Item #1

THE PORT OF LOS ANGELES

AUDIT COMMITTEE

Report to the Board of Harbor Commissioners

DATE: **APRIL 17, 2015**

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

SUBJECT: **PROCESS AUDIT REPORT – WHARFINGERS DIVISION**

Under the direction of Management Audit, Harvey Rose Associates LLC has completed their process audit of the Wharfinger Division for fiscal years 2012, 2013, and 2014. They discussed the report with Division management, as well as those Divisions who work with and provide information to Wharfingers related to the four processes HRA reviewed: contracting, grant management, financial controls, and human resources. We would like to thank the Wharfinger staff for their cooperation and support during the audit, specifically, Diane Boskovich, Jennifer Mosher, Linda Vigil, and Maryann Yamamoto. Our audit report is enclosed for your information.

Please contact Jim Olds at 310-732-3562 if you have any questions or would like to discuss this matter further.

FOR EUGENE D. SEROKA
Executive Director

Transmittal:
Process Audit: Wharfinger Division

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ES:MB:JO

Process Audit: Wharfinger Division

Port of Los Angeles

December 12, 2014

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HMR

December 12, 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 Wharfinger 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 33 recommendations in areas related to the audit scope identified above. Of these recommendations, 11 are directed to the Wharfinger Division and 22 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 Wharfinger 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.

Wharfinger Division Results

The key function performed by the Wharfinger Division is verifying the correct gross charges for the terminal operators and shipping agents[1] to capture wharfage, dockage and pilotage fees due POLA. These fees are determined pursuant to each terminal operator's permit or agreement with POLA or based on the provisions of POLA's Tariff #4.

Wharfage, dockage and pilotage fees amounted to $334,692,000 of the Port's revenues in FY 2012-13[2]. Given the significance of the revenue at stake, it is critical that policies, procedures and controls are in place to ensure efficient and accurate invoicing.

We reviewed this function by testing fees charged for a sample of vessels using Port facilities during the review years. We found that the Wharfinger Division is compiling the information needed to invoice shipping tenants timely and accurately. There were only a few minor delays in meeting the Division's

[1] Agents are companies hired by the vessel to handle logistics for arrival at the Port.
[2] Port of Los Angeles Comprehensive Annual Financial Report, FY 2013-13. Unaudited amounts.

own invoicing standards. We have no recommendations for changes in Wharfinger Division controls and processes regarding their performance of this function.

In the process of conducting this audit, we also found that one terminal operator, Eagle Marine (formerly APL) is charged according to the 1993 tariff rates, whereas the other terminal operators handling container cargo are charged according to a TEU rate. As a result, the billing procedures for Eagle Marine varies greatly from the other container terminals, resulting in the use of more staff time and resources while exposing the Division to a higher risk of inaccurate and untimely billing.

We recommend that Port management consider amending the agreement with Eagle Marine so that it is billed using TEU rates that are now standard for POLA's other terminal operators and shipping lines. Trade-offs between improved Wharfinger Division efficiency and the business relationship with this tenant should be considered in this assessment.

Some deficiencies were found in the other areas reviewed, though their impact on Port revenues and overall operations are less significant than the potential impact if controls and procedures had been found deficient pertaining to the Wharfinger Division's assessments of pilotage, dockage and wharfage fees.

A number of deficiencies identified were not due to the Wharfinger Division processes and procedures, but, rather, issues with some of POLA's centralized support divisions and their interactions and data flow with the Wharfinger Division. A few key examples of this include:

- The Accounting Division's centralized capital asset records and inventory updating processes are not resulting in an accurate inventory of the Wharfinger Division's capital assets.
- Budget and expenditure information maintained on POLA's ERP system does not always match budget and expenditure records maintained by the Wharfinger Division.
- POLA's Financial Management policies have not been sufficiently disseminated so that pertinent Wharfinger Division staff are aware of all budgetary policies.
- Adherence to purchase card and purchase order policies could be improved by the Accounting Division in conjunction with paying vendors.
- 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.
- The Wharfinger Division has experienced long periods of positon vacancies, even though they requested new personnel through the Emergency Appointment process, but this was largely due to City requirements.

Controls and processes could be improved by the Wharfinger Division in a number of areas including: adherence to purchase card use, improved record keeping for employee training and grievances, ensuring all approvals are in place before initiating vendor purchases, monitoring of expenditures throughout the year (in conjunction with the central Financial Management division) and reporting on capital assets to the Accounting Division. A summary of recommendations directed to the Wharfinger Division and other POLA divisions as a result of this audit is now presented.

Summary of Recommendations

Human Resource Management		
Issue	**Recommendations**	
		POLA management should:
The Wharfinger Division has experienced delays in filling vacant positions due to its limited control over the hiring process.	1.1	POLA management should analyze how to expedite, where possible, current processes and procedures under the control of POLA pertaining to hiring and, specifically, filling Emergency Appointment Requests.
		The Wharfinger Division should:
The Wharfinger Division does not keep complete records of its employees' training.	1.2	Establish a policy of keeping training records for each employee by name and date of attendance in the event the Human Resources Division's records are unreliable or if there are errors.
		The Human Resources Division should:
POLA's employee training tracking reports generated are not adequate to confirm training requirements.	1.3a	Request that the City's vendor tracking employee compliance with mandated training requirement produce a more detailed report showing when employees have attended required trainings, by name and POLA division.
The Human Resources Division's verification of Division staff training is a time-consuming and tedious process that could be automated.	1.3b	Request development of 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 Port altered its performance evaluation process in 2010 but has not yet codified this new process in the Employee Manual.	1.5	Subject to executive management approval, formalize and codify in the Port's Employee Manual the currently undocumented approach to performance evaluation timing in which performance evaluations are to be conducted annually and not based on salary anniversary dates.

Issue	Recommendations	
		The Wharfinger Division should:
The Wharfinger Division does not always document steps in the grievance process in which they are involved.	1.6	Take steps to ensure that dates are recorded for the steps in the grievance process in which the Division is involved including dates of the grievant's actions so it is clear who was responsible for any delays.
		The Human Resources Division should:
POLA's grievance records could be improved to better track compliance with grievance timing requirements, including tracking non-compliance with timing requirements due to the grievant's delays.	1.7	Continue to work with all involved parties to comply with MOU grievance timeframes or provide documentation for extending the timeframes and should ensure that all steps in the grievance process are recorded.
Financial Controls		
		The Wharfinger Division should:
Wharfinger Division budget records and central budget records do not agree.	2.1a	Review its budgets and expenditures annually in conjunction with the Division's budget analyst and adjust budgeted amounts to better reflect historical expenditures and actual need.
The Wharfinger Division has underspent its budget for the most recent three consecutive years.	2.1b	Utilize POLA budget processes for contingency, or emergency, funds, when needed, rather than overbudgeting accounts—e.g., contingency funds in Miscellaneous Professional Services.
The Wharfinger Division does not record all budget transfers and other activities that result in end-of-year variances with central records.	2.1c	Review and reconcile monthly ERP reports with internal Division records and correct for variances (particularly for transfers) throughout the year.
The Wharfinger Division stated that it did not receive a copy of the Budget Operating Guidelines.	2.1d	Ensure that the Division receives POLA's budget and other relevant policies and procedures.

Issue	Recommendations	
		The Financial Management Division should:
Wharfinger Division budget records and central budget records do not agree.	2.2	Evaluate the accuracy and timeliness of ERP budget data for division use and make any needed changes to improve its usefulness to POLA divisions accordingly.
Internal costs allocations are not included in the Wharfinger Division's budget.	2.3	Ensure that all overhead and other cost allocations are included in the budget for the Wharfinger and all other divisions.
Some of POLA's budget procedures, written before the implementation of ERP, are no longer current.	2.4	Update the Budget Operating Guidelines to reflect the implementation of ERP.
The Wharfinger Division stated that it did not receive the Budget Operating Guidelines from the Financial Management Division.	2.5	Ensure that it provides copies of the relevant policies and procedures to all divisions.
		The Wharfinger Division should:
The Wharfinger Division is not in compliance with all POLA purchasing procedures; in most cases reviewed, orders to vendors were placed, received and invoiced prior to purchase orders being produced.	2.6	Take steps to ensure that Division staff is not placing orders with vendors or receiving goods and services prior to a purchase order being generated and that all AFEs are complete with all necessary approvals and documentation.
		The Accounting Division should:
The Wharfinger Division is not in compliance with all POLA purchasing procedures; in most cases reviewed, orders to vendors were placed, received and invoiced prior to purchase orders being produced.	2.7	Adopt a policy of not processing invoices if the invoice date precedes a requisition or purchase order date without written explanation from a manager from the appropriate division.
POLA requirements pertaining to pre-approval for travel and seminars is not being followed in all cases by the Wharfinger Division.	2.8	Comply with the City policy that requires Department Head approval for seminars prior to submission to the City Controller and before the Division receives services; or, the Accounting Division should seek to officially change the City Controller's policy or to a more suitable policy and inform all POLA Divisions.

