



AUDIT COMMITTEE

Item #2

Report to the
Board of Harbor Commissioners

DATE: AUGUST 13, 2015

TO: AUDIT COMMITTEE OF THE BOARD OF HARBOR COMMISSIONERS

**SUBJECT: PROCESS AUDIT REPORTS INFORMATION TECHNOLOGY AND
PORT POLICE DIVISIONS**


Under the direction of Management Audit, Harvey Rose Associates LLC has completed their process audits of the Information Technology and Port Police Divisions 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 the auditees related to the four processes HRA reviewed: contracting, grant management, financial controls, and human resources. We would like to thank the Information Technology and Port Police staff for their cooperation and support during the audit, specifically, Lance Kaneshiro, Chief Tom Gazsi, and Regina Grant. Our audit reports are 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.


EUGENE D. SEROKA
Executive Director

Attachments:

Transmittal 1: Process Audit: Information Technology Division
Transmittal 2: Process Audit: Port Police Division

MB/JO 
Author: J. Olds

Process Audit: Information Technology Division
Port of Los Angeles

January 27, 2015

Submitted by

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January 27, 2015

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 Information Technology Division of the Port of Los Angeles*. 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 our 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 21 recommendations in areas related to the audit scope identified above. Of these recommendations, eight are directed to the Information Technology Division and 13 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 Information Technology 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,

A handwritten signature in blue ink that reads "Fred Brousseau". The signature is fluid and cursive, with a long, sweeping underline.

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 positions, 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.

Information Technology Division Results

The key functions performed by the Information Technology Division (IT Division) are operating, maintaining, developing and monitoring information technology solutions and infrastructure for the Port. The Division's primary goal is to increase departmental operations, effectiveness and productivity through the leveraging and use of technology and systems.

The IT Division's adopted budget for Fiscal Year 2013-14 was \$12,916,489, with 45 approved positions budgeted.

Key findings and issues resulting from this process audit include:

Capital Assets

- Controls over the \$8.5 million worth of capital assets reported as assigned to the Information Technology Division (IT Division) in POLA's centralized capital asset database needs improvement.

- In the Accounting Division's 2013 biennial capital asset inventory, the IT Division did not report the location or status of 139 of the 208 capital asset items reported assigned to the IT Division, or 67 percent of all assets in POLA's centralized database. Further, the Accounting Division did not take any follow-up action to determine the status or location of the 139 capital assets unaccounted for by the IT Division in their inventory response.
- The usefulness of POLA's centralized capital asset inventory is limited because the Accounting Division does not identify each asset by a standardized identifier such as serial number or purchase order number.
- The location and status of some capital assets cannot be confirmed as some listings in POLA's centralized capital asset database actually refer to multiple items, such as server equipment. In one instance, the location of such equipment could not be confirmed by the audit team since there were no accessible identifying serial or other numbers for each piece of equipment.
- Two of six randomly selected capital asset items in the centralized database selected by the audit team for physical inspection had been salvaged in 2013 according to IT Division records. However, the items were still listed as active in POLA's centralized capital asset database as of September 2014.
- The IT Division maintains a separate asset tracking system called Track-it but most of the 3,037 items recorded in that system are not capital assets (defined by POLA as items with a value of \$5,000 or more) and no IT Division staff person is responsible for ensuring the accuracy or completeness of the records in this system.

Budgeting

- Budgeting for the IT Division could be improved to reduce significant variances between the Division's budgeted and actual expenditures for FYs 2011-12 through 2013-14, which reached \$2.9 million in one year.
- Though it should be fairly straightforward to estimate for the budget, the IT Division's actual expenditures on salaries and benefits varied from budgeted amounts by a range of approximately \$239,000 to \$370,000 for the three fiscal years reviewed for this audit, indicating a need for improved budgeting of these costs.
- Actual IT Division expenditures for Capital Equipment for FYs 2011-12 and 2012-13 were overstated in POLA budget documents by \$1.6 and \$3.1 million, respectively. The amounts reported were for multiple years of expenditures rather than for the individual budget years, reducing the clarity and transparency of POLA's public budget documents.
- The IT Division's actual Allocated Expenses, or Division costs charged to POLA's Capital Budget, varied by a range of \$1.2 million to \$1.5 million compared to budgeted amounts in each of FYs 2011-12 through 2013-14. Planning for projects that the Division charges to the Capital Budget needs to be better managed for greater IT Division budget accuracy.
- The IT Division underspent compared to its monthly budget for ten of the twelve months of FY 2013-14, underscoring the need for the Division to review its expenditures and adopt a budget that better reflects its actual needs.

Contracting, purchasing and use of POLA American Express cards

- POLA procedures do not allow placing orders with vendors until these procurement control documents have been produced and approved but a number of vendors sent invoices or provided goods and services for the IT Division before required purchase requisitions and/or purchase orders had been approved and produced for the orders.
- The IT Division has consistently not provided timely documentation of its expenses charged to its POLA American Express card to the Accounting Division; in one instance, the documentation was provided 295 days over the required 10 days. The Accounting Division has paid charges on the Division's card on multiple occasions without having received required documentation.

Human resource management

- The IT Division could improve its human resource management by keeping better records of employee turnover, performance evaluations and grievance process timelines.

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

- Monthly expenditure reports are not being effectively used by the Information Technology or Financial Management divisions as a budget management tool.
- Adherence to and enforcement of American Express card, purchase order and contractor payment policies could be improved by the Accounting Division.
- Contract policies and procedures drafted by the Contracts and Purchasing Division have not been formally adopted by POLA management to ensure consistent Port-wide implementation.

A summary table of recommendations directed to the Information Technology Division and other POLA divisions as a result of this audit is presented starting on the next page.

Summary of Recommendations: Information Technology Division Process Audit

| Human Resource Management | | |
|--|-----------------|--|
| Issue | Recommendations | |
| | | The Information Technology Division should: |
| The Information Technology Division does not monitor the length of the hiring cycle for its personnel. | 1.1 | Monitor the hiring cycle time to better manage its personnel and work capacity. The IT Division plays a key role in the Port’s operations, and management of its personnel is necessary to providing and maintaining Port-wide information technology infrastructure and operations. |
| The Information Technology Division does not keep records to ensure its employees’ performance evaluations are completed timely. | 1.2 | Track the date of staff performance evaluations and ensure that each employee receives an annual performance evaluation in a timely manner. |
| The Information Technology Division does not keep records of all grievance activity dates to ensure it is meeting all grievance timeline requirements. | 1.3 | Take steps to ensure that dates are recorded for the steps in the grievance process in which they are involved. |
| Financial Controls | | |
| Issue | Recommendations | |
| | | The Information Technology Division should: |
| The Information Technology Division’s actual expenditures varied significantly from budgeted amounts between FYs 2011-12 and 2013-14. | 2.1 | Review its budgets and expenditures annually in conjunction with a POLA budget analyst and adjust budgeted amounts for succeeding years according to historical expenditures and actual need. |

