



Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE:** AUGUST 30, 2013

**FROM:** FINANCE

**SUBJECT:** RESOLUTION NO. \_\_\_\_\_ TO APPROVE THE CITY OF LOS ANGELES HARBOR DEPARTMENT'S POOL OF FIRMS TO PERFORM AUDIT SERVICES

**SUMMARY:**

The City of Los Angeles Harbor Department (Harbor Department) proposes to reestablish a pool of consulting firms for a period of three years to augment its internal staff in performing internal management audits of its operations on an as-needed basis. This is the second time the Harbor Department has established an audit pool. The total aggregate not-to-exceed amount anticipated to be spent is \$1,056,000 over the next three years. As management audits and reviews are identified, these will be funded by professional services agreements, contingent upon available funding.

**RECOMMENDATION:**

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that in accordance with the City of Los Angeles Charter Section 1022, work under the subject Agreements is temporary in nature and can be performed more feasibly by independent consultants rather than by City employees;
2. Approve and appoint the audit pool consisting of seventeen (17) selected audit firms for a period of three years each;
3. Authorize the Executive Director or designee to approve Task Orders on a per project basis, contingent upon verification of available funding, as adopted by the Board for each budget year, not to exceed an aggregate amount of \$1,056,000 in total compensation authority among the pool list over the contract period;
4. Authorize the Executive Director to execute and the Board Secretary to attest to said Agreements for and on behalf of the Board; and
5. Adopt Resolution No. \_\_\_\_\_.

**DISCUSSION:**

Background/Context - The Board recognized in 2008 the need to establish a Management Audit section to review its operations, to focus on identifying opportunities for increased operational efficiencies, revenue enhancement, cost reduction, and/or process improvements, including internal controls. In order to accomplish the Harbor Department's

DATE: AUGUST 30, 2013

PAGE 2 OF 5

SUBJECT: POOL OF FIRMS TO PERFORM AUDITS

audit objectives, which in turn support the Harbor Department's strategic goal of strengthening financial performance by advancing process and financial controls, independent audit firms will sometimes need to be brought in to augment Harbor Department staff on an on-call basis. In order to expedite the commencement of audits to meet departmental needs and to minimize the administrative burden of contracting, a pool of firms is being proposed, rather than drafting individual contracts every time an audit need is identified. The concept of a pool of firms has been used extensively by other Harbor Department divisions, as well as the Office of the Controller and Los Angeles World Airports (LAWA).

The Agreements (Transmittal 1) will establish a contractual relationship with each firm for three years and define the general scope of possible audit work that may be undertaken. Also, the Agreements specify a not-to-exceed award amount of \$500,000 that may be given to any firm during the pool period. The Harbor Department does not guarantee any audit or review work will be awarded under these Agreements to any of the pool firms. Further, staff anticipates that the total aggregate compensation will not exceed \$1,056,000 within the three-year pool list life. Of the 18 firms established in 2010, five firms were selected to do performance audits of information technology, port police staffing and deployment, real estate operations, city services fire billings, port wide fire master plan, electrical safety, and selected permit compliance audits. Total spending during that time was \$805,000 (70%).

Due to the variety and timing of work considered by the Management Audit section, all work contracted to pool firms will be initiated and budgeted under Task Orders, issued under these Agreements, which will define the scope of work, maximum cost, schedule, terms of payment, deliverables, work site, personnel or sub-consultants to be utilized, and other pertinent task details. All Task Order job budgets will be established as part of the Management Audit section's fiscal year budget for outside services. To manage and contain the cost of each project appropriately, individual management audits and reviews during the next three years will each be approved by the Executive Director or designee and auditors will only be compensated for work completed.

Services to Be Performed - The independent auditors may provide on-call, as-needed audit and consulting services. These services include, but are not limited to: providing performance and operational reviews, contract compliance services, management assessments and reviews, and staffing reviews; developing information-gathering strategies and tools; analyzing and interpreting the results of data-gathering and ensuring that all data collected supports audit conclusions; and providing written reports for any audit, review, procedure, or other related services provided to the Harbor Department. These services are of a limited duration, require specialized knowledge and expertise, and necessitate flexibility to accommodate task requirements. As mentioned above, the scope of work for each audit or review will be defined by a Task Order.

**SUBJECT: POOL OF FIRMS TO PERFORM AUDITS**

Firm Selection - On May 6, 2013, the Request for Qualifications (RFQ) was posted on the Port of Los Angeles website and the City's Business Assistance Virtual Network (BAVN). Eighteen firms submitted Statements of Qualifications (SOQs) by the May 28, 2013 deadline (Transmittal 2). Seventeen firms were selected.