Issue	Recommendations	
		The Contracts and Purchasing Division should:
POLA does not have a set of officially approved contracts and purchasing policies and procedures.	2.9	Submit the draft purchasing manual to POLA senior management and the Executive Director for approval and the Board of Harbor Commissioners' Audit Committee for information, then disseminate to all POLA divisions so that all POLA employees are aware of the required process.
		The Wharfinger Division should:
The Wharfinger Division's purchasing card assigned to one employee is being used by multiple staff members, contrary to the City Purchasing Card Manual.	2.10	Conduct one or more training session to instruct Division employees on the requirements and restrictions to the use of Purchasing Cards and consider using purchase orders for items like tenant gifts in the future.
		The Accounting Division should:
The Wharfinger Division is not complying with the Cardholder Manual's requirement to confirm receipt of goods.	2.11	Conduct training for all POLA staff to assist in transitioning to use of the Purchasing Card Payment Record (PCPR) as soon as possible.
Purchasing card charges are being paid in some instances when there are no required receipts and invoices.	2.12	Review Cardholder Manual requirements for signatures on purchasing card receipts and invoices and either establish policies to implement these rules or recommend changes in policies if these requirements no longer are appropriate, particularly due to ERP implementation.
		POLA management should:
Procedures are not in place covering the purchase of gifts with POLA purchase cards so that receipt of the goods by the intended recipient is documented.	2.13	Direct staff to amend the Cardholder Manual to include procedures for gift use, if this is deemed an appropriate use of the Purchasing Card. For example, procedures can require that the gifts be sent directly to the Division to confirm cost and receipt of goods then Division staff can ship the gifts to the vendor location.
Billing for Eagle Marine is resulting in inefficiencies and higher administrative costs for the Wharfinger Division due to a billing process solely used for this one tenant.	2.14	Consider amending the agreement with Eagle Marine so that it is billed using TEU rates that are now standard for POLA's other terminal operators and shipping lines.

Issue	Recommendations	
		The Wharfinger Division should:
Wharfinger Division capital assets records do not agree with POLA's centralized asset inventory records.	2.15	Follow POLA's required steps and remove the 1994 printer from the centralized asset ledger.
The Wharfinger Division has not provided updated information to the Accounting Division in the biennial capital asset survey to ensure that centralized records include all of the Division's current assets.	2.16	Provide complete responses to the biennial review of capital assets by indicating which assets have been salvaged and identifying Division assets that are not on the central inventory to ensure the Accounting Division records are up-to-date and accurate.
		Centralized staff responsible for maintaining POLA's capital inventory should:
A process is not in place to reconcile the centralized and all divisions' capital asset records.	2.17	Work with all divisions to ensure that they are providing information on all assets on the central inventory, indicating if they are still in the division's possession, have been salvaged, or are on the list in error, and that the divisions identify any assets in their possession not on the centralized inventory.
A process is not in place to reconcile the centralized and all divisions' capital asset records.	2.18	Follow up with all divisions that have not provided responses for each asset on the centralized biennial inventory so that all assets are accounted for through the inventory process.
Executive management is not being routinely informed about the status of POLA's capital assets resulting from the biennial inventory.	2.19	The results of the biennial inventory should be provided to executive management.
		The Accounting Division should:
ERP does not have a field to systematically record and track the location of vehicles and other capital equipment.	2.20	Create a field in ERP to maintain the location of vehicles and track this information independently of other POLA division records.

Contracts		
Issue	**Recommendations**	
		The Wharfinger Division should:
For its three year $150,000 contract, the Wharfinger Division first executed the contract as a one-year contract, without approval of the Board of Harbor Commissioners, then created a second separate two year contract that was approved by the Board.	3.1	Prepare for bidding and executing contract services so that adequate time is allowed for Board approval if required.
		The Contracts and Purchasing Division should:
There is a lack of control in reviewing the contracting process for consistency.	3.2	Take steps to ensure that final contract terms are consistent with the RFP and should not alter contract terms to expedite the approval process. If terms are significantly changed from what was publically solicited in the RFP, CPD staff should report such information to the Board of Harbor Commissioners informing them such changes.
Grants		
Issue	**Recommendations**	
None		None

Process Audit: Wharfinger Division

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Phase 1 Risk Assessment

During 2013, Harvey M. Rose Associates, LLC (HMR) completed Phase 1of 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 Wharfinger Division

The Port's Wharfinger Division is responsible for monitoring all waterborne activities occurring within Port areas and serves as a primary contact for the operational needs of customers and in the collection of all shipping service fees governed by the POLA Tariff.

The Division's approved budget for Fiscal Year 2013-14 was $2,805,125, and 23 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 Wharfinger Division were budgeted at $2,708,619 in the Port's FY 2013-14 budget, or 97% 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 Wharfinger 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 a future, or inefficient recruiting and hiring processes.

Audit Tests and Results

Twenty-three positions were approved in the Wharfinger Division's FY 2012-13 and FY 2013-14 budgets. Since POLA does not have standards in the areas of turnover, vacancies and hiring timelines, we calculated two rates in order to assess the Wharfinger Division's hiring practices, turnover and vacancy rates compared to two national benchmarks. 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. 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.[3]

In FY 2012-13, no employees left the Wharfinger Division, which resulted in a turnover rate of 0%. In FY 2013-14, three employees left the Wharfinger Division,[4] which resulted in a turnover rate of 13.7 percent[5]. The Wharfinger Division's turnover rates for both years are lower 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. BLS reported a turnover rate of 16.3 percent for calendar year 2012 and 16.0 percent for calendar year 2013 for state and local government in the United States, for an average of 16.2 percent for both years.

[3] We had data to compare the turnover rate for Wharfinger Division to a national rate, as we only had the number of employees who left for Wharfingers and not all Port divisions. We have data to compare vacancy rates for the Wharfinger Division to other Port divisions, but were not able to determine an appropriate comparison with BLS data for vacancy rates.

[4] Email correspondence with Wharfinger Division management on 8/7/14.

[5] 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. The average number of filled positions in FY 2013-14 was 21.83. There were three employees that left: 3 / 21.83 * 100 = 13.7%. Formula source: http://www.payscale.com/compensation-today/2012/09/turnover

For vacancy rates, Port records show that between FYs 2012-13 and 2013-14, the Wharfinger Division's average vacancy rates for each fiscal year were 0 percent and 5 percent, respectively. The FY 2012-13 average vacancy rate of other POLA divisions was 4.1%, and the FY 2013-14 average vacancy rate of other POLA divisions was 5.9%. Thus, compared to other Port divisions, the Wharfinger Division's average vacancy rates were lower for both years.

Additionally, the length of time it took to fill vacant Wharfinger Division positions was examined. Division management reported that the three employees that separated from the Division in FY 2013-14 consisted of one Senior Clerk Typist and two Wharfinger I's. The Senior Clerk Typist resigned in February of 2014, and the position was one of 20 vacant positions that were reportedly recommended to be deleted from the Port budget for the following fiscal year in response to a management request to reduce headcount.

One Wharfinger I left in October 2013 and the other in November 2013, and both were filled on April 14, 2014, or approximately six and five months later, respectively. Having two positions vacant out of 23 authorized for between five and six months is equivalent to having slightly under one vacant position for the full year, a notable reduction for a relatively small division. The Division requested emergency appointments in December 2013 to fill the two Wharfinger positions. Applications were received in January 2014, and interviews and selections were completed in the same month and provided to POLA's Human Resource Division for final approval. The Emergency Appointments started on April 14, 2014. Division management has indicated that the three month delay in filling the positions between January and April was due to following the City Personnel Department procedure for receiving their approval for the emergency appointments as well as coordinating the release of the employees from their former divisions.

Conclusions and recommendations

The Wharfinger Division's turnover and vacancy rates were lower than the benchmarks examined, indicating that Division management has been successful at retaining its employees.

It took five months in one case and six months in the other case to fill two Wharfinger I vacancies in FY 2012-13 even though the Division had submitted an Emergency Appointment request for both positions. Even with that, the process involved several months of waiting for approval of these requests from POLA and the City. This resulted in a lengthy period of understaffing of the Division. The Division appears to have limited control over the hiring process and personnel matters, and this has resulted in delays in filling vacancies.

Recommendations for the Wharfinger Division

None.

Recommendations for other Port Divisions

1.1 POLA management should analyze how to expedite, where possible, current processes and procedures under the control of POLA pertaining to hiring and, specifically, filling Emergency Appointment Requests.

1.B. Training

Standards and Procedures

California Government Code 12950.1 requires all POLA supervisors and managers to 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 Wharfinger 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 Wharfinger Division's internal training records for FY 2011-12 through FY 2013-14, 2.) reviewed Port-wide training completion reports provided by the Port's Human Resources Division, and 3.) conducted a manual review of the Wharfinger Division's employee personnel files. The Human Resources Division's 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 it should be attended by all managers and supervisors every two years. The completion date of the Disaster Service Worker Training is not necessary because this training simply needs to be completed only once for each employee, though it would 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 Wharfinger 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 2011 and 2013, eight Wharfinger supervisors were required to take the sexual harassment prevention training course. According to the Wharfinger Division's personnel records, all Wharfinger Division supervisors completed the course in 2011 and all but one completed the course in 2013; however, the non-compliant employee was on extended leave when the training was due and returned to work in May of 2014. This employee completed the training four months after returning. The Wharfinger Division's internal training records did not include the 2011 sexual harassment prevention training. Wharfinger Division management staff report that all supervisors took the course in December of 2011, but did not have documentation of this.

Although we obtained the necessary data to test training compliance from the Wharfinger Division's personnel files, the Port's Human Resources Division has no other way to determine Port-wide employee training compliance in FY 2011-12 except by manually checking personnel files which is time consuming and inefficient. Human Resources Division staff reported that in FY 2011-12 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 but one Wharfinger Division employee had taken the City's Disaster Service Worker Training course, according to training completion reports provided by the Port's Human Resources Division. This training was not captured in the Wharfinger Division's internal training records. 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, only one Wharfinger Division employee had not completed the training.

In addition to training required of all POLA employees, the Wharfinger Division's internal records also showed that some Division staff collectively attended 218 staff-hours of elective training between FY 2011-12 and FY 2013-14 on topics relevant to their work, as detailed in Exhibit 1.1 below. We do not know the number of the Wharfinger Division's 23 employees that attended these training sessions as attendance was not always tracked by Wharfinger Division employee name.