Summary of Recommendations: Information Technology Division Process Audit

| Issue | Recommendations | |
|---|-----------------|--|
| | | The Information Technology Division should: |
| Significant variances between the Division’s actual and budgeted expenditures during the three years reviewed was for Allocated Expenses covering Division work charged to the Capital Budget. | 2.2 | Work with other POLA divisions to more accurately assess work that will be performed by the IT Division on capital projects for each budget year and identify and include amounts that will be recovered for such work in the IT Division budget, including a more accurate assessment of the Division’s indirect costs to be charged to the Capital Budget. |
| | | The Accounting Division should: |
| POLA’s Accounting Division does not budget benefits by individual employee, partly explaining variances of \$200,000 and more between budgeted and actual salaries and benefits expenditures during the three years reviewed. | 2.3 | Prioritize and expedite the implementation of calculating employee-specific benefits through ERP to better manage budgeting and expenditures on POLA employee benefits. |
| | | The Accounting Division should: |
| Significant variances between actual and budgeted expenditures during the years reviewed were found for Allocated Expenses for Division work charged to the Capital Budget. | 2.4 | Work with the Financial Management Division to streamline the process of budgeting and recording actual Allocated Expenses for POLA divisions in order to plan for and better monitor the spending on these accounts. |
| | | The Financial Management Division should: |
| Significant variances between actual and budgeted expenditures during the years reviewed were found for Allocated Expenses for Division work charged to the Capital Budget. | 2.5 | Work with the Accounting Division to streamline the process of budgeting Allocated Expenses for POLA divisions in order to ensure that such budgeting adequately captures the expenses divisions incur and charge to the Capital Budget. |

Summary of Recommendations: Information Technology Division Process Audit

| Issue | Recommendations | |
|---|-----------------|--|
| POLA's budget document for FY's 2011-12 and 2012-13 reported multiple years of capital equipment expenditures as single year expenditures, resulting in variances with the budgeted amounts of \$1.6 and \$3.1 million, respectively. | 2.6 | Ensure that accurate budgeted and actual expenditures are reported in official public POLA budget documents to accurately reflect Port operations. |
| | | IT Division management should: |
| 13 of 23 IT Division procurements reviewed were not in compliance with POLA procurement and payment policies and procedures as either vendor invoices had been created or services had been provided before a purchase requisition and/or a purchase order had been created and approved. | 2.7 | Take steps to ensure that Division staff is not receiving goods and services prior to a requisition or purchase order being generated. |
| | | The Accounting Division should: |
| The Accounting Division paid some IT Division vendor invoices even though they predated approval of a purchase requisition and/or purchase order. | 2.8 | Adopt a policy of not processing invoices if the invoice date precedes a purchase requisition or purchase order date without written explanation from a manager from the appropriate division. |
| In some instances, the Accounting Division paid IT Division American Express charges without having received required expense reports and documentation from the Division. | 2.9 | Enforce Division submission of expense reports with all supporting documentation in a timely manner in order to ensure compliance with relevant policies and procedures and withhold payments to AMEX, or require that employee cardholder make payment, until all required documentation has been provided from the divisions |

Summary of Recommendations: Information Technology Division Process Audit

| Issue | Recommendations | |
|---|-----------------|---|
| | | The Accounting Division should: |
| POLA's AMEX card Policy and Procedures have not been updated to account for processes that are now automated in the ERP system. | 2.10 | Update the AMEX Policy and Procedures to incorporate ERP functions and processes to provide useful guidelines for Division use of AMEX charge cards. |
| Employees using POLA AMEX cards for unauthorized uses face no consequences other than having to repay such charges if detected. | 2.11 | Update the AMEX Policy and Procedures to reflect greater punitive measures for violation of the acceptable uses of AMEX cards to ensure compliance. |
| | | The Information Technology Division should: |
| The IT Division maintains an internal database of IT equipment but no staff member is responsible for its accuracy or completeness. | 2.12 | Expand and finalize internal written policies and procedures covering the procurement, tracking/location, transfer, and salvage of equipment to cover those that are considered capital assets (valued at \$5,000 or more). Such policies should include designated staff responsibilities and a requirement that Division staff respond to every item listed on the biennial port equipment inventory and work with the Accounting Division to resolve any discrepancies or outstanding items. |
| | | Centralized POLA staff responsible for maintaining POLA's capital inventory should: |
| The IT Division did not provide information for 139 of the 208 items on the capital assets biennial inventory conducted by the Accounting Division in 2013. | 2.13 | Follow up and work with the Information Technology Division and other divisions when such division staff does not respond to an item or when staff indicates that additional information is required to identify an asset or when an item has been transferred or has been salvaged. |

Summary of Recommendations: Information Technology Division Process Audit

| Issue | Recommendations | |
|---|-----------------|---|
| | | The Accounting Division should: |
| The IT Division is not able to identify many assets assigned to it according to the Accounting Division's asset database in ERP because standard identifiers such as serial numbers or purchase order numbers are not used. | 2.14 | Consult with Port divisions on the creation of one or more fields in the asset database (ERP) to assist divisions in identifying assets. The Accounting Division should at least consider adding the asset purchase order number and/or contract number. |
| POLA executive management is not receiving summary reports on the results of the biennial asset inventories. | 2.15 | Provide a summary of the results of the biennial inventory, after discrepancies have been resolved between the Accounting Division and all other divisions, to executive management. |
| Contracts | | |
| | | The Information Technology Division should: |
| The task number on an invoice for one of the seven contracts reviewed for this audit was miscoded by the IT Division and no documentation of correction of this matter could be found. | 3.1 | The IT Division should ensure that all invoices and documentation are consistent with the executed contract. |
| | | The Contracts and Purchasing Division should: |
| POLA's contract procedures manual and RFP Checklist have been in draft status since at least 2013 and 2010, respectively, never having been approved by the Board of Harbor Commissioners and/or executive management. | 3.2 | Submit the RFP Checklist and the draft contract manual to the Board of Harbor Commissioners and/or POLA Executive Director for approval and to be disseminated to all POLA divisions so that all POLA employees are aware of what documentation is required to execute and manage a contract. |

Summary of Recommendations: Information Technology Division Process Audit

| Issue | Recommendations | |
|---|-----------------|--|
| | | The Accounting Division should: |
| The Accounting Division was unable to locate an invoice and supporting documentation from the sample reviewed for this audit and reported that the documentation may have been misfiled or pulled and not returned. | 3.3 | Improve their records management procedures to ensure that all procurement and contract documentation is correctly filed and easily retrievable. |

Process Audit: Information Technology Division

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

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

Phase 1 Risk Assessment

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

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

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

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

Phase 2 Audit Objectives

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

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

Summary of Recommendations: Information Technology Division Process Audit

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 Information Technology Division

The Port's Information Technology Division (IT Division) is part of POLA's Finance and Administration Group and is responsible for operating, maintaining, developing and monitoring information technology solutions and infrastructure for the Port. The division's primary goal is to increase departmental operations, effectiveness and productivity through the leveraging and use of technology and systems.

The Division's adopted budget for Fiscal Year 2013-14 was \$12,916,489, with 45 approved positions budgeted.

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 IT Division were budgeted at \$6,664,230 in the Port's FY 2013-14 budget, or 52 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.

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. Not attending statutorily or city-wide required trainings indicate that employees are not properly prepared to handle certain unpredictable situations and could make the Port liable if harm was done. 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. Lack of compliance with required grievance procedures may be exacerbating such problems.