Staff utilized the RFQ Selection Evaluation Form (Transmittal 3) to evaluate each consultant's SOQ and firms were ranked by their total composite scores consisting of the following criteria and weighting factors: firm qualifications and experience (15%); project organization/personnel (25%); project approach/work plan (25%); rates (20%); and SOQ quality (15%).

The selection committee consisted of three evaluators from the Harbor Department's Finance and Administration Bureau, as well as Management Audit staff from LAWA. Each SOQ was evaluated and ranked independently by each evaluator. Based on the committee's SOQ evaluations and contacts with professional references, the committee recommends Board approval of seventeen (17) Agreements between the Harbor Department and the selected firms. These firms represent the most highly-ranked respondents and will provide a sufficient variety of industry knowledge from which to choose. Also, over 50% of the firms are new to the Harbor Department. One respondent firm scored significantly below the other 17, so a contract is not being pursued with them this time. The table below lists the selected pool firms, including a summary of some of the specialty competencies they reported in their SOQs:

|    | Firm Name               | Info Tech | Staffing | Financial | Real Estate | Security |
|----|-------------------------|-----------|----------|-----------|-------------|----------|
| 1  | Bazilio Cobb            | x         | x        | x         | x           | x        |
| 2  | Beacon Management       |           | x        | x         |             |          |
| 3  | Bronner Group           | x         | x        | x         |             |          |
| 4  | CGR Consulting          | x         | x        | x         |             |          |
| 5  | Citygate Associates     | x         | x        | x         |             | x        |
| 6  | Harvey Rose Associates  | x         | x        | x         | x           |          |
| 7  | KH Consulting           |           | x        |           |             |          |
| 8  | KNL Support Services    |           | x        | x         |             |          |
| 9  | LA Consulting           | x         |          |           |             |          |
| 10 | Mayer Hoffman McCann    |           |          | x         |             |          |
| 11 | McGladrey               | x         | x        | x         |             | x        |
| 12 | Moss Adams              | x         | x        | x         |             |          |
| 13 | Performance Audit Group |           | x        |           |             |          |
| 14 | Perlinski Consulting    | x         |          | x         |             |          |
| 15 | Simpson & Simpson       |           |          | x         |             |          |
| 16 | Sjoberg Evashenk        |           | x        | x         | x           |          |
| 17 | Vasquez                 |           |          | x         |             |          |

**DATE: AUGUST 30, 2013**

**PAGE 4 OF 5**

**SUBJECT: POOL OF FIRMS TO PERFORM AUDITS**

Also, staff believes this pool size will assure a good choice of firms will be available when projects are identified.

As individual audit topics are identified, an assessment will be made whether to use internal Harbor Department staff or consultants. In the latter case, a Task Order, which specifies all project details, as described above, will be distributed to audit pool firms to invite them to bid on the job. Bid respondents will be evaluated in a competitive process by a selection committee who will make the firm selection based on criteria including firm qualifications and specialties, staff availability, approach/work plan, and rates. Funds will be encumbered for the Task Order's scope of work, under the selected firm's contract, administered by the Management Audit section under its fiscal year budget.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is to establish a pool of consulting firms for a three-year period to augment internal staff on an as-needed basis. As an administrative action, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

**ECONOMIC BENEFITS:**

The authorization of this audit pool and execution of the Subject Agreements will have no employment effect.

**FINANCIAL IMPACT:**

Approval of the seventeen proposed personal service agreements will enable the Harbor Department to retain audit and consulting services on an as-needed basis commencing upon the effective dates of each respective agreement for a not-to-exceed amount of \$1,056,000 over a three-year period for all firms. If this action is approved, all expenditures made under these contracts via Task Order will adhere to the budget for cost center 570, account 54290. A total amount of \$352,000 has been budgeted in this account for FY2013-14. Funds to be budgeted for future fiscal years will be requested as part of the annual budget cycle, subject to Board approval. A funding out clause will be included in each of the audit pool agreements.

DATE: AUGUST 30, 2013

PAGE 5 OF 5

SUBJECT: POOL OF FIRMS TO PERFORM AUDITS

**CITY ATTORNEY:**

The Office of the City Attorney has reviewed and approved these Agreements as to form.

**TRANSMITTALS:**

1. Sample Agreement between the City of Los Angeles and Audit Pool Firms
2. RFQ Selection Committee Results and Composite Ranking Scores
3. RFQ Selection Evaluation Form

FIS Approval:  (initials)  
CA Approval:  (initials)



KARL K. Y. PAN  
Chief Financial Officer



MOLLY CAMPBELL  
Deputy Executive Director

APPROVED:

  
for GERALDINE KNATZ, Ph.D.  
Executive Director

KP:JO  
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