Exhibit 1.1: Wharfinger Division Elective Training, FY 2011-12 through FY 13-14

Training Description	Staff Hours
Marine Terminal Mgmt. Training	88
Technical Skills Training (Business Writing or Excel)	49
General Management and Team Building Skills Training	48
Trainings from Various POLA Departments	4
Emergency Management, Workplace Safety and Cyber Security Training	11
Americans with Disabilities Act (ADA) Training	3
Conferences	8
Other	7
Total	**218**

Source: POLA Wharfinger Division's internal tracking documents.

Conclusions and recommendations

Overall, the Wharfinger Division appears to be complying with POLA training requirements as well as offering additional job-related training to staff, though compliance is difficult to verify with POLA's centralized training tracking methods and 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 Wharfinger Division

1.2 Wharfinger Division should establish a policy of keeping training records for each employee by name and date of attendance in the event the Human Resources Division's records are unreliable or if there are errors.

Recommendations for other Port Divisions

1.3 The Human Resources Division should:

a. Request that the City's vendor tracking employee compliance with mandated training requirement produce a more detailed report showing when employees have attended required trainings, by name and POLA division; and

b. Request development of 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. 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 reported practice of conducting performance evaluations on an annual basis as opposed to on the date of an employee's salary anniversary, to test compliance we reviewed the Division's internal records that track the date of each employee's performance evaluation for calendar years 2011, 2012 and 2013. We found that for all three calendar years, all Wharfinger Division employees received annual performance evaluations. Based on the date of the Wharfinger Division's 2011 performance evaluations, we found that in 2012, six performance evaluations out of 23 were three months or more after the one year anniversary date of their 2011 evaluation. In 2013, all performance evaluations were on time or within several days of the anniversary date of the 2012 performance evaluations with the exception of two, both of which were completed early, before their one year anniversary; one was two months early and the other was five months early.

Conclusions and Recommendations

While the Wharfinger Division was late for six of 23 performance evaluation in 2012, its 2013 record with no late performance evaluations (and two early) shows that Division management is systematically tracking performance evaluation dates and ensuring that they are completed within a year of the employee’s most recent performance evaluation.

Recommendations for Wharfinger Division

None.

Recommendations for other Port Divisions

1.5 Subject to executive management approval, the Human Resources Division should formalize and codify in the Port’s Employee Manual the current undocumented approach to performance evaluation timing in which performance evaluations are to be conducted annually and not based on salary anniversary dates.

1.D. Grievance/discipline process

Standards and Procedures

City and Port policies and procedures and Memorandums of Understanding with labor groups representing POLA employees provide specific steps that should be followed in cases of grievances filed by employees. The Memorandum of Understanding (MOU) that covers Wharfinger Division employees explains the grievance process and the timeframe for completion of each step as shown in Exhibit 1.2. The grievant can escalate the grievance to the next step if the issue is not resolved. It is important to note, however, that the time limits between steps of the grievance procedures may be extended by mutual agreement.

Exhibit 1.2: Wharfinger Divisions Grievance Process and Business Day Time Frames Allowed by MOU that covers Wharfinger Division

Steps	Description	Time Frame[1]
Grievance event occurs		
Step 1[2] Informal Discussion	Grievant discusses grievance with immediate supervisor	Within 10 days of event
	Immediate supervisor provides verbal response	Within 10 days of previous action
Step 2	Grievant submits written notice to immediate supervisor who forwards it to the next level manager, the Deputy Executive Director	Within 10 days of previous action
	Manager meets with grievant to discuss facts and gather information	Within 10 days of previous action
	Manager submits written response to grievant	Within 10 days of previous action
Step 3	Grievant submits appeal to the POLA Executive Director	Within 10 days of previous action or last day of the Manager response period in Step 2
	General Manager meets with the grievant to discuss facts and gather information	Within 10 days of previous action
	General Manager provides written response	Within 20 days of previous action
Step 4	Grievant and Union file a request for arbitration with the Employee Relations Board	Within 20 days of previous action or last day of the General Manager response period in Step 3
	Parties jointly select an arbitrator from a list provided by the Employee Relations Board	Within 7 days of receiving list
	Union notifies the Employee Relations Board of the selected arbitrator	Within 60 days of receiving the list
	Arbitration proceedings occur and the decision of the arbitrator is binding	Time frame not specified in MOU
	Total Maximum Business Days	177 (approx. 6 mos.)

Source: Memorandum of Understanding No. 3, by and between the Heads of Departments, Office or Bureaus and All City Employees Associations, Local 3090, AFSCME, AFL-CIO, July 1, 2007 through June 30, 2012.

[1] Days are in business days.

[2] At any time following Step 1, the union or management may request mediation.

According to the MOU, a representative of the grievant's choice, typically from the labor union, may represent the grievant during all steps of the grievance procedure. As the Port's labor relations specialists, the Human Resources Division helps facilitate the grievance process which could include contacting and working with the representative, coordinating and attending grievance meetings and drafting and submitting grievance responses, among other activities.

Human Resources Division staff report that their involvement during the informal discussion phase of the grievance process varies by division as larger divisions with more grievances tend to conduct the informal discussion with limited Human Resources Division involvement; while smaller divisions may request the Human Resources Division's help to coordinate the informal meeting and assist with the response. If the grievance is appealed to the next level, however, the Human Resources Division will be notified and will coordinate the grievance meeting with the grievant, the Deputy Executive Director and the labor union and will fill out the grievant responses.

Risk

A large number of grievances filed in a division may indicate that employees are not treated fairly, which could impact their productivity, or that division management may not have clearly communicated their expectations to staff. The grievance procedures and schedule defined in the MOU covering Wharfinger Division employees holds both the grievant and Wharfinger Division management accountable for resolving the dispute as quickly as possible so that both parties can focus their time on their work.

Audit Tests and Results

To test compliance with the grievance process defined in the Wharfinger Division's MOU, we reviewed all documentation for grievances filed by Wharfinger Division employees between FYs 2010-11 and FY 2013-14, provided by POLA's Human Resources Division and interviewed Wharfinger and Human Resources Division staff. Of the two grievances reported during this time period, the documentation for one grievance only included the immediate supervisor's informal grievance response and did not note the date that the grievant and immediate supervisor discussed the dispute. As a result, we were not able to determine whether the immediate supervisor responded to the grievance within 10 days, as required by the MOU that applies to Wharfinger Division staff. Other than that, all required time frames were met for this grievance.

The second grievance did not adhere to several of the grievance procedure time frames summarized in Exhibit 1.2 above. First, the informal grievance meeting was held 22 days after the issue arose, or 12 days longer than the required 10 business days. Secondly, 14 days passed from the day the informal meeting was held to the day the grievant received the response, or four days passed the 10 day deadline. Thirdly, the grievant escalated the grievance and submitted a formal grievance notice to the Division within the MOU timeframes; however, the date that the Deputy Executive Director met with the grievant was not recorded in the grievance documentation provided so it was not possible to determine if it had occurred within the required 10 days. As a result, we were unable to assess compliance for this step.

Finally, the formal grievance response from the Deputy Executive Director was presented to the grievant 42 business days after receiving the grievant's formal grievance notice, or 22 days in excess of the MOU requirement that this be completed within no more than 20 business days.[6]

As previously noted and shown in Exhibit 1.2, there are multiple parties involved in the grievance process including the grievant, the grievant's division, the Human Resources Division, the grievant's union representative, the Deputy Executive Director and upper management. Human Resources Division staff noted that due to all of the parties involved, it can be difficult to coordinate meetings and complete grievance forms within the MOU timeframes. Human Resources Division staff further noted that timeframes are commonly extended at the request of one of the parties but the request is often verbal and not always documented. As a result, it is not possible to determine the exact cause for the instances of non-compliance in the Wharfinger Division grievances described above as there are several parties that may have contributed to the delays. Recording this agreement as well as the dates of other events is important in the event that one party tries to delay the grievance process or extend the time frames without the other parties' consent.

Conclusions and recommendations

As the Port's labor relations specialists who facilitate the grievance process, Human Resources Division staff should ensure that all parties are aware of the MOU timeframes and should strive to work within those timeframes once they are involved, which is typically when the grievance is escalated (Step 2) or earlier if requested by the Division. If additional time is needed and mutually agreed upon, the Human Resources Division should document this agreement. The Wharfinger Division and Human Resources staff should also ensure that all steps in the grievance process are documented.

Recommendations for the Wharfinger Division

1.6 The Wharfinger Division should take steps to ensure that dates are recorded for the steps in the grievance process in which the Division is involved including dates of the grievant's actions so it is clear who was responsible for any delays.

Recommendations for other divisions

1.7 The Human Resources Division should continue to work with all involved parties to comply with MOU grievance timeframes or provide documentation for extending the timeframes and should ensure that all steps in the grievance process are recorded.

[6] The 20 days consists of the 10 day period that management met with the grievant and the additional 10 day period to issue a response.

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 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 Wharfinger 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 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 Wharfinger 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.

Fiscal Years FY 2011-12 – 2013-14 Analysis

In the three fiscal years examined, the Wharfinger Division underspent relative to its budget, as seen in Exhibit 2.1 below. As shown, the underspending ranged from $93,024 in FY 2012-13 to $428,342 in FY 2013-14. While some variance between budgeted and actual expenditures should be expected as conditions change during the year compared to what was expected when the budget was prepared, the amounts in two of the three years were significant and warrant a review of Division and POLA budgeting practices.

Exhibit 2.1: Actual Expenses Relative to Budgeted Amounts for Total Expenses

Wharfinger Division, FYs 2011-12 – 2013-14

	FY 2011-12	FY 2012-13	FY 2013-14
Total Budget	$2,739,648	$2,626,342	$2,808,776
Total Actuals	$2,415,436	$2,533,318	$2,380,434
Actual less budget	($324,211)	($93,024)	($428,342)
% Actual to Budget	*88%*	*96%*	*85%*

Source: POLA Accounting Division (ERP)

Budgeted amounts as of end of fiscal year, provided by POLA Financial Management Division on 9/18/14

The Division has been underspending on its Salaries and Benefits in recent years, as seen in Exhibit 2.2 below. As shown, the Division's Salaries and Benefits underspending ranged from $46,116 in FY 2012-13 to $394,080 in FY 2013-14. The Division explained that three employees separated from the Division in FY 2013-14, contributing to the lower expenditures on Salaries & Benefits than the previous two years. The Division also explained that three employees were out on leave in FY 2011-12, contributing to the lower expenditures on Salaries & Benefits.