The results of testing in each area for the Information Technology (IT) Division are now presented.

Standards and Procedures

Turnover and Hiring

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.

Training

California Government Code 12950.1 requires that all POLA supervisors and managers complete a sexual harassment prevention training every two years. All POLA employees must also complete a Disaster Service Worker Training course at least once in accordance with the City of Los Angeles's Executive Directive No. 16 issued March 17, 2011 and an Americans with Disabilities Act (ADA) training course facilitated by the City's Department on Disability (DoD) in accordance with the City of Los Angeles's Executive Directive No. 26 issued December 21, 2012. Other than these three trainings, there are no training requirements specific to IT Division staff such as receiving a certain number of hours of continuing education as required for some professions.

Performance Evaluations

The Port's Employee Manual Section 2.110 states that each employee will be evaluated over a year-long rating period ending approximately three months prior to the employee's "salary anniversary" date, or the date an employee was given their most recent salary. The Human Resources Division reports that the policy in the Port's Employee Manual is no longer in effect and has been replaced by a new policy pursuant to a 2010 directive by the former Executive Director in which performance evaluations are to be conducted once a year for every employee, but not on a specific date. Human Resources Division staff was unable to provide documentation of this policy change made by the Executive Director.

Grievances

City and Port policies and procedures and Memorandums of Understanding (MOU) with labor groups representing POLA employees provide specific steps that should be followed in cases of grievances filed by employees. Each employee is covered by the MOU that is associated with their job classification and explains the grievance process and the timeframe for completion of each step. It is important to note, however, that the time limits between steps of the grievance procedures may be extended by mutual agreement.

Generally, the first step is an informal discussion with the grievant's immediate supervisor and a response from the immediate supervisor. If the grievance is not resolved, the second step is for the grievant to submit a formal grievance and meet with the Department Head who will also provide a response. If the grievance is still not resolved, the third step is for the grievant to appeal and meet with the Executive Director who will provide a response. Mediation or arbitration would be the final step.

Human Resources Division staff report that their involvement during the informal discussion phase of the grievance process varies by division; however, if the grievance is escalated to the second step, 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.

Audit Test and Results

1.A. Turnover and Hiring

In FY 2011-12 and FY 2012-13, 45 positions were approved in the Division's budget. 44 positions were approved in the FY 2013-14 budget. Due to limitations in data available at the Port and at the Division and due to the absence of City and Port policies and procedures regarding controls on turnover and hiring, we calculated two rates in order to assess the Division's turnover, vacancy and hiring practices compared to two benchmarks. 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.¹

The data received from the Port's HR Division for FY 2011-12 is inconclusive as to the number of employees that left the IT Division. The HR Division's monthly tracking report showed that five employees left the Division, which resulted in a 12.1 percent turnover rate.² However, the HR Division also provided data that shows that only 4 employees left the IT Division, which resulted in a 9.7 percent turnover rate.

In FY 2012-13, one employee left the Division, which resulted in a turnover rate of 2.3 percent. In FY 2013-14, two employees left the Division, which resulted in a turnover rate of 4.7 percent. The Division's turnover rates for FYs 2012-13 and FY 2013-14 and the two rates calculated for FY 2011-12 are all 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. As shown in Exhibit 1.1, BLS calculated turnover rates of: 16.1 percent for calendar year 2011, 16.3 percent for calendar year 2012 and 16.0 percent for calendar year 2013 for state and local government in the United States, or an average of 16.1 percent for all three years. The IT Division's turnover rates were lower than the national rates for all years reviewed.

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

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

Exhibit 1.1: IT Division Turnover Rate Compared to National Averages

| | IT Division Turnover Rate | National Turnover Rate for State and Local Government² |
|------------|----------------------------------|--|
| FY 2011-12 | 9.7 – 10.12% ¹ | 16.1% |
| FY 2012-13 | 2.3% | 16.3% |
| FY 2013-14 | 4.7% | 16.0% |
| Average | 5.6 – 5.7% | 16.1% |

Source: HR Division and BLS Job Openings and Labor Turnover Survey.

¹ Range is due to two discrepant reports of the number of IT Division on the number employees who left the IT Division in FY 2011-12.

² National rates are for calendar years 2011, 2012, and 2013.

Vacancy Rate

As shown in Exhibit 1.2, Port records show that the IT Division’s average vacancy rate for FY 2011-12 was 8.0 percent, 3.1 percent for FY 2012-13, and 3.0 percent for FY 2013-14, or an average of 4.7 percent for the three years. The average vacancy rate for all POLA divisions was 7.0 percent in FY 2011-12, 4.1 percent for FY 2012-13, 5.9 percent for FY 2013-14, or an average of 5.7 percent for all three fiscal years. The Division’s average vacancy rate was higher than all Port divisions in FY 2011-12 but lower in FYs 2012-13 and 2013-14, and it was lower on average for the three years compared to the POLA-wide average.

Exhibit 1.2: IT Division Vacancy Rate Compared to all POLA Divisions

| | IT Division Vacancy Rate | Vacancy Rate for all POLA Divisions |
|------------|---------------------------------|--|
| FY 2011-12 | 8.0% | 7.0% |
| FY 2012-13 | 3.1% | 4.1% |
| FY 2013-14 | 3.0% | 5.9% |
| Average | 4.7% | 5.7% |

Source: HR Division and Bureau of Labor Statistics Labor Job Openings and Labor Turnover Survey, August, 2014

1.B. Training

To determine compliance with Port-wide training requirements, we: 1.) reviewed training records for a sample of 14 IT employees, or 31 percent, of the 45 employees budgeted in FY 2012-13, and, 2.) reviewed the POLA-wide training completion reports provided by the Port's Human Resources Division and, 3.) conducted a manual review of the IT Division's employee personnel files. Our objective was to determine if IT Division employees were compliant with the State mandate that all POLA supervisors and managers complete a sexual harassment prevention training every two years and the City requirement that all POLA employees complete a Disaster Service Worker Training course at least once.

In FY 2013-14, ten of the IT Division employees in the sample were required to take the City's sexual harassment prevention training on or before January 1, 2014. According to the Human Resources Division training completion reports and our review of personnel files, all ten employees in the sample completed the training in October and December of 2013. In 2011, two years prior to the October/December 2013 training, nine employees in the sample were required to take the sexual harassment training and seven completed the training by January 1, 2012, while two did not complete the training in the required timeframe.

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

As of August 11, 2014, all IT Division employees in the sample had taken the City's one-time Disaster Service Worker Training course, according to training completion reports provided by the Port's Human Resources Division. With regard to the mandatory one-time ADA training for all POLA employees that the City's Department on Disability is facilitating, there is currently no deadline to complete the training course; however, as of September 2014, six IT Division employees had not completed the training. The IT Division did not report any elective training during our audit review period.

