and submit it to the Executive Director for approval. Goods Movement Division management should also present the new procedures to the Audit Committee of the Board of Harbor Commissioners to inform the Committee of the changes. Once approved, Division management should disseminate the manual to appropriate Division Heads throughout the Port.

Recommendations for the Project Development Committee

4.3 The Project Development Committee should review, revise as appropriate, and approve the draft Project Development Committee Procedure, which includes a requirement that the committee approve all grant applications prior to initial submission to the granting agency. The approval process should include the project report template that has been drafted by Port staff and that has similarities to a cost-benefit analysis, including an assessment of the grant project's financial impact.

Recommendations for other Port Divisions

None.

4.B. Grant Administration and Compliance

Standards and Procedures

There have been two sets of policies developed since 2012 (one dated February 2012 and a second manual dated August 2014) that cover grants management at the Port of Los Angeles. However, Goods Movement Division staff asserts that neither policy manual has been approved by executive management or the Board of Harbor Commissioners and that both are considered draft procedures, which the Goods Movement Division has not consistently followed. This is in contradiction to staff in other divisions who assert that the Goods Movement Division acts as the Grants Management Office for the Port and the (draft) policies and procedures that have been written by Goods Movement Division staff cover all divisions within the Port. For this review, we consider the February 2012 draft polices as best practices as they were prepared by POLA grants management staff and were at least informally used by Port staff during the sample period.

In relation to grant administration and compliance tasks that should be undertaken during the application phase, the 2012 Draft Grants Policy Manual states that:

- The Port of Los Angeles will establish a project execution plan for each grant to help ensure: (1) resource alignment; (2) expenditure of all grant monies; and, (3) delivery of all expected results within the grant timeline. The 2012 Draft Policy Manual also states that:
- POLA divisions will determine cross-divisional interdependencies for grant project execution as early as possible in the grant application process and engage all affected divisions in project planning as early as practical.
- The Grants Administration Office, in its grants coordinator role, should provide notice to the Finance Division of specific requirements for the grant that is under consideration. The Manual further states that it is important that Finance be notified as early as possible in the application process so that budgetary requirements are addressed and [to arrange for] inclusion of anticipated expenses and grant receipts into the Harbor Department's 10-Year financial model, including:
  - Requirements for matching funds;
  - Expected timing of reimbursements from grantor agency;
  - Anticipated purchase of capital assets;
  - Anticipated project expenditures prior to planned grant award;
  - Total cost of ownership considerations (e.g. anticipated costs of maintenance and operations after the grant has ended); and,
  - Total cost of contractual and regulatory compliance, including public law.
- The Grants Administration Office (which no longer exists), in its grants coordinator role, should provide notice to the Contracts and Purchasing Division of specific requirements for the grant (e.g. contract terms and conditions such as for "flow downs", prevailing wage requirements, Davis-Bacon Wage Determination Act, debarment/suspension verification, etc.) that is under consideration.

Risk

Ineffective grant management is problematic in that if a division is not prepared for the requirements and costs of administering a grant, it could result in additional costs to the Port and potentially in the retraction of grant funds by the grantor. The absence of project execution plans could raise the risk of the Port having inadequate resources to manage and execute the grant.

Further, the Single Audit Report for FY 2011-12 found weaknesses in the Port's internal controls for grant administration, specifically as it relates to Federal procurement and financial reporting requirements. [13]

Audit Tests and Results

A judgmental sample of seven grants were selected from all transportation and infrastructure grants based on dollar amount, grant status, and whether the grant was included in findings from the Port's most recent Single Audit. In addition, Goods Movement Division staff was interviewed to obtain a more complete understanding of the Division's roles and responsibilities as well as actual practices.

Overall, the set of policies and procedures that the Goods Movement Division follows is vague and sometimes contradictory. For instance, Goods Movement Division staff has asserted that the Grant Policy Manual, dated August 2014 is considered a draft while staff in other divisions has asserted that the procedures maintained by the Division are in effect for the entire Port. These same staff had not been provided copies of the August 2014 manual until requested by our audit team. Further, the August 2014 version of the Grants Manual at one point states that the roles and responsibilities of the Goods Movement Division do not include actual grant management after award.[14] However, on the next page the manual states that the Goods Movement Division should "assist other lead divisions with grant administration (agreements, encumbering funding documents, Board documents, invoicing, etc.) including all grant-related communication to Board and grantors."[15] In addition, the Manual includes multiple referrals to protocols identified in Section 4.0 for more information on roles and responsibilities, but there is no such section in the manual. Similarly, Appendix A, which covers "Debarment and Suspension as well as Sub-Recipient Management," has multiple referrals to the Grants Administration Section, but no such section currently exists at the Port of Los Angeles.

No formal project execution plans were created for any of the grants in the sample. Goods Movement Division management asserts that the Division is not responsible for the management or administering of any grants. Rather, Division management and staff state that they are only responsible for assisting the Engineering Division with the identification of and application for infrastructure and transportation

[13] Port of Los Angeles Single Audit Reports for Fiscal Year ended June 30, 2012 conducted by KPMG and submitted to the Port in November 2012.
[14] Page 3 under "Roles and Responsibilities"
[15] Table 3 on page 4 under "Goods Movement Division (GMD)"

grants and to a lesser extent, assisting other divisions in the search and identification of grant opportunities.

There are no clear procedures for collaboration between the Goods Movement Division and the Finance Division for notifying the Finance Division of specific financial requirements for grants that are under consideration. However, Goods Movement Division staff note that staff in the Budget and Finance Unit are notified either when a report is prepared for the Board for grant application or when it is discussed at the Port's Project Development Committee.

Similarly, there are no clear procedures for collaboration between the Goods Movement Division and the Contracts and Purchasing Division to provide notice of specific requirements for the grants under consideration. Goods Movement Division staff note that the lead division (the Engineering Division for transportation and infrastructure grants) would be responsible for noting which items are purchased with grant funds so that the Contracts and Purchasing Division are aware of additional requirements (e.g. not purchasing from suspended or debarred vendors).

Conclusions and Recommendations

The Goods Movement Division does not have formally approved policies and procedures to clearly identify its roles and responsibilities as well as how the Division should be collaborating with other divisions.

The Goods Movement Division has not taken multiple formal steps during the grant application phase that may reduce risk in the administration of grants. For instance, the Division has not established a project execution plan for any of the grants in the sample. Although Goods Movement Division staff asserts that the Division is only responsible for the identification of and application for infrastructure and transportation grants, the lack of formal project execution plans for such grants in the planning and application process raises the risk that Goods Movement or another division may apply for a grant that POLA would not be prepared to support. Further, there are no clear procedures for the Goods Movement Division to collaborate with the Finance or Contracts and Purchasing divisions, even though the Finance Division is responsible for budgeting and long-term financial planning and the Contracts and Purchasing Division is responsible for processing purchases, including grant purchases, which typically include specific procurement restrictions.

Recommendations for the Goods Movement Division

4.4 As part of the process outlined in Recommendations 4.1 and 4.2, Goods Movement Division management should review and revise the draft Grants Administration Manual to determine the necessary steps that the Goods Movement Division and other divisions should take during the application phase, which may lower the risk during grant administration. These steps may include a requirement for formal project execution plans prior to applying for grants, and formal notifications to the Budget and Finance Division and the Contracts and Purchasing Division of necessary budgeting changes and grant rules that affect procurement.

Recommendations for other Port Divisions

None.