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

	FY 2011-12	FY 2012-13	FY 2013-14
Salaries & Benefits Budget	$2,605,490	$2,512,134	$2,708,619
Salaries & Benefits Actuals	$2,345,546	$2,466,018	$2,314,539
Actual less budget	($259,944)	($46,116)	($394,080)
% Actual to Budget	*90%*	*98%*	*85%*

Source: POLA Accounting Division (ERP)

The Division also has a history of underspending for other direct expenses, or expenses other than salaries and benefits, as shown in Exhibit 2.3 below. As shown, the Division's underspending for direct expenses ranged from $34,263 in FY 2013-14 to $65,622 in FY 2011-12, or spending only between 51 and 66 percent of budgeted amounts.

Exhibit 2.3: Actual Expenses Relative to Budgeted Amounts for Other Direct Expenses

Wharfinger Division, FYs 2011-12 – 2013-14

	FY 2011-12	FY 2012-13	FY 2013-14
Other Direct Expenses Budget	$134,158	$114,208	$100,157
Other Direct Expenses Actuals	$68,536	$67,299	$65,895
Actual Less Budget	($65,622)	($46,909)	($34,263)
% Actual to Budget	*51%*	*59%*	*66%*

Source: POLA Accounting Division (ERP)

The variances shown in Exhibit 2.3 are largely due to the over-budgeting of the Division's Miscellaneous Professional Services expenses (account 54290), as shown in Exhibit 2.4 below. In FY 2011-12, the Division's Miscellaneous Professional Services budget was $80,000, of which only $39,423, or 49%, was actually expended. In FY 2012-13, the Miscellaneous Professional Services budget was $61,000, of which only $19,380, or 32%, was expended. In FY 2013-14, the Miscellaneous Professional Services budget was $50,000, of which $26,395, or 53%, was expended.

Exhibit 2.4: Actual Expenses Relative to Budgeted Amounts for Miscellaneous Professional Services, Wharfinger Division, FYs 2011-12 – 2013-14

	FY 2011-12	FY 2012-13	FY 2013-14
Misc. Prof. Svcs. Budget	$80,000	$61,000	$50,000
Misc. Prof. Svcs. Actuals	$39,423	$19,380	$26,395
Actual Less Budget	($40,578)	($41,620)	($23,605)
% Actual to Budget	*49%*	*32%*	*53%*

Source: POLA Accounting Division (ERP)

The Division reports that in FY 2009-10, Division management began to transition services provided by contractors through its Miscellaneous Professional Services budget to in-house services to achieve cost-savings while maintaining the professional services contracts on an as-needed basis. Due to uncertainty regarding the amount that would be necessary on an as-needed basis, the Division has been gradually reducing the Miscellaneous Professional Services budget based on the previous years' need. The FY 2012-13 budget of $61,000 was reduced to the FY 2013-14 budget of $50,000. However, this amount was still found to significantly exceed actual expenditures for FY 2013-14: the Division only spent $26,395, or 53% of the FY 2013-14 budgeted amount of $50,000. Furthermore, the average of actual expenditures for FYs 2011-12 through 2013-14 was $28,399. Thus, it appears the Division can make further reductions based on historical spending. The Division explained that it reduced the budget for this account to $41,500 for FY 2014-15, showing that adjustments to this account to match historical spending are continuing to be made.

Wharfinger Division staff explained that there are three major activities under the Miscellaneous Professional Services budget: Marine Surveyor Contract, Marine Exchange Subscription, and a contingency fund. The Division explained that while the Marine Exchange Subscription expenditures are constant each year, the other two fluctuate depending on need and Division activities. The importance of an emergency contingency fund is recognized, but the budgeted amounts could be reduced to better reflect historical average need. Furthermore, contingency funds can be requested through other POLA budget channels when necessary.

POLA's Financial Policies require producing budget information that is clear, comprehensible, and transparent. Maintaining budgeted amounts significantly above the operating needs of the Division does not provide transparency in the Division's operations. It is not prudent to maintain budgeted amounts significantly above the operating needs of the Division, tying up funds that could be utilized more effectively for other Port operations.

The Wharfinger Division had one recorded actual expenditure for indirect allocations in FY 2011-12 in the amount of $1,354. However, no amount had been budgeted for this expense. The Financial Management Division explained that Allocated Expenses should be budgeted before the start of the fiscal year as part of the regular budget process and that it works with the Accounting Division to budget for these expenses for all POLA divisions. The Accounting Division explained that it will reconcile the budget and actuals but does not necessarily make corrections for any actuals unless the numbers appear unreasonable. The Division should work with the Financial Management Division and the Accounting Division to ensure that all future anticipated allocated expenditures are budgeted for.

Month to Month Analysis for FY 2013-14

To review the monthly budgets for FY 2013-14, we compared the monthly cumulative actual expenditures (Year-to-Date Actuals) to the monthly cumulative budget (Year-to-Date Budget), provided by the Financial Management Division.

The Year-to-Date comparison shows the cumulative effect of the underspending for each month throughout the year, as shown in Exhibit 2.5 below. The Year-to-Date actual expenditures range between 81% to 86% of the Year-to-Date Budget.

Exhibit 2.5: Year-to-Date Actual Expenses Relative to Year-to-Date Budgeted Amounts

Wharfinger Division, FY 2013-14

FY 2013-14	Year-to-Date Budget	Year-to-Date Actual	Actual to Budget %
July	$230,053	$187,080	81%
August	$458,966	$393,067	86%
September	$692,970	$581,689	84%
October	$932,902	$785,848	84%
November	$1,168,650	$977,145	84%
December	$1,405,832	$1,191,525	85%
January	$1,642,496	$1,340,006	82%
February	$1,870,760	$1,522,583	81%
March	$2,099,673	$1,721,522	82%
April	$2,335,816	$1,928,073	83%
May	$2,570,969	$2,152,636	84%
June	$2,804,627	$2,380,434	85%
END OF YEAR	$2,804,627	$2,380,434	*85%*

Source: Accounting Division (ERP)

Note: The end-of-year total for FY 2013-14 in Exhibit 2.5 above 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.

While some variation between budgeted and actual monthly expenditures can be expected as circumstances change during the year, that the division underspent on its monthly budget for each month of the year in FY 2013-14 further underlines the need for the Division to review its expenditures and adopt a budget that better reflects its actual needs.

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

POLA's Budget Operating Guidelines require that the Division operate within the adopted budget and therefore monitor their budget activities to ensure expenditures are within allocations as approved by the Board of Harbor Commissions. The Wharfinger 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 is intended to assist all POLA divisions in monitoring their respective budgets.

Discrepancies were found between the ERP and Division accounting of the actual Other Direct Expenses for FY 2011-12, FY 2012-13, and FY 2013-14. Exhibit 2.6 below shows the discrepancy between the ERP and Wharfinger Division's records of actual expenditures. The negative number indicates that the

Division record showed an amount greater than the ERP budget. As can be seen, the Division's records showed actual amounts for other direct expenditures, excluding salaries and benefits, that exceeded the amounts in ERP by $12,325, of 18% more than the ERP records, in FY 2011-12 and by $685, or 1% more than ERP records in FY 2013-14. For FY 2012-13, the Division records showed actual amounts for other direct expenditures, excluding salaries and benefits that were less than the amounts in ERP by $9,829, or 15% less than ERP records.

Exhibit 2.6: Actual Other Direct Expenditures as Reported by ERP and Wharfinger Division's Records, Wharfinger Division, FYs 2011-12 – 2013-14

Source	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**
Central (ERP) Actuals Amount	$68,536	$67,299	$65,895
Division Actuals Amount	$80,861	$57,471	$66,580
Central less Division Actuals Records	***($12,325)***	***$9,829***	***($685)***
Percentage variance	-18%	15%	-1%

Source: Accounting Division (ERP) and Wharfinger Division records

The Division explained that transfers explained some, but not all, of the discrepancy. Exhibit 2.7 below shows the discrepancies in the Wharfinger Division record of transfers as compared to ERP. The Division also explained that it did not have records of some expenditures that ERP showed. The Division should have worked with the Financial Management Division to update ERP records to reflect these transfers and other discrepancies

The lack of clarity in the discrepancies in all three fiscal years indicates a lack of reconciliation between central ERP records and Division records. These variances should be reconciled monthly with the review of the Budget-to-Actuals reports. While the variance amounts are not significant, the records should be the same to ensure that Division management is controlling its expenditures. The ERP system should contain the most reliable, accurate and up-to-date budget information for all divisions.

Transfers

The difference between the adopted budget at the beginning of the fiscal year and the adjusted budget at the end of the year is accounted for by the transfers in accounts in the Division's budget throughout the year. Exhibit 2.7 below shows the sum of transfers as identified in ERP records.

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

	FY 2011-12	**FY 2012-13**	**FY 2013-14**
Adopted Budget	*$2,739,648*	*$2,626,342*	*$2,808,776*
Adjusted Budget	*$2,682,860*	*$2,616,279*	*$2,804,627*
Adopted - Adjusted (transfers)	$56,788	$10,063	$4,149

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: Wharfinger Transfers as Reported by ERP and Wharfinger Division Records
Wharfinger Division, FYs 2011-12 -- 2013-14

	FY 2011-12	FY 2012-13	FY 2013-14
Adopted - Adjusted (transfers)	$56,788	$10,063	$4,149
Transfers in Wharfinger Records	$35,735	$13,379	$14,479
Variance between ERP and Police Records	*$21,052*	*($3,316)*	*($10,330)*
% Over/(Under) ERP	*37%*	*-33%*	*-249%*

Source: Financial Management Division (ERP) and Wharfinger Division

As mentioned above, the Division should have worked with the Financial Management Division to reconcile discrepancies in transfers.