1.C. Performance Evaluations

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, we reviewed the personnel files of the same 14 IT employees that were sampled and reviewed the dates of their performance evaluations for Calendar Years 2011, 2012 and 2013 to determine whether these evaluations were in compliance with the Port's practice. We found that in all three calendar years, performance evaluations were completed for the majority of IT Division employees in our sample and within two months of the date of their previous year's performance evaluation, as shown in Exhibit 1.3 below.³

**Exhibit 1.3: Performance Evaluation Completion Rates
Information Technology Division
Calendar Years 2011 through 2013**

| Performance Evaluation Status | Evaluations Completed Timely in CY 2011 | Percentage | Evaluations Completed Timely in CY 2012 | Percentage | Evaluations Completed Timely in CY 2013 | Percentage |
|--------------------------------------|--|-------------------|--|-------------------|--|-------------------|
| Completed | 14 | 100% | 10 | 71% | 10 | 77% |
| Not Completed | 0 | 0% | 4 | 29% | 3 | 23% |
| Total | 14 | 100% | 14 | 100% | 13¹ | 100% |

Source: POLA Personnel Files

¹One employee from the sample was no longer employed at the Port in 2013.

³ Two employees that had their evaluations completed five and six months late.

1.D. Grievances

To determine compliance with the grievance process, we reviewed all documentation for the one grievance filed by IT Division employees between FYs 2011-12 and FY 2013-14, provided by POLA's Human Resources Division. We determined which MOU covered the grievant and used it to test for compliance. We also interviewed Human Resources Division staff.

For the one grievance that was submitted, we found that the informal discussion with the grievant's immediate supervisor and the immediate supervisor's response was in compliance with the MOU time frames. However, as the grievance escalated, there was no record of when the grievant met with the Deputy Executive Director and 41 business days passed before a response was provided to the grievant after the grievance was initiated, which is 21 days over the 20 day time frame stated in the MOU.⁴ Since the grievance was not resolved at the second step, the grievant appealed to the Executive Director. The appeal was submitted within the MOU timeframe; however, again, there was no record of when the grievant met with the Executive Director and it took approximately six months for the Executive Director to issue a written response, which is out of compliance with the 30 day time frame stated in the MOU.⁵

A request for arbitration was made shortly after receiving the Executive Director's response; however, the two parties agreed to enter into mediation instead. The grievant's union representative requested that the Employee Relations Board appoint a mediator, which should occur ten days after receiving the request for mediation; however, compliance could not be tested because the date of the request for mediation was not recorded.

Conclusions and Recommendations

Turnover and Hiring

The length of time it takes to fill vacant positions was not able to be examined as neither the Division nor Human Resources keeps adequate records of this.

The IT Division had a lower turnover rate for all three years than the national turnover rates calculated by the U.S. Bureau of Labor Statistics (BLS) for state and local government, the most comparable category in the BLS's calculations. In FY 2011-12, the Division had a slightly higher vacancy rate than other POLA divisions. However, in FY 2012-13 and FY 2013-14, the Division had lower vacancy rates than the other divisions and it was lower on average for all three years.

⁴ The 20 days consists of the 10 day period that management has to meet with the grievant after the grievance is initiated and the additional 10 day period to issue a response after the meeting.

⁵ The 30 days consists of the 10 day period that the Executive Director has to meet with the grievant and the additional 20 day period to issue a response after the meeting.

Training

For City-wide training requirements, the IT Division is compliant with the one-time Disaster Service Worker Training requirement for all POLA employees and is almost fully compliant with the one-time mandatory ADA Training required of all POLA employees, although no deadline has been established for the latter mandatory training. The IT Division is currently in compliance with the sexual harassment prevention training but several employees were not compliant in FY 2011-12. We could not verify the non-compliant employees' attendance in FY 2011-12 because 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, according to Human Resources Division staff.

Performance Evaluations

Based on the Port's reported practice of conducting performance evaluations annually, in 2011, 100 percent of the 14 IT Division's employees that were sampled had completed performance evaluations. In 2012, the completion rate declined to 71 percent and increased slightly in 2013 to 77 percent. Only two of the evaluations over the three year audit period were not within two months of the date of their previous year's performance evaluation indicating that, overall, the IT Division is conducting performance evaluations in a timely manner. To ensure that the completion rates continue to increase, IT Division management should systematically track performance evaluation dates.

Grievances

The IT Division had one grievance submitted during the audit period, FY 2011-12 through FY 2013-14. Several of the steps in the grievance process were out of compliance with the timeframes stated in the grievant's MOU including responses from the Deputy Executive Director and the Executive Director. Also, several dates were not recorded for significant events that occurred during the grievance process including the dates that the grievant met with the Department Head and Executive Director.

Human Resources Division staff noted that due to the number of parties involved in the grievance process, 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 as there are several parties that may have contributed to the delays.

Recommendations for the IT Division

- 1.1 The IT Division should monitor the hiring cycle time to better manage its personnel and work capacity. The IT Division plays a key role in the Port's operations, and management of its personnel is necessary to providing and maintaining Port-wide information technology infrastructure and operations.

- 1.2 The IT Division should track the date of staff performance evaluations and ensure that each employee receives an annual performance evaluation in a timely manner.
- 1.3 The IT Division should take steps to ensure that dates are recorded for the steps in the grievance process in which they are involved.

2. Financial Controls

Why this function was audited

The specific financial controls areas tested for this audit were:

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

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

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

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

The results of testing in each area for the Information Technology 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 and managing its expenditures, the Division is at risk of spending beyond their allocations, of not completing projects on time if funds are exhausted, and for fraudulent activities and expenditures. On the other hand, if a division is consistently underspending relative to its budget, POLA is at risk of tying up its resources through budget appropriations in excess of actual need.

Audit Tests and Results

Annual adopted and adjusted budgeted and actual expenditure data for the Information Technology Division for FYs 2011-12, 2012-13, and 2013-14 and monthly data for FY 2013-14 were obtained for review from the Financial Management Division from POLA's ERP system. We examined any over- or under- budgeting by fiscal year, by month, and by accounts. During our review, the Division brought it to the audit team's attention that the amounts reported by the Financial Management Group in official budget documents were inaccurate; these amounts were revised throughout the audit review to those identified as accurate by the Financial Management Group and the IT Division.

Fiscal Years FY 2011-12 – 2013-14 Analysis

The Budget Operating Guidelines state that POLA divisions are expected to operate within their adopted budget. In FY 2011-12 and FY 2012-13, the Information Technology Division's net expenditures were close to its adopted budget, going over slightly in both years. However, in FY 2013-14, the Division's net expenditures were lower than its adopted budget by \$2,878,958, or 22 percent, as shown in Exhibit 2.1 below. The underspending was largely due to the IT Division expending substantially more on Allocated Expenses for capital projects than originally budgeted. According to the Financial Management Division, Allocated Expenses are amounts recovered by divisions from POLA's Capital Budget to cover the costs of divisions' direct and indirect costs incurred in supporting capital projects. Allocated Expenses are recorded as reductions in Operating Budget expenditures for divisions that perform work charged to the Capital Budget since they represent a "transfer in" to that division from the Capital Budget. Thus, the IT Division's FY 2013-14 expenses on capital projects far beyond the budgeted, or planned, amount

resulted in the IT Division recording total expenses significantly below its budgeted amount for that year.

While some variance between budgeted and actual expenditures can be expected for any division as conditions change during the year compared to what was expected when the budget was prepared, the amount in FY 2013-14 was significant and warrants a review of Division and POLA budgeting practices, particularly of Allocated Expenses, discussed further below.

