

RECEIVED
Exec. Director
Harbor Dept.
City of LA



RON GALPERIN
CONTROLLER

December 22, 2015

Eugene D. Seroka, Executive Director
The Port of Los Angeles
425 S. Palos Verdes Street
San Pedro, CA 90733-0151

**SUBJECT: EVALUATION OF ACTION PLAN – “CITYWIDE CHANGE ORDER
MANAGEMENT PROCESS”**

Thank you for the recent correspondence and Action Plan related to the recommendations made to the Port of Los Angeles (POLA) in our “Audit of the City’s Change Order Management Process” issued on September 17, 2015. Two issues addressed a citywide function (6.1 and 9.1) and the related recommendations are not specifically under POLA’s control. While we consider these as Not Yet Implemented, we encourage POLA’s participation in a citywide committee, once established.

You indicated that six additional recommendations (2.1; 3.1; 4.1; 5.1; 7.2; and 9.2) have been Implemented, as procedures are required by POLA’s current policies, while four recommendation (1.2; 6.2; 8.1; and 10.1) are Partially Implemented, as new procedures are in the process of being implemented, to be finalized by June 2016.

Our evaluation was solely based on assertions made in the correspondence; our evaluation may have been different if we had applied more extensive procedures, such as detailed audit tests. As part of our Office’s follow-up program, we may request future status reports to ensure that the outstanding recommendations continue to be addressed. If you have any questions, please contact Farid Saffar, Director of Auditing at farid.saffar@lacity.org or (213) 978-7392.

Sincerely,

Claire Bartels
Chief Deputy Controller



Jim Olds
C O P Y

425 S. Palos Verdes Street Post Office Box 151 San Pedro, CA 90733-0151 TEL/TDD 310 SEA-PORT www.portoflosangeles.org

Eric Garcetti	<i>Mayor, City of Los Angeles</i>				
Board of Harbor Commissioners	Ambassador Vilma S. Martinez	David Arián	Patricia Castellanos	Anthony Pirozzi, Jr.	Edward R. Renwick
Eugene D. Seraka	<i>President</i>	<i>Vice President</i>			
	<i>Executive Director</i>				

December 8, 2015

Mr. Farid Saffar
Director of Auditing
Office of the City Controller
200 N. Main Street, Room 460
Mail Stop 183

Dear Mr. Saffar:

SUBJECT: RESPONSE TO CITY OF LOS ANGELES AUDIT OF THE CITY'S CHANGE ORDER MANAGEMENT PROCESS

The Los Angeles Harbor Department (Harbor Department) is pleased to respond to the City of Los Angeles Audit of the City's Change Order Management Process (Audit). The Harbor Department welcomes the opportunity to highlight our successes as well as benchmark our practices against other industry leaders as we look for ways to improve our project delivery process.

The Harbor Department generally agrees with the Audit's findings and recommendations. The Audit has identified 12 areas which have room for improvement and we will implement the recommended changes to our current policies and procedures. In addition, where our current policies and procedures have been identified as leading practice we will strive to make sure we consistently apply them to our projects.

Enclosed is the Harbor Department's response to the Audit's specific findings and recommendations. Should you have any questions, please contact me at (310) 732-3456.

Sincerely,

FOR EUGENE D. SEROKA
Executive Director

Enclosure

EDS/AVG:ci

Report Title:
 Report Issuance Date:
 Department responsible for Implementation:
 Reported Status Date:

Audit of the City's Change Order Management Process
 17-Sep-15
 Port of Los Angeles

Y
9
0
3

Findings Number	Summary of Findings	Port	Port Response	Port Status	Resolution Date
Section I	Policies and Procedures				
1	Several City departments had insufficient policies and procedures related to change order initiation, execution, and closeout.	1.2	DWP-WETS, DWP-Power, BOE, and POLA should update and refine their policies and procedures to incorporate all critical elements of the change order process.	PI	Jun-16
				<p>Compensation Methodology – Partially Implemented or In Progress</p> <ul style="list-style-type: none"> Port will add discussion of compensation methodology (T&M, LS, Unit Price) to Procedures Manual Sections VI.C.2 and VI.C.4 <p>Classification of Change Orders – Partially Implemented or In Progress</p> <ul style="list-style-type: none"> Port will add a checkbox for each compensation method (LS, T&M, Unit Price) to the Memo to File Exhibits VI.C.2-4 and VI.C.2-6 Classification of COs (Change in Scope, Unforeseen, Design Related) is discussed in Sections VI.C.2 and VI.C.4 Port will add a more detailed explanation of classifications in Sections VI.C.2 and VI.C.4 Port will remove "Other" from the discussion in Sections VI.C.2 and VI.C.4, and from the Memo to File Exhibits VI.C.2-4 and VI.C.2-6 <p>Emergency Change Orders – Disagree</p> <ul style="list-style-type: none"> The current Change Order is designed such that it can function as an Emergency Change Order in accordance with Step 1 on page 3 of Section VI.C.2. <p>Starting Work Prior to Finalization of Cost and Schedule Impact – Currently part of our procedure</p> <ul style="list-style-type: none"> Port will issue a Change Order for urgent/emergency work or when the cost cannot be agreed to. The Port's procedure is to negotiate a final cost for non-urgent work prior to issuance of Authority for Adjustment in accordance with Section VI.C.2. <p>Evaluation of Projects with Excessive Change Orders – Not Implemented</p> <ul style="list-style-type: none"> Port has always reviewed AFA/CO percentages on all individual as well as accumulative percentages for all projects <p>Negotiating a Change Order Settlement – Not Implemented</p> <ul style="list-style-type: none"> All Change Orders are negotiated and finalized with an AFA in accordance with Section VI.C.4 Case II <p>Disputed Change Order or Claim – Not Implemented</p> <ul style="list-style-type: none"> The disputed work or claim is elevated to the Construction Division Management for evaluation and determination of entitlement Add a Section to Section VI.C – Change Management, discussing partnering and the elevation process for unresolved issues 	
Section II	Change Order Pricing				
2	City change orders do not consistently incorporate an adequate independent cost estimate.	2.1	Departments' documented procedures should indicate when an independent estimate should be used to evaluate pricing for change orders; for example, by setting a change order dollar value threshold.	I	Implemented
3	City change orders do not consistently incorporate an adequate Record of Negotiation.	3.1	Departments should consistently utilize a standard Record of Negotiation document containing a clear description of all negotiations and final cost estimate.	I	Implemented