Other Notes

The Budget Operating Guidelines require transfers within or among Divisions within the same 3-digit accounts to 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 now only require the approval of Division Heads. Transfers are initiated from the division providing the funds, and division management approval is required before the transaction is routed to the Budget Group at the Financial Management Division. The Budget Group reviews the transaction, then the transaction is routed to the receiving division head for approval. The Financial Management Division stated that the budget operating guidelines are in the process of being revised to reflect the ERP procedures.

Conclusions and recommendations

The Wharfinger Division has underspent relative to its budget for the last three fiscal years. While some variances can be expected, consistent underspending indicates a lack of review of actual expenditures and adjustments to reflect need. Some efforts to reduce the Division's budget to reflect need has been made, as evidenced through the reduction in Miscellaneous Professional Services from FY 2012-13 to FY 2013-14. However, every division's total budget should be reviewed annually and be made to reflect actual expenditures of previous years and any known changes for the budget year to ensure that POLA resources are not at risk of being tied up through budget appropriations in excess of actual need.

While the variance amounts between central and Division records of budget and actual expenditures were not significant, the records should agree to ensure that Division management is controlling its expenditures. The Division explained that some of the discrepancies between central ERP records and Division records were due to transfers. However, the Division also explained that it did not have some accounts ERP was attributing to the Division in its budget records and that it did not have records of some expenditures that ERP showed. The discrepancy in actual expenditures between central ERP records and Division records indicate a lack of reconciliation between central ERP records and Division records. These variances should be reconciled monthly with the review of the Budget-to-Actuals reports. The ERP system should contain the most reliable, accurate and up-to-date budget information for all divisions.

The Wharfinger Division has furthermore stated that it was not provided a copy of POLA's Finance Division's Policies and Procedures Manual, and greater effort to promulgate policies and procedures should be made by all relevant POLA Divisions.

Recommendations for the Wharfinger Division

2.1 The Wharfinger Division should:

a. Review its budgets and expenditures annually in conjunction with the Division's budget analyst and adjust budgeted amounts to better reflect historical expenditures and actual need.

b. Utilize POLA budget processes for contingency, or emergency, funds, when needed, rather than overbudgeting accounts—e.g., contingency funds in Miscellaneous Professional Services.

c. Review and reconcile monthly ERP reports with internal Division records and correct for variances (particularly for transfers) throughout the year.

d. Ensure that the Division receives POLA's budget and other relevant policies and procedures.

Recommendations for other Port Divisions

2.2 The Financial Management Division should evaluate the accuracy and timeliness of ERP budget data for division use and make any needed changes to improve its usefulness to POLA divisions accordingly.

2.3 The Financial Management Division should ensure that all overhead and other cost allocations are included in the budget for the Wharfinger and all other divisions.

2.4 The Financial Management Division should update the Budget Operating Guidelines to reflect the implementation of ERP.

2.5 The Financial Management Division should ensure that it provides copies of the relevant policies and procedures to all divisions.

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 purchasing manual, the purchasing process includes the following steps, in this order:

1. The division completes a requisition 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.[8] 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.

In addition to purchase orders, the General Accounting Encumbrance Authority for Expenditure (AFE) can be used to encumber funds for services such as training seminars or meeting expenses that are low-dollar, but too expensive for petty cash, or for activities or timeframes where a formal contract would not be efficient. In accordance with the City of Los Angeles Administrative Code Section 10.2, all AFE's greater than $1,000 must be reviewed and approved by the City Attorney and Department Head approval is required for seminars. Following City Attorney approval, the AFE must be submitted to the Controller before the service is provided except in cases of urgent necessity for the preservation of life, health or property.[9] [10]

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[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] AFEs do not require quotes.
[9] Controller Manual Revised March 2013. 1.4.3.2 General Accounting Encumbrance Authority for Expenditure
[10] City Charter Section 371 (5) (e)

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 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

The Wharfinger Division executed approximately 33 procurements between FY 2011-12 through FY 2013-14 and used ten vendors as shown in Exhibit 2.9 below. The Division's purchasing authority for the 33 procurements totaled $87,953 including sales tax when required. Of the 33 procurements, 22 were through purchase orders and 11 were through AFE purchases for services such as training seminars that are not supported by a formal agreement. None of the Wharfinger Division's procurements were over $25,000 which means that these purchases required a quote from only one vendor and approval for the procurement could be made by a CPD Purchasing Analyst.

Exhibit 2.9: Wharfinger Division Procurement Summary, FY 2011-12 to FY 2013-14

Vendor Name	**Number**	**Total Estimated Purchasing Authority**[1]
Purchase Orders		
Creative Screen Art, Inc.	3	$11,307[2]
Delancey Street Christmas Trees	3	$4,471
Grant Lien Sales	9	$3,255
IBM	1	$2,667
Muratec	1	$278
San Pedro Car Wash[2]	1	$18,400
Marine Exchange of Southern California	2	$16,800
Office Depot	2	$19,200
Subtotal Purchase Orders	*22*	*$78,883*
Authority for Expenditures (AFEs)		
American Association of Port Authorities	2	$7,485
Skillpath Seminars	9	$1,585
Subtotal AFEs	*11*	*$9,070*
Total	**33**	**$87,953**

Source: POLA Information Technology Division Central Purchasing Reports and Wharfinger Division records

[1] Exhibit 2.9 is based on records provided by IT's centralized purchase records from the ERP system and INFOR system and the Wharfinger Division's internal records. These totals include sales tax when required.

[2] This procurement was transferred to the Police Division after the purchase requisition and purchase order were created.

From the list of 33 procurements, we reviewed 15 purchase orders, or 45% of all procurements, to determine compliance with the City and the Port's purchasing policies and procedures. The 15 procurements reviewed consisted of four AFE purchases for training seminars and 11 purchase orders. From our review, we found that five of these procurements were out of compliance with the Port's purchasing policies, or 33% of our sample. Of the non-compliant purchase orders, two were AFEs and three were purchase orders.

The reason for non-compliance among purchase orders was that the service or good was provided or ordered prior to the Division submitting a requisition form, or prior to CPD submitting a purchase order which is the legal document authorizing the purchase. This was evidenced by invoices and employee sign-offs dated prior to the requisition and/or purchase order dates.

For the non-compliant AFEs for training seminars, one of the AFEs did not have the City Attorney's signature that was required because it was over $1,000. Wharfinger Division staff reported that they were not aware that they had to obtain the City Attorney's signature. Accounting Division staff report that these signatures may have been provided electronically but there is no documentation of this. The second AFE was out of compliance because the purchase order was not created until after the employee attended the seminar. The supporting documentation for this AFE, however, shows that the Division Head and Department Head approved the AFE prior to the seminar but it was not returned to the Wharfinger Division to create the purchase order until after the seminar was attended.

According to Accounting Division staff, it can take several days for Department Heads or the General Manager (Executive Director or Department Head) to approve and return an AFE. Accounting Division staff report that if the AFE is urgent and the Division Head approves, then the Accounting Division will process the payment request under the condition that a copy of the AFE form is signed by the Department Head and submitted to the City Controller's auditors later. Accounting Division staff reported that the Controller's auditors have allowed this practice.

Conclusions and recommendations

While the Wharfinger Division's purchase order portfolio is small and of a low dollar amount, the Division should still adhere to the Port's purchasing policies and procedures by making sure that Wharfinger Division staff submit a purchase requisition or AFE form to CPD or the Accounting Division prior to ordering the good or service. Also, Wharfinger Division staff should wait for CPD to create a purchase order before ordering the product or should better account for the time it takes CPD to create a purchase order after submitting a purchase requisition and plan accordingly.

Prior to the employee completing a training course, all required AFE approvals should be obtained by Wharfinger Division staff and properly documented in the purchase file along with evidence of completion. Also, the Accounting Division should comply with the City policy that requires Department

Head approval for seminars prior to submission of documentation to the City Controller and before Division staff attend training or seminars, or, the Accounting Division should seek to change the City Controller's policy as the policy that is currently in place may no longer be practical.

Recommendations for the Wharfinger Division

2.6 Wharfinger Division management should take steps to ensure that Division staff is not placing orders with vendors or receiving goods and services prior to a purchase order being generated and that all AFEs are complete with all necessary approvals and documentation.

Recommendations for other POLA divisions

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

2.8 The Accounting Division should comply with the City policy that requires Department Head approval for seminars prior to submission to the City Controller and before the Division receives services; or the Accounting Division should seek to officially change the City Controller's policy or to a more suitable policy and inform all POLA Divisions.

2.9 The Contracts and Purchasing Division should submit the draft purchasing manual to POLA senior management and the Executive Director for approval and the Board of Harbor Commissioners' Audit Committee for information, then disseminate to all POLA divisions so that all POLA employees are aware of the required process.

2.C. Purchasing Cards

Standards and Procedures

The Port does not have its own specific policies and procedures related to use of the purchasing card but, as a City department, it follows City protocols pertaining to purchasing card use. The "City of Los Angeles Purchasing Card Program Cardholder Manual," revised September 21, 2009 (Cardholder Manual), is the standard the Wharfinger Division follows for its use of purchasing cards.

Risk

Uncontrolled use of purchasing 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 the business of the Wharfinger Division and POLA. For example, an employee may be using the cards to purchase personal items, and a lack of controls would allow such abuse of public funds.