**Exhibit 2.1: Actual Expenses Relative to Adopted Budget Amounts for Total Expenses
IT Division, FYs 2011-12 – 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|---------------------------------|------------------|-----------------|----------------------|
| Total Adopted Budget | \$13,540,934 | \$12,547,118 | \$12,916,489 |
| Total Actual Expenditures | \$13,717,373 | \$12,571,086 | \$10,037,531 |
| Actual Expenditures less Budget | \$176,439 | \$23,968 | (\$2,878,958) |
| % Over/(Under) Budget | 1% | 0% | (22%) |

Source: Financial Management Division (ERP)

The IT Division’s budget is comprised of four main categories of expenses: (1) Salaries and Benefits, (2) Other Direct Expenses, (3) Capital Equipment and 4) Allocated Expenses. Exhibit 2.2 below shows the amounts for each category as reported in official public POLA budget documents. As can be seen, the IT Division overspent its base budget for FYs 2011-12 and 2012-13 but these over-expenditures were mostly offset by the Division’s Allocated Expense reimbursements from the Capital Budget. In FY 2013-14, the IT Division also spent over \$1 million less than budgeted for Other Direct Expenses in addition to being reimbursed for Allocated Expenses from the Capital Budget in excess of the amounts budgeted, resulting in a net underspending for the year of approximately \$2.9 million. However, recovering more than budgeted from the Capital Budget through Allocated Expenses means that more was expended on capital projects by the IT division than planned and other work originally anticipated for the year was not conducted.

**Exhibit 2.2: Actual Expenditures vs. Adopted Budget
as Reported in Official POLA Budget Records
IT Division, FYs 2011-12 through 2013-14**

| | FY 2011-12 | | | FY 2012-13 | | | FY 2013-14 | | |
|------------------------------|---------------------|---------------------|--------------------|---------------------|---------------------|--------------------|---------------------|---------------------|----------------------|
| | Budget | Actual | Difference | Budget | Actual | Difference | Budget | Actual | Difference |
| Salaries and Benefits | \$6,645,993 | \$6,368,197 | (\$277,796) | \$6,618,514 | \$6,857,721 | \$239,207 | \$6,664,230 | \$7,034,803 | \$370,573 |
| Other Direct Expenses | \$6,012,036 | \$6,169,261 | \$157,225 | \$7,002,070 | \$5,054,243 | (\$1,947,827) | \$6,163,500 | \$5,098,786 | (\$1,064,714) |
| Capital Equipment | \$1,701,667 | \$3,290,889 | \$1,589,222 | \$565,000 | \$3,665,748 | \$3,100,748 | \$645,000 | * | (\$645,000) |
| Subtotal | \$14,359,696 | \$15,828,347 | \$1,468,651 | \$14,185,584 | \$15,577,712 | \$1,392,128 | \$13,472,730 | \$12,133,589 | (\$1,339,141) |
| Direct Allocations | (\$818,762) | (\$833,996) | (\$15,234) | (\$1,238,466) | (\$1,028,237) | \$210,229 | (\$277,454) | (\$472,820) | (\$195,366) |
| Indirect Allocations | \$0 | (\$1,276,978) | (\$1,276,978) | (\$400,000) | (\$1,978,388) | (\$1,578,388) | (\$278,787) | (\$1,623,238) | (\$1,344,451) |
| Tota Net Expenditures | \$13,540,934 | \$13,717,373 | \$176,439 | \$12,547,118 | \$12,571,087 | \$23,969 | \$12,916,489 | \$10,037,531 | (\$2,878,958) |

Source: Financial Management Division (ERP)

Each component of the IT Division’s budget is now discussed.

Salaries and Benefits

In FY 2011-12, the Division underspent its Salaries and Benefits budget by \$277,796, or 4 percent of the annual budget, as shown in Exhibit 2.3 below. However, the Division overspent its Salaries and Benefits budget in Fiscal Years 2012-13 and 2013-14. As shown, the Division’s overspending on Salaries and Benefits was \$239,607, or 4 percent of the budget in FY 2012-13, and \$370,573, or 6 percent in FY 2013-14.

**Exhibit 2.3: Actual Expenditures vs. Adopted Budgets for Salaries & Benefits
as Reported in Official POLA Budget Records
IT Division, FYs 2011-12 – 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|------------------------------------|--------------------|------------------|------------------|
| Salaries & Benefits Adopted Budget | \$6,645,993 | \$6,618,514 | \$6,664,230 |
| Salaries & Benefits Actuals | \$6,368,197 | \$6,857,721 | \$7,034,803 |
| Actual less budget | (\$277,796) | \$239,207 | \$370,573 |
| % Over/(Under) Budget | (4%) | 4% | 6% |

Source: Financial Management Division (ERP)

The overspending identified in Exhibit 2.3 above is primarily due to employee benefits expenditures. The Financial Management Division reported that, for the three years reviewed for this audit, an average benefits rate was calculated and budgeted for all POLA employees organization-wide, which mostly resulted in overstating or understating actual benefits expenditures by individual division. According to the Financial Management Division, benefits can now be calculated more precisely for each employee through ERP. The Financial Management Division applied this calculation for employee-specific benefits in FY 2012-13, but the Accounting Division was not yet able to adapt to this process. Thus, the Financial Management Division reverted back to using the average benefits rate in FY 2013-14 and will continue to use this method until the Accounting Division is able to use the ERP function. According to the Accounting Division, no changes can be made until the Port alters its Payroll Accounting process.

Other Direct Expenses

As shown in Exhibit 2.4 below, in the past two fiscal years, the IT Division has considerably underspent on its budget for Other Direct Expenses, or non-salary and benefits operating expenditures. In FY 2012-13, the Division underspent by \$1,947,827, or 28% of its annual budget. In FY 2013-14, the Division underspent by \$1,064,714, or 17% of its annual budget.

**Exhibit 2.4: Actual Expenditures vs. Adopted Budgets for Other Direct Expenses
as Reported in Official POLA Budget Records
IT Division, FYs 2011-12 – 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|-------------------------------|------------------|----------------------|----------------------|
| Other Direct Expenses Budget | \$6,012,036 | \$7,002,070 | \$6,163,500 |
| Other Direct Expenses Actuals | \$6,169,261 | \$5,054,243 | \$5,098,786 |
| Actual Less Budget | \$157,225 | (\$1,947,827) | (\$1,064,714) |
| % Over/(Under) Budget | 3% | (28%) | (17%) |

Source: Financial Management Division (ERP)

According to IT Division management, the FY 2012-13 budget included an overlap of expenses for both the mainframe and the ERP system. However, actual expenditures for FY 2012-13 were significantly lower than budgeted expenses, as the IT Division explains it was able to reduce costs by eliminating mainframe costs more expediently than anticipated and negotiated partial software maintenance fees for this early completion.

As shown in Exhibit 2.4 above, the FY 2013-14 budget for Other Direct Expenses was reduced from FY 2012-13. However, the Division still underspent on its FY 2013-14 Other Direct Expenses budget by 17 percent, indicating that the Division's budget could have potentially been further reduced to free up resources for other POLA operations.