Report Title:
 Report Issuance Date:
 Department responsible for Implementation:
 Reported Status Date:

Audit of the City's Change Order Management Process
 17-Sep-15
 Port of Los Angeles

Finding Number	Summary Description of Finding	Req. No.	Requirement	Rating	Port Action	Implementation
4	City change orders do not consistently incorporate an adequate reference to pricing sources and assumptions.	4.1	Departments should clearly reference pricing sources and state assumptions in their independent estimates.	I	The Port's specifications reference prevailing wages for labor and CalTrans rates for equipment.	Implemented
5	City construction contracts do not consistently include adequate contractor change order pricing requirements.	5.1	DWP-Power, DWP-WETS, and POLA should make sure contractor contracts include clear and detailed requirements for change order pricing and that change orders always make reference to contractually stipulated pricing sources.	I	The Port's specifications reference prevailing wages for labor and CalTrans rates for equipment.	Implemented
Section III Change Order Tracking and Reporting						
6	The City does not have an adequate change order reporting and tracking mechanism in place.	6.1	The City should develop a Citywide standard for departmental tracking and reporting of change orders.	PI	The Port is in the process of implementing an AFA and Change Order Summary Report that will report all Change Orders and Authority For Adjustments.	Jan-16
		6.2	Departments should develop consistent change order logs and monthly change order reports based on Citywide standardized requirements.	PI	The Port is in the process of implementing a Summary Report that will report all Change Orders an Authority For Adjustments.	Jan-16
Section IV Start of Change Order Work prior to Issuance of Change Order						
7	At times, change order work started prior to change order execution without evidence of appropriate evaluation and approval.	7.2	DWP-WETS, POLA, and BOE should update and refine their policies and procedures to include all critical elements for work starting prior to change order execution.	I	It is the Port's policy to have a Change Order issued within 3 days of discovering the changed condition. This will allow work to proceed without delaying the project. This is typically due to an unforeseen condition and is typically tracked on T&M with a not-to-exceed amount.	Implemented
Section V Change Order Supporting Documentation						

Report Title:
 Report Issuance Date:
 Department responsible for Implementation:
 Reported Status Date:

Audit of the City's Change Order Management Process
 17-Sep-15
 Port of Los Angeles

Findings Number	Summary of Findings	BOE No.	Recommendation	BOE Status	Implementation	
8	Change orders do not consistently contain sufficient documentation presented in an orderly manner to adequately facilitate an efficient and effective evaluation of the change order.	8.1	BOE and POLA should consider including a change order "checklist" document outlining all required change order information.	PI	POLA currently has a checklist and will expand to include additional information in Memo to File prepared when closing-out all change orders.	Jun-16
Section VI Knowledge Sharing and Lessons Learned						
9	The City does not have a formal "lessons learned" and knowledge sharing function.	9.1	The City should establish a formal committee on lessons learned and knowledge sharing of best practices between City departments.	I	It is the Port's policy to conduct lesson learned meetings at the end of a project and share the findings with designers and construction staff to enhance future designs.	
		9.2	Departments should establish formal knowledge sharing of lessons learned, project risks, and best practices of change orders.	I	It is the Port's policy to conduct lesson learned meetings at the end of a project and share the findings with designers and construction staff to enhance future designs.	Implemented
Section VII Contingencies and Change Order Estimation						
10	Construction contingencies are not consistently evaluated and/or are not evaluated on a risk-based approach.	10.1	LAWA, DWP-Power, DWP-WETS, and POL should formalize the process for estimating the construction contingency on projects.	PI	The Port, currently, assess risks for projects based on size and scope, but will develop procedures for establishing risk-based contingencies.	Jun-16

I - Implemented
 PI - Partially Implemented or In Progress
 NI - Not Implemented
 D - Disagree