Audit Tests and Results

To test the Wharfinger Division's compliance with the Cardholder Manual, POLA's Accounting Division provided the charges for the card assigned to the Division for FY 2013-14. During FY 2013-14, there were a total of seven transactions made under the Purchasing Card program for the Wharfinger Division. All purchases were made on the one card assigned to an employee of the Division. Supporting documentation of the application for the card, proof of purchase, and payment by the Accounting Division were examined.

Testing for the major attributes are described below, and the Division was found in compliance with the following five attributes.

1) Use of card: The card must not be used for inventory, capital, or contracted items. All seven transactions were in compliance with this requirement.
2) Timely forwarding of bill from Cardholder to Accounting: The Cardholder Manual requires the statement to be submitted within ten business days after the 4th of each month. All seven transactions were in compliance.
3) Timely posting of payments to the General Ledger: Accounts Payable staff confirmed that no official timeline exists to post the payment, but the standard operating procedure is to post within two weeks of the statement date. All seven transactions were posted within two weeks of the transaction date.
4) Inclusion of receipts and invoices: All receipts must be attached to the statement sent to Accounting. All seven transactions were in compliance.
5) Application for Purchasing Card: The Cardholder must sign the Purchasing Card Employee Acknowledgement of Responsibilities. The records are in compliance.

The Division was found in non-compliance with the attributes below.

1) Cardholder use: The cardholder is required to undergo training and sign the Cardholder Manual and the Purchasing Card Employee Acknowledgement of Responsibilities form, agreeing to not allow any other person to use the card. Six transactions reviewed were made by Wharfinger Division employees other than the cardholder, and one had no identifying information of the purchaser.
2) Receipt of goods: At the workplace, the cardholder should have another City employee from the same unit and at an equal or higher classification as the cardholder review the receipt or invoice, verify the cost and confirm receipt of goods by signing the receipt of invoice. None of the transactions had the signature of another employee on the invoice or receipt, though Accounting Division staff has explained that supervisor reviews and approval on ERP now takes the place of a signature on a hard copy receipt. However, it is noteworthy that five purchases were made for gifts sent to Port tenants, and no effort to confirm receipt of goods was made in these situations. Thus, the Division appears to have disregarded this control on Purchasing Card use.
3) Transaction amounts and limits: The Cardholder Manual places a limit of $1,000 per single transaction. However, one of the tested transactions, dated December 17, 2013, was found to be in excess of the $1,000 limit, at $1,026 or $26 over the limit.
4) Signature of cardholder if purchased at vendor location: The receipts are required to have the signature of the cardholder if purchased at the vendor location. Two of the seven transactions was purchased at the vendor location and did not have the cardholder’s signature.

Conclusions and recommendations

For all purchases, purchasing cardholders are to ask that receipts be reviewed, merchandise verified, and signed by the individual receiving the good. However, that the Division used the cards for purchase of tenant gifts delivered directly to the tenants indicates either a lack of awareness of the Cardholder Manual policies and procedures or disregard for the policies and procedures since there would likely not be a receiving Port staff member at the tenant location and staff was not likely to require that the gift recipients sign a confirming statement of receipt.

The Cardholder Manual makes multiple references to a Purchasing Card Payment Record (PCPR), which serves as the master database of all invoices and payments in POLA’s ERP system, according to Accounting Division staff. The PCPR was implemented in late 2013; however, hard copy expense reports are still being produced, reportedly due to staff unfamiliarity with the format of the PCPR.

Staff are forwarding purchasing card statements to Accounting in a timely manner, and the Accounting Division is making payments in a timely manner. However, evidence of Accounting Division review of card use and adherence to purchasing card policies is lacking. The Cardholder Manual requires signatures for review on the receipts/invoices confirming the cost and receipt of goods, but no explicit staff approval can be found on the invoices/receipts submitted by the Wharfinger Division to the

Accounting Division. Staff of the Accounting Division explained that expense statements in ERP are approved by supervisors and division heads, which serves as verification of supervisor review of receipts and costs. The Purchasing Card Manual should be updated to incorporate this control in ERP.

The Purchasing Card Manual should be updated to incorporate ERP functions and processes. ERP was implemented in late 2013, and the Purchasing Card Manual was last revised in 2009.

Recommendations for the Wharfinger Division

2.10 The Wharfinger Division should conduct one or more training session to instruct Division employees on the requirements and restrictions to the use of Purchasing Cards and consider using purchase orders for items like tenant gifts in the future.

Recommendations for other divisions

2.11 The Accounting Division should conduct training for all POLA staff to assist in transitioning to use of the Purchasing Card Payment Record (PCPR) as soon as possible.

2.12 The Accounting Division should review Cardholder Manual requirements for signatures on purchasing card receipts and invoices and either establish policies to implement these rules or recommend changes in policies if these requirements no longer are appropriate, particularly due to ERP implementation.

2.13 POLA management should direct staff to amend the Cardholder Manual to include procedures for gift use, if this is deemed an appropriate use of the Purchasing Card. For example, procedures can require that the gifts be sent directly to the Division to confirm cost and receipt of goods then Division staff can ship the gifts to the vendor location.

2.D. American Express Cards

No transactions for the Wharfinger Division existed within the scope of our audit.

2.E. Accounts Receivable – Vessel Revenue

Standards and Procedures

The Wharfinger Division bills shipping agents[11] and terminal operators' fees associated with the arrival, docking and loading/unloading of cargo by vessels at POLA. The fees are charged to terminal operators in accordance with Tariff No. 4 or the terminal operator's lease or permit agreement with POLA. The terminal operators pay these fees from charges they impose on the shipping lines that use their facilities.

The Wharfinger Division is responsible for creating an invoice of gross charges for the terminal operators and shipping agents[12] to capture wharfage, dockage and pilotage fees due POLA pursuant to each terminal operator's permit or agreement with POLA or based on the provisions of POLA's Tariff #4. The Division invoices pilotage and dockage based on information received from the terminal operators, Port Pilots and the Marine Exchange on vessel arrivals, departures and moves within POLA facilities. Wharfage is either based on the number of containers or the type of cargo being unloaded. This information is also provided by the terminal operators and is compared to the shipping lines' Manifests and Bills of Lading by Wharfinger Division staff to ensure an accurate inventory of cargo is recorded and used as the basis of POLA fees charged.

The Division has implemented its own policies and procedures and internal management tools to accurately and timely bill agents and terminal operators.

Billings for the following fees were reviewed for a sample of vessels as part of this operational audit:

- Pilotage fees are charged to shipping agents when the vessel requires a POLA pilot to help navigate POLA's waterways. According to Tariff No. 4 Item No. [A] 330, pilotage fees are based on the overall length of the ship, the type of movement (e.g. entering, leaving, and inter-harbor or intra-harbor movements) and gross tonnage. There is a $52.00 surcharge for each move requiring a POLA pilot, as well as miscellaneous fees, if needed.
- Dockage fees are charged to the terminal operator, or shipping agent if no terminal operator is assigned to the berth, for each 24-hour day or fraction[13] of the day. The dockage is based on overall length of the vessel, per Tariff No. 4, Item [A] 480.
- Wharfage fees are charged to terminal operators for the use of wharves or wharf premises and are assessed against inbound and outbound merchandise. The fees are based on one of the following: 1) cargo weight or measure, as specified in Tariff No. 4, 2) a variable rate based on twenty-foot equivalent units (TEU rate) per the terms of the terminal operator's agreement with POLA, or 3) in the case of Eagle Marine, rates frozen at the 1993 Tariff rates.

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[11] A shipping agent is a designated person or agency responsible for handling logistics for shipments and cargo at ports and harbors on behalf of shipping companies, including scheduling any necessary help for navigating and piloting the port's waterways and berths.
[12] Agents are companies hired by the vessel to handle logistics for arrival at the Port.
[13] A fraction of a 24-hour day is charged to terminal operators if the vessel moves to multiple berths during its visit.

To ensure accurate billing and timely collection of revenue, Tariff No. 4 and individual agreements impose certain deadlines for fees and documentation used to calculate fees.

- Pilotage must be paid before a vessel leaves POLA, unless satisfactory credit is obtained.[14]
- Dockage must also be paid before a vessel leaves POLA, unless satisfactory credit is obtained .[15] Refusal or failure to pay the dockage would result in the vessel being placed on the Delinquent List. If on the Delinquent List, the vessel will not be permitted to use any berth without first paying *double* the unpaid dockage, plus $11.03.[16]
- Entities in charge of a vessel or cargo have 15 calendar days, from the date of departure from any wharf, to deliver a full and correct statement (wharfage statement) of all merchandise loaded or discharged at a wharf along with complete and verifiable copies of the vessel's manifest and/or Bills of Lading. Complete inbound and/or outbound container reports must also be delivered to POLA within the same time period. Information can be transmitted electronically directly to POLA through preapproved procedures. Late or missing documentation will result in a penalty charge of 1/30 of two percent per day of the total wharfage charges due, with a minimum penalty charge of two percent of total wharfage.[17]
- As reported by the Wharfinger Division and observed through transaction testing, some agreements require terminal operators to submit statements of merchandise and cargo within 10 calendar days from the date of a vessel's departure. For oil terminals, which report activities on a monthly basis, the deadline is within 45 days after a vessel's departure (30 days plus 15 days after the end of a month), in the event a vessel departed the oil terminal at the beginning of the month.