Capital Equipment

In addition to Salaries and Benefits and Other Direct Expenses, the Division has a Capital Equipment budget, as shown in 2.5 below.

**Exhibit 2.5: Actual Expenditures vs. Adopted Budgets for Capital Equipment
as Reported in Official POLA Budget Records
IT Division, FYs 2011-12 through 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|---------------------------|--------------------|--------------------|--------------------|
| Capital Equipment Budget | \$1,701,667 | \$565,000 | \$645,000 |
| Capital Equipment Actuals | \$3,290,889* | \$3,665,748 * | \$483,955 |
| Actual Less Budget | \$1,589,222 | \$3,100,748 | (\$161,045) |
| % Over/(Under) Budget | 93% | 549% | -25% |

Source: Financial Management Division (ERP)

*According to the Financial Management Division, Capital Equipment actual expenditures for FY 2011-12 and FY 2012-13 presented in official POLA budget records reported a rolling sum of the current and previous fiscal years. The reporting was corrected in FY 2013-14.

According to the Financial Management Division, the Capital Equipment actual expenditures reported for FY 2011-12 and FY 2012-13 were rolling sums of the current and previous fiscal years, which explains the significant variance between the Capital Equipment budget and actual expenditures the Financial

Management Division reported in the Adopted Annual Budget Supporting Schedules for FY 2011-12 and FY 2012-13 and shown in Exhibit 2.5 above. The reporting process was corrected in FY 2013-14.

After the first draft report of this report was provided to POLA staff, the Accounting Division and the Financial Management Division provided disaggregated actual Capital Equipment expenditures by fiscal year, as shown in Exhibit 2.6 below.

**Exhibit 2.6: Capital Equipment Expenses in Operating Budget
as Corrected by the Accounting and Financial Management Divisions
IT Division, FYs 2011-12 through 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|--|--------------------|--------------------|--------------------|
| Capital Equipment, IT Division Operating Budget | \$1,701,667 | \$565,000 | \$645,000 |
| Capital Equipment Actuals, charged to IT Division Operating Budget | \$1,588,191 | \$367,101 | \$483,955 |
| Actual Less Budget | (\$113,476) | (\$197,899) | (\$161,045) |
| % Over/(Under) Budget | -7% | -35% | -25% |

Source: Accounting Division and the Financial Management Division

The Financial Management Division explained that in FY 2011-12, the IT Division’s corrected Capital Equipment Operating Budget expenses totaled \$1,588,191, or 7 percent less than the budgeted amount of \$1,701,667, as shown in Exhibit 2.6 above. The Accounting Division explained that in FY 2012-13, the IT Division’s corrected Capital Equipment Operating Budget expenses totaled \$367,101, or 35% less than the budgeted amount of \$565,000 for FY 2012-13, as shown in Exhibit 2.6 above.

The Financial Management Division explained that Capital Equipment actual expenditures shown in Exhibit 2.5 were inaccurately reported due to the transition to ERP. While corrected figures were able to be provided to the audit team, the reporting of budgeted and actual expenditures in official POLA budget documentation shows a need for increased accuracy in the reporting of the Division’s financial information.

Examination of the IT Division’s public budget information suggests that the IT Division’s Capital Equipment budget has fluctuated greatly over the past three fiscal years and that actual expenditures varied significantly compared to budgeted amounts in the past three fiscal years, with significant overspending on capital equipment relative to budget particularly in FYs 2011-12 and 2012-13. The budget records lack transparency and do not serve as an effective reporting and management tool if the Capital Equipment budget and actual expenditures cannot be compared. The Financial Management Division explained that the reporting was corrected in FY 2013-14.

Furthermore, IT Division management explained that the Capital Equipment variance for FY 2013-14 was due to discounted pricing and lower equipment needs than planned. The Division underspent on its Capital Equipment budget in Fiscal Years 2012-13 and 2013-14, indicating that the Division’s Operating Budget for Capital Equipment could potentially be further reduced to free up resources for other POLA operations.

Allocated Expenses

The IT Division Allocated Expenses budget is comprised of direct and indirect costs charged to the Capital Budget for services of the IT Division related to the purchase and installation of information technology capital equipment. According to the Financial Management Division, direct Allocated Expenses are billed to work orders paid for from POLA's Capital Budget and cover costs such as IT Division labor costs incurred on capital improvement projects. Indirect Allocated Expenses cover IT Division overhead costs related to capital equipment purchases, installations and related services performed by the IT Division. The Financial Management Division explained that Allocated Expenses should be budgeted as part of the regular budget process and that it works with the Accounting Division to budget for these expenses for all POLA divisions.

Exhibit 2.7 below shows budgeted and actual IT Division Allocated Expenses for both indirect and direct costs. The amounts shown are negative because these amounts are recovered by the Division as "transfers in" from the Capital Budget, offsetting the Division's Operating Budget costs from the Capital Budget.

**Exhibit 2.7: Budgeted and Actual Allocated Expenses
IT Division, FYs 2011-12 through 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|----------------------------|---------------|---------------|---------------|
| Allocated Expenses Budget | (\$818,762) | (\$1,638,466) | (\$556,241) |
| Allocated Expenses Actuals | (\$2,110,974) | (\$3,006,625) | (\$2,096,058) |
| Actual Less Budget | (\$1,292,212) | (\$1,368,159) | (\$1,539,817) |
| % Over/(Under) Budget | 158% | 84% | 277% |

Source: Financial Management Division (ERP)

Exhibit 2.7 shows that the IT Division's actual and budgeted Allocated Expenses have varied significantly in the past three fiscal years, with actual expenditures greatly exceeding budgeted amounts in each of the three fiscal years reviewed. This means that more of the IT Division's costs were recovered through Allocated Expenses than originally budgeted and that more of the IT Division's resources were directed to capital improvement projects, including IT purchases and installations, than planned each year.

Breaking out Allocated Expenses into their direct and indirect components, it can be seen that most of the variance between budgeted and actual Allocated Expenses is due to differences between budgeted and actual Indirect Allocated Expenses. Exhibit 2.8 below shows variances between budgeted and actual Direct Allocated Expenses and the following Exhibit 2.9 shows variances between budgeted and actual Indirect Allocated Expenses in FYs 2011-12 through FY 2013-14.

**Exhibit 2.8: Budgeted and Actual Direct Allocated Expenses
IT Division, FYs 2011-12 – 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|--------------------------------------|-------------|---------------|-------------|
| Direct Allocated Budget | (\$818,762) | (\$1,238,466) | (\$277,454) |
| Direct Allocated Actual Expenditures | (\$833,996) | (\$1,028,237) | (\$472,820) |
| Actual Less Budget | (\$15,234) | \$210,229 | (\$195,366) |
| % Over/(Under) Budget | 2% | -17% | 70% |

Source: Financial Management Division (ERP)

**Exhibit 2.9: Actual Expenses Relative to Budgeted Amounts for Indirect Allocated Expenses
IT Division, FYs 2011-12 – 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|--|---------------|---------------|---------------|
| Indirect Allocated Budget | \$0 | (\$400,000) | (\$278,787) |
| Indirect Allocated Actual Expenditures | (\$1,276,978) | (\$1,978,388) | (\$1,623,238) |
| Actual Less Budget | (\$1,276,978) | (\$1,578,388) | (\$1,344,451) |
| % Over/(Under) Budget | - | 395% | 482% |

Source: Financial Management Division (ERP)

The IT Division's Indirect Allocated Expenses charged to the Capital Budget are almost entirely made up of allocations to cover IT Division overhead. The primary cause for the variance in Allocated Expenses is the significant under-budgeting of Allocated Expenses to IT Division overhead. According to the Financial Management Division, indirect allocations should reflect the overhead expenses the IT Division incurs for its work on capital improvement projects, to be paid for from POLA's Capital Budget. The Accounting Division explained that it calculates the actual expenditures for the indirect allocations based on labor costs the Division charges to capital projects as a direct allocation each month for direct services provided by IT Division staff.