The Wharfinger Division has implemented its own policies, procedures and management tools to facilitate more timely revenue collection. For instance, Pilotage and Dockage must be invoiced within three days after a vessel's departure per the Wharfinger Manual, Section 6.1.[18] According to the Wharfinger Division, POLA executive management requested that each division develop and report on division specific performance metrics. For the reporting period from July 13, 2013 through May 8, 2014, the Wharfinger Division used the following metrics to ensure timely billing:

- Billing is to be completed within 20 days of vessel departure date for wharfage data submitted electronically to POLA;[19]
- Billing is to be completed within 30 days of vessel departure to invoice date for wharfage based on the tariff rates for cargo; and,

[14] Tariff Item No. [A] 330.
[15] Tariff Item No. [A] 415.
[16] Tariff Item No. [A] 450.
[17] Tariff Item No. [C] 225.
[18] Although the Wharfinger Manual states three days, interviews with Wharfinger staff clarified that invoicing must be done within three *business* days.
[19] Vessels docking at terminals with an agreement with POLA to pay wharfage through a TEU rate submit data electronically to the POLA.

- Billing is to be completed within 15 days of the Wharfinger Division's receipt of the monthly oil wharfage report.

Risk

Wharfage, dockage and pilotage fees amounted to $334,692,000 of the Port's revenues in FY 2012-13[20]. Given the significance of the revenue at stake, it is critical that policies, procedures and controls are in place to ensure efficient and accurate invoicing. Inefficient billing procedures, as well as the lack of, inaccurate or untimely vessel and merchandise data could lead to inaccurate or untimely billing. In turn, inaccurate or untimely billing exposes POLA to the risk of lost revenue and/or lost interest earnings and increased administrative costs to prepare and correct invoices and records.

Audit Tests and Results

Documentation used to determine appropriate pilotage, dockage and wharfage fees, draft and final invoices were reviewed for a sample of seven vessels out of the 7,392 that docked at one of the Port of Los Angeles berths between FY 2011-12 and FY 2013-14. Vessels with containers represented 56.6 percent of the 7,392 vessels, while barge, tanker, dry bulk and general cargo vessels, together, accounted for 32.6 percent of the vessels that arrived and docked during the review period. Exhibit 2.10 describes the types of cargo carried on the sample of vessels.

Exhibit 2.10: Sample Vessels by Type of Cargo

Type of Cargo	Number of Vessels
Containers	3
Barge (Oil)	1
Tanker (Oil)	1
Dry Bulk	1
General Cargo (Autos)	1
Total	**7**

Although the sample consisted of seven vessels, one of the vessels transferred to another berth operated by a different terminal operator during its visit. Therefore, we reviewed invoices for *eight* terminal operators as part of the sample. Exhibit 2.11 illustrates the standard used for charging the eight terminal operators in the sample. Five of the terminal operators in the sample were charged rates per the existing Tariff No. 4. As mentioned above, such charges are based on the type of cargo and its weight or measure. Two of the terminal operators are charged based on a TEU rate according to an annually adjusted rate schedule per the terms of their agreement with POLA. The remaining terminal operator in the sample is charged according to rates frozen at the 1993 Tariff rates, per its existing agreement with POLA. This terminal operator is the only operator that primarily loads and discharges containers at POLA, but is not charged using a TEU rate.

[20] Port of Los Angeles Comprehensive Annual Financial Report, FY 2013-13. Unaudited amounts.

Exhibit 2.11: Sample by Terminal Operator's Rate Charge

Type of Rate Charge	Number of Terminal operators
Tariff No. 4	5
TEU Rate	2
1993 Tariff Rates	1
Total	**8**

With the exception of a few pilotage and dockage invoices billed one to two business days past the three-day requirement, the Wharfinger Division accurately and timely billed the appropriate entities for pilotage, dockage and wharfage fees associated with the sample vessels. Although late invoicing was minimal, delays in invoicing could lead to a possible reduction in revenue collection, as discussed above. Exhibit 2.12 illustrates the results of testing the sample vessels for accurate and timely billing.

Exhibit 2.12: Results of Wharfinger Vessel Revenue Testing

Vessel	Terminal Operator	Pilotage Correct Charge	Pilotage invoiced w/n 3 days	Dockage Correct Charge	Dockage invoiced w/n 3 days	Wharfage Statement/ Data download w/n filing statement deadline	Wharfage Rates correct	Wharfage billed w/n performance metric deadline
APL Korea	Eagle Marine	x	1 day late	x	1 day late	x	x	x
Mark Twain	Yusen (1)	x	1 day late	NA	1 day late	x	x	x
Pacific Mermaid	Trapac (2)	x	x	NA	x	x	x	x
Pacific Mermaid	SSA	x	x	x	x	x	x	x
Antares (3)	Ultramar (4)	NA	NA	x	NA	No rcv'd stamp	x	x
Maple Creek	Pasha Maritime Services	x	2 days late	x	2 days late	x	x	x
Oregon Voyager (5)	Vopack	NA	NA	x	x	x	x	x
Martorell	WWL (6)	x	x	x	x	No rcv'd stamp	x	x

(1) In accordance with its agreement, Yusen is not charged a separate dockage fee.

(2) In accordance with its agreement, Trapac is not charged a separate dockage fee.

(3) The shipping agent for the Antares vessel was not charged a pilotage fee because it did not require pilot services.

(4) As a U.S. barge, the Antares vessel is not required to report to the Marine Exchange, whose daily reports are used by the Wharfinger division to initiate and verify billing for dockage. As such, dockage was charged after receiving the monthly report from Ultramar and verifying dockage through the Fire Department's Declaration of Inspection, required prior to any discharging or loading of oil. Finally, although the monthly report from the oil terminal did not have a stamp indicating when the report was received, the wharfage statement was submitted prior to the filing statement deadline based on the dates for other supporting documentation.

(5) The shipping agent for the Oregon Voyager utilized a Long Beach pilot to navigate to a POLA berth. Therefore, it was not charged a pilotage fee.

(6) Although the wharfage statement for cargo discharged at WWL's terminal did not have a stamp indicating when the report was received, the wharfage statement was submitted prior to the filing statement deadline based on the dates for other supporting documentation.

Other Comments on Division accounts receivable for vessel revenue

As noted above, Eagle Marine (formerly APL) is charged according to the 1993 tariff rates, whereas the other terminal operators handling container cargo are charged according to a TEU rate. As a result, the billing procedures for Eagle Marine varies greatly from the other container terminals, resulting in the use of more staff time and resources while exposing the Division to a higher risk of inaccurate and untimely billing. Exhibit 2.13 illustrates the major differences observed in the billing procedures and documents used to bill the two types of container terminals in the sample.

Exhibit 2.13: Billing Documents Reviewed for Eagle Marine vs. Container Terminals with TEU rates

Eagle Marine – 1993 Tariff Rates	Container Terminals – TEU Rates
• Container reports from the terminal operators	▪ Container reports from the terminal operators
• Hard copy wharfage statements based on total weight or measure, or container counts, from the shipping lines	▪ Electronic data containing container counts from the shipping lines, multiplied by the TEU rate to determine wharfage
• Hard copy Manifests or Bills of Lading listing the cargo in each container by owner, type of cargo, weight or measure, that are “coded” by Wharfinger staff and manually inputted into the Klein system to determine wharfage per the 1993 tariff rates o Manifests/Bills of Ladings could be hundreds of pages long with hundreds of records that need to be coded	▪ No copies or Manifests or Bills of Lading are reviewed since the charge is not based on the type, weight or measure of the cargo, only the number of full or empty containers loaded and discharged
• Wharfage invoices that were at least two pages with at least 20 items with charges	▪ Wharfage invoices that were one page with one to five items with charges
• One shipping line had an unverified[21] wharfage invoice followed by a verified invoice	▪ No unverified invoices

Because of the amount of time and work needed to code, verify and bill for vessels docked at Eagle Marine, more staff resources are devoted to Eagle Marine than other terminal operators. Two Wharfingers are assigned to Eagle Marine on a full time basis. In addition, three staff members are assigned a small portion of Eagle Marine billing as part of their normal workload. In contrast, one to two Wharfingers are assigned to other terminals.

[21] An unverified invoice is based on the wharfage statement submitted to the Wharfinger Division without verification with a Manifest and/or Bills of Lading. According to the Division, each Wharfinger uses their own discretion on when to submit an unverified invoice, subsequently followed by a verified invoice that charges or credits any difference between the unverified and verified wharfage totals. The decision is made on a case-by-case basis, depending on the total amount of wharfage due and the amount of time the Wharfinger believes he/she could complete a verified invoice.

Additionally, when the Division was down two staff members due to retirement or a transfer, mandatory coding days were implemented so that all staff could help with coding Manifests and/or Bills of Ladings for the Eagle Marine terminal and keep billing current based on the Division's performance metrics. To date, seven coding days had been verbally mandated during staff meetings from January 2014 through August 2014. Although no overtime was used to keep Eagle Marine's billing current since January 2014, a reduction in staff and/or an increase in cargo activity in Eagle Marine could lead to the use of overtime to maintain accurate and timely billing for Eagle Marine.

Further, there is a potential risk of inconsistent and incorrect billing when hundreds of cargo items need to be coded and inputted by three or more staff members. In contrast, verifying the number of containers reported by shipping lines, which have an incentive to report fewer containers and reduce charges, with the number of containers reported by terminal operators, which have an incentive to report more containers and increase revenue from charges, has less risk exposure for inconsistent and incorrect billing.

The risk of POLA incurring overtime costs are more than offset by the revenue collected from this tenant and thus may be worth the additional costs if the current billing arrangement is critical in retaining the tenant. In FY 2013-14, Eagle Marine was charged $54.6 million in fees. However, that amount, or potentially more, could be realized without incurring additional Wharfinger Division costs or risking invoice errors if Eagle Marine were charged on a TEU basis like other tenants.

Further, the current arrangement of charging Eagle Marine based on 1993 Tariff rates instead of TEU rates comparable to the other container terminals results in potential lost or missed revenue for POLA. Based on the average FY 2013-14 TEU rates for six container terminals at POLA and the volume of containers loaded and unloaded by Eagle Marine in FY 2013-14, Eagle Marine should have been charged $67,829,836 in wharfage fees, excluding any adjustments or discounts for revenue sharing. Actual revenue would depend on any revenue-sharing discounts agreed to by POLA and the tenant.

Conclusions and recommendations

The tests conducted for a sample of seven vessels showed that the Wharfinger Division is compiling the information needed for invoice shipping tenants timely and accurately. There were only a few minor delays in meeting the Division's own invoicing standards.

Recommendations for the Wharfinger Division

None.

Recommendations for other POLA Divisions

2.14 Port management should consider amending the agreement with Eagle Marine so that it is billed using TEU rates that are now standard for POLA's other terminal operators and shipping lines.

2.F. Capital Assets

Standards and Procedures

The Port's policies and procedures related to capital assets state that capital assets should be maintained on a regular schedule and such costs should be included in the budget. The Controller's Manual and City of Los Angeles Administrative Code Division 7 Chapter 2 on the procedure for disposition of personal property and inventorying furniture and equipment serve as guides.

Risk

Inadequate procedures and controls for tracking and monitoring of capital assets, including inventory inspections, reconciling central and division records, and properly disposing, selling or salvaging capital assets could lead to potential fraud, abuse and misuse of POLA assets.

Audit Tests and Results

The City Controller's Office requires all departments to conduct an inventory of their capital assets every two years and reconcile their assets with the Accounting Division's inventory of capital assets. To comply with this requirement, POLA's Accounting Division maintains a master list of capital assets and updates it biennially by sending the master list to all POLA divisions who are requested to verify its contents, remove any items salvaged or moved to other divisions and add any new items not already on the list.

In its most recent capital asset biennial inventory in June 2013, POLA's central documentation identified only one capital asset as assigned to the Wharfinger Division, a printer acquired in 1994. For the inventory, the Accounting Division requested that the Wharfinger Division confirm the physical location of that asset, review the information provided about it such as its serial number, and indicate any exceptions or discrepancies. The Wharfinger Division signed off on the inventory, indicating they had the printer in their possession and did not provide any other comments or information to the Accounting Division about any other assets.

In discussion with the Wharfinger Division, staff reported that the printer had been previously disposed of and should have been removed from the central list of capital assets. However, the Accounting Division is now awaiting salvage records of the disposal of the 1994 printer to follow its protocol before removing the item from the central inventory. The IT Division is currently searching for the salvage records but has been unable to produce these records as of the writing of this report.

The Wharfinger Division did not report other assets under its control in POLA's 2013 capital asset inventory. Although not required to do so, the Wharfinger Division maintains its own internal records of capital assets to track and manage its inventory. The Wharfinger Division's internal capital asset records do not include the one printer acquired in 1994 but do show 28 assets, including vehicles acquired between 2004 and 2013. All but one of these vehicles are listed in the central inventory records though all of these vehicles except one are listed as under the jurisdiction of divisions other than the Wharfinger Division. This information was not corrected by the Wharfinger Division in its response to the 2013 biennial inventory.

According to the Accounting Division, the one vehicle missing from the central records was salvaged. The Accounting Division reported that it does not have records of the 27 other vehicles as being assigned to the Wharfinger Division. The Accounting Division does not track the location of POLA vehicles so it would be difficult to locate where each of the vehicles are based on information in the central records alone.

POLA's current approach does not account for all vehicle assignments and locations. Discrepancies between the central documentation and Division specific inventory indicate a weakness in internal controls and a risk of potential fraud, abuse and misuse of POLA assets.

Although central documentation did not contain a complete list or accurate locations of vehicles, audit staff conducted an inspection of a sample of vehicles from the Wharfinger Division's records and found them to be located where the Wharfinger Division said they would be located. Additionally, the vehicles were properly identified through decals indicating that the vehicles were POLA property, had correct tag numbers, and correct license plates.

Finally, audit staff reviewed policies and procedures for the use of pool vehicles and physically inspected internal control measures for their assignment to POLA staff. These procedures and internal control measures appeared to be adequate for preventing misuse and abuse by POLA staff.

Conclusions and recommendations

While assets appear to be managed effectively internally at the Division, the Division should submit regular and accurate inventory reports to staff responsible for POLA's central asset list and work to reconcile these lists. Discrepancies between central documentation and Division specific inventory indicate a risk of potential fraud, abuse, and misuse of POLA assets.

Recommendations for the Wharfinger Division

2.15 The Division should work with the Accounting Division to follow POLA's required steps and remove the 1994 printer from the centralized asset ledger.

2.16 The Division should provide complete responses to the biennial review of capital assets by indicating which assets have been salvaged and identifying Division assets that are not on the central inventory to ensure the Accounting Division records are up-to-date and accurate.

Recommendations for other POLA Divisions

2.17 Centralized staff responsible for maintaining POLA's capital inventory should work with all divisions to ensure that they are providing information on all assets on the central inventory, indicating if they are still in the division's possession, have been salvaged, or are on the list in error, and that the divisions identify any assets in their possession not on the centralized inventory.

2.18 Centralized staff responsible for maintaining POLA's capital inventory should follow up with all divisions that have not provided responses for each asset on the centralized biennial inventory so that all assets are accounted for through the inventory process.

2.19 The results of the biennial inventory should be provided to executive management.

2.20 The Accounting Division should create a field in ERP to maintain the location of vehicles and track this information independently of other POLA division records.

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 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 many requirements, the Charter and Administrative Code provide contract solicitation requirements and competitive bidding requirements to which the Port must adhere. The Administrative Code requires that the Board of Harbor Commissioners approve contracts with a value in excess of $150,000; contracts with values of $150,000 or less can be approved by the Port's Executive Director. Until January 2014, the Board of Harbor Commissioners were also required to approve any contract with a term in excess of one year; contracts with terms of one year or less could be approved by the Executive Director. However, as of January, 2014, the Board of Harbor Commissioners granted authority to the Executive Director to approve contacts with terms of three years 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 which 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 (Board). However, all Port Divisions reportedly use a Request for Proposals (RFP) Checklist, with many of the same requirements as in the draft manual. This Checklist was created by CPD in 2010, updated in 2014, and lists all of the steps that the Division or 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

The Wharfinger Division had only one professional services agreement during our audit period. The contract was for live aboard inspection services that are mandated per POLA's Tariff No. 4.[22] We

[22] According to Tariff No.4, to be approved as a live aboard tenant, to live on the vessel, the vessel must comply with Tariff Items 2205, 2210, and 2215, be the legal owner of the vessel, have written authorization from the marina operator and the vessel must be inspected annually for compliance with all applicable USCG, state and federal regulations. Inspections may only be performed by Port of Los Angeles authorized inspectors.

reviewed this agreement to determine compliance with the policies and procedures outlined in the City Charter and Administrative Code as well as the CPD manual and RFP checklist.

According to the Board of Harbor Commissioner's Resolution No. 5821 that was in place during the time this contract was executed, contracts under $150,000 and for less than one year must be authorized by the Executive Director and contracts for one year or more or over $150,000 must be approved by the Board.[23]

Both the pre-approval form for the Wharfinger Division contract, which was signed by the Deputy Executive Director, and the RFP that was published to solicit bids stated that the contract was for a three year term which would have required Board approval. However, the contract that was executed on August 26, 2011 was a one year agreement for $50,000 and was approved by the Executive Director.

Email correspondence between the Wharfinger Division and CPD staff indicates that CPD staff advised the Wharfinger Division after it had selected a contractor to change the contract from a three year to a one year term with renewal options so that it required only Executive Director approval, which is easier to obtain, and that CPD staff would return to the Board the following year to renew the contract. The Wharfinger Division responded by requesting a three year contract as the Division did not want to return to the Board to renew the contract after the first year. CPD staff advised that this was possible; however, it would require Board approval before the contract could be executed and that would take up to a month. The Wharfinger Division reports that it took the advice of CPD staff and changed the contract term to a one year initial contract despite the terms that were publically solicited in the RFP and approved in the pre-approval form because it was quicker and less cumbersome to obtain the Executive Director's approval in the first year and return to the Board later to renew or amend the contract than to go to the full Board and receive approval for a three year contract.

Wharfinger Division staff reported they were advised by senior management to consider re-bidding the contract after the first year which is why they requested a one-year contract. However, there is no documentation of this and after the first year, rebidding did not take place and the contract was amended and extended for an additional two years and for $100,000 for a total of a three year term and a $150,000 value. This amended version of the contract was sent to the Board of Harbor Commissioners for approval.

Conclusions and recommendations

The terms of the Wharfinger Division contract changed from what was solicited in the RFP to what was eventually executed. Although some changes can be expected during the contract negotiation process and may be warranted, the time period announced in the RFP is a critical factor for contractors when

[23] This resolution was replaced by Resolution 13-7574 on November 11, 2013 which authorized the Executive Director to execute contracts that do not exceed $150,000 annually and are for a term of three years or less.

determining whether or not to bid for a POLA contract. The contract time period is significant and should not be changed or divided into smaller time periods after the contract has been awarded for administrative convenience.

Because the Wharfinger Division's three year $150,000 professional services agreement was shortened, it did not receive the same level of scrutiny as it would have had it gone through the Board of Harbor Commissioner's approval process from the onset. Although the professional services agreement eventually received approval by the Board of Harbor Commissioners for the two-year, $100,000 amendment, resulting in a total of three years of contract services for $150,000, execution of the original contract should have been the Board of Harbor Commissioner's decision.

Recommendations for the Wharfinger Division

3.1 The Wharfinger Division should prepare for bidding and executing contract services so that adequate time is allowed for Board approval if required.

Recommendations for other POLA divisions

3.2 The Contracts and Purchasing Division should take steps to ensure that final contract terms are consistent with the RFP and should not alter contract terms to expedite the approval process. If terms are significantly changed from what was publically solicited in the RFP, CPD staff should report such information to the Board of Harbor Commissioners informing them such changes.

4. Grants

None existed within the scope of our audit.