The Financial Management Division explained that it budgets for indirect Allocated Expenses based on the previous year and that since nothing was budgeted for indirect Allocated Expenses for the IT Division for FY 2010-11, nothing was budgeted for this account again in FY 2011-12. However, in the same year, direct Allocated Expenses were budgeted at \$818,762. Since direct and indirect Allocated Expenses are related, budgeting for direct Allocated Expenses should have triggered budgeting a corresponding amount for indirect Allocated Expenses but this did not occur.

For FY 2012-13, the Financial Management Group assumed that only a portion of the fiscal year would be devoted to the ERP project and budgeted \$400,000 in indirect Allocated Expenses for the IT Division. The actual amount charged to the Capital Budget for work on the ERP project ended up being \$1,978,388.

For FY 2013-14, the Financial Management Group assumed that the IT Division's work on the ERP project would be reduced to \$278,787. However, actual expenditures were \$1,632,238 in FY 2013-14 for

work on ERP and various other IT projects that were approved when grant funding was identified, according to POLA staff.

While the Financial Management Group provided explanations for the wide variance in all three fiscal years, the discrepancies in the reported numbers evidence a strong need for better budgeting and recording and reporting of actual indirect Allocated Expenses.

Month to Month Analysis for FY 2013-14

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

We compared the monthly actual expenditures to the monthly budget and found that in ten months, the IT Division underspent on its monthly budget by a range of three to 57 percent, as shown in Exhibit 2.10 below. Monthly actual amounts are net expenditures, incorporating all Allocated Expenses, or IT Division costs reimbursed from the Capital Budget.

Exhibit 2.10: Monthly Net Actual Expenses Relative to Monthly Budgeted Amounts
IT Division, FY 2013-14

| FY 2013-14 | Monthly Budget | Monthly Actuals | \$ Variance | % over/(under) budget |
|--------------------------|---------------------------------|------------------------|----------------------|------------------------------|
| July | \$1,213,030 | \$524,161 | (\$688,869) | (57%) |
| August | \$1,042,127 | \$530,191 | (\$511,936) | (49%) |
| September | \$1,002,380 | \$704,264 | (\$298,116) | (30%) |
| October | \$871,018 | \$843,714 | (\$27,303) | (3%) |
| November | \$1,211,612 | \$936,815 | (\$274,797) | (23%) |
| December | \$892,518 | \$837,219 | (\$55,299) | (6%) |
| January | \$1,078,925 | \$830,432 | (\$248,492) | (23%) |
| February | \$1,000,134 | \$848,351 | (\$151,783) | (15%) |
| March | \$1,343,976 | \$1,124,292 | (\$219,684) | (16%) |
| April | \$1,005,263 | \$836,445 | (\$168,818) | (17%) |
| May | \$1,337,598 | \$1,339,074 | \$1,476 | 0% |
| June | \$902,273 | \$1,624,001 | \$721,728 | 80% |
| END OF YEAR TOTAL | \$12,900,851⁶ | \$10,978,958 | (\$1,921,893) | (15%) |

Source: Financial Management Division (ERP)

⁶ The end-of-year total for FY 2013-14 in Exhibit 2.10 is inconsistent with the Total Adopted Budget and Total Actual in Exhibit 2.1, because Exhibit 2.10 shows the adjusted budget, which captures the adopted budgets and any transfers made throughout the year, whereas Exhibit 2.1 shows only the adopted budget. Furthermore, at the time of this analysis, only preliminary FY 2013-14 monthly budget figures were provided. The final budget figures for FY 2013-14 were a budgeted amount of \$12,922,527 and actual expenditures of \$10,037,531, an underspending by 22%.

While some variation between budgeted and actual expenditures on a month-to-month basis can be expected and are not concerning on their own, it is not clear from reviewing expenditures over the full three years if the monthly report is being effectively used as a budget monitoring tool, particularly in FY 2013-14 when the year-end surplus was \$1.9 million. The IT Division explained that the timing of invoices may have contributed to these variances. That the division underspent on its monthly budget for ten months of the year in FY 2013-14 underscores the need for the Division to review its expenditures and adopt a budget that better reflects its actual needs and, possibly, for POLA to make midyear reductions to budgets that are continually more than actual expenditures.

Conclusions and recommendations

The IT Division spent close to its budgeted amounts in FY 2011-12 and FY 2012-13, but underspent significantly compared to its budget for FY 2013-14. The FY 2013-14 underspending was largely due to indirect Allocated Expenses, which are IT Division overhead costs for work on capital projects reimbursed from POLA's Capital Budget. The IT Division charged significant amounts to indirect Allocated Expenses for capital projects in all three fiscal years reviewed, exceeding budgeted amounts for this account by between \$1.3 and \$1.6 million in each of the three years.

The Financial Management Division explained that the variation between the IT Division's budgeted and actual Allocated Expenses was due to operating projects being reclassified as capital projects, mid-year grant funding approval, and the implementation of ERP. The significant variance and fluctuations between budgeted and actual Allocated Expenses over the three fiscal years evidence need for greater consistency in the process of budgeting and recording these actual Allocated Expenses in the Operating and Capital Budgets.

Furthermore, the reporting of the Capital Equipment budget and actual expenditures in official POLA budget documentation reveals a need for increased accuracy in the reporting of the Division's budgetary information. The Financial Management Division reported that Capital Equipment actual expenditures for multiple years had been rolled up into the reporting of Capital Equipment expenditures for FY 2011-12 and FY 2012-13. Examination of the IT Division's public budget information suggests that the IT Division's Capital Equipment budget has fluctuated greatly over the past three fiscal years and that actual expenditures have varied against budgeted amounts in the past three fiscal years, with significant overspending on Capital Equipment relative to budget in FYs 2011-12 and 2012-13.

While the Accounting Division and the Financial Management Division provided the audit team with disaggregated figures clarifying and correcting the amounts reported in budget documents, those budget documents lack transparency and do not serve as an effective reporting and management tool if the Capital Equipment budget and actual expenditures cannot be compared. The Financial Management Division report that from FY 2015-16 forward Capital Budget expenses will be budgeted at the Division level which will provide greater control and clarity over capital expenses.

The Division overspent on its Salaries and Benefits in FY 2012-13 and FY 2013-14, primarily due to overspending in employee benefits expenditures. POLA currently calculates this rate for POLA organization-wide, although the ERP system allows for a more precise calculation for each employee. However, the Accounting Division has not yet been able to adopt the process of calculating employee-specific benefits as POLA is still adapting to the ERP system. The benefits calculation practice should be updated to reflect ERP capabilities.

The IT Division underspent significantly on its Other Direct Expenses in FY 2012-13 and FY 2013-14. The Division explained that the FY 2012-13 underspending was due to the quicker elimination of the mainframe system and transition to ERP than planned. The budget was reduced in FY 2013-14, but the Division continued to underspend for Other Direct Expenses, suggesting that the Division's budget could have been reduced to free up resources for other POLA operations.

Recommendations for the IT Division

- 2.1 The IT Division should review its budgets and expenditures annually in conjunction with a POLA budget analyst and adjust budgeted amounts for succeeding years according to historical expenditures and actual need.
- 2.2 The IT Division should work with other POLA divisions to more accurately assess work that will be performed by the IT Division on capital projects for each budget year and identify and include amounts that will be recovered for such work in the IT Division budget, including a more accurate assessment of the Division's indirect costs to be charged to the Capital Budget.

Recommendations for other Port Divisions

- 2.3 The Accounting Division should prioritize and expedite the implementation of calculating employee-specific benefits through ERP to better manage budgeting and expenditures on POLA employee benefits.
- 2.4 The Accounting Division should work with the Financial Management Division to streamline the process of budgeting and recording actual Allocated Expenses for POLA divisions in order to plan for and better monitor the spending on these accounts.
- 2.5 The Financial Management Division should work with the Accounting Division to streamline the process of budgeting Allocated Expenses for POLA divisions in order to ensure that such budgeting adequately captures the expenses divisions incur and charge to the Capital Budget.
- 2.6 The Financial Management Division should ensure that accurate budgeted and actual expenditures are reported in official public POLA budget documents to accurately reflect Port operations.

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 draft purchasing manual describes who can authorize purchases of certain dollar amounts, the Port's purchase requisition process, and the complete purchasing process for all purchases, with variations in requirements based on the value of the procurement.⁷ According to the draft 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.

According to the draft CPD Purchasing Manual and internal memorandums, purchases less than \$25,000 require a quote from only one vendor; purchases greater than \$25,000 but less than \$100,000 require CPD staff to solicit a minimum of three vendors when possible; and purchases greater than \$100,000 require the purchase to be advertised in the Los Angeles Business Assistance Virtual Network (LABAVN) and the POLA Website and a minimum of three bidders is should be solicited by CPD staff when possible.

Risk

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

⁷ The 2012 Purchasing manual provides different guidance for purchases less than \$25,000; purchases between \$25,000 and \$100,000; purchases between \$100,000 and \$150,000; and purchases of \$150,000 and above.

⁸ Authority for Expenditure agreements (AFEs) do not require quotes.

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 IT Division executed approximately 296 procurements from August 1, 2012, when the Port’s current ERP system was initially implemented, through FY 2013-14 totaling approximately \$7,939,817 as shown in Exhibit 2.11 below. This consisted of 273 one-time purchase orders, three interdepartmental orders and 20 purchase agreements that were active during the audit period.^{9,10} We selected a sample of these procurements and tested compliance with POLA’s procurement policies and procedures and reviewed invoices and payment records for the procurements in the sample to ensure that the procurements were in compliance with the City’s and POLA’s procurement policies and payment procedures.

Exhibit 2.11: IT Division Procurement Summary, October 1, 2012 to FY 2013-14

| Procurement Type | Number of Procurements | Total Estimated Procurement Amounts |
|--------------------------|-------------------------------|--|
| Purchase Agreements | 20 | 4,678,296 ¹ |
| One-Time Purchase Orders | 273 | 3,185,600 |
| Interdepartmental Orders | 3 | 75,920 |
| Total | 296 | \$7,939,817 |

Source: POLA Information Technology Division Central Purchasing Reports

¹This number is based on funds that were released for each agreement by the Port as of 7/7/14; however, funds could have been released prior to October 1, 2012 if the agreement was executed prior to the audit period, but was active during the audit period.

Originally, our sample consisted of 50 procurements which included purchases that occurred prior to the implementation of the ERP system. However, due to system and procedural changes following implementation of the ERP system and the difficulty that Accounting Division staff had providing invoice documentation for procurements prior to ERP, the original sample was reduced to only include procurements that occurred after ERP implementation. The remaining sample consists of 23 procurements, or eight percent, of the total number of procurements which consisted of two annual agreements and 21 one-time purchase orders.

From our sample of 23 purchase orders, 43 percent, or ten, were less than \$25,000 and 56 percent, or 13, were greater than \$25,000 but less than \$100,000. The original sample included multiple

⁹ Active during the audit period means that the agreement could have been executed prior to the audit period but purchases were made during the audit period which is from October 1, 2012 to FY 2013-14.

¹⁰ The 20 purchase agreements consist of the IT Division’s one-year agreements and do not include sub-purchase orders.

procurements over \$100,000; however, they were executed prior to implementation of ERP and were removed.

Of the 13 procurements that were greater than \$25,000, CPD staff solicited three bidders for one procurement which was also the only procurement to receive three bids. The remaining 12 procurements consisted of: a) six procurements that were sole source purchases due to software and licensing agreements or the inability of other vendors to comply with necessary specifications, b) one procurement made from piggyback agreements that were established by another public agency,¹¹ c) one procurement with a vendor that could provide preferential pricing due to an existing partnership with IBM, and d) four one-time purchase orders to continue services that are usually provided through a contract. One-time purchase orders for continuation of services occurs when there is a time gap between one contract ending and the execution of a new contract.

Charter Section 371 (e) (10) states that competitive bidding may be bypassed if the use of competitive bidding would be undesirable, impractical, or impossible. According to CPD staff, if staff is in the process of completing a competitive bid, it would be impractical to issue another bid in the meantime. In these instances, CPD staff issue one-time purchase orders for existing contractors under the same terms and pricing until the new contract is executed. Ideally, such circumstances would not occur if divisions and CPD staff plan and execute their bidding processes timely; however, it should be noted that there are some circumstances that CPD cannot anticipate such as a delay in the execution of the State of California's telecommunications services contract which the Port will piggyback.

Given the nature of the IT Division's procurements, CPD staff were not required to solicit or obtain multiple bids for most purchases; however, three bids were obtained in the one instance in which it was required.

Of the 23 invoices reviewed, we found that 43 percent, or ten procurements, were in compliance with the City's and POLA's procurement policies and payment procedures and 13, or 57 percent, were not in compliance. Of the 13 procurements that were not in compliance, nine procurements' invoices were created or services had been provided prior to approval of the purchase requisition and the purchase order which means the good or service was ordered or even provided before the Division received required authorization. For four of the non-compliant procurements, the purchase requisition was created by the Division prior to the vendor creating the invoice which means Division Head approval was obtained prior to ordering the good or service but the purchase order was not created until after the invoice was submitted.

¹¹ Piggybacking" is a form of intergovernmental purchasing, exempt from the competition requirements, in which a public agency purchaser requests competitive bids, enters into a contract and arranges for other public agencies to purchase from the selected vendor under the same terms and conditions as negotiated.

Conclusions and recommendations

Based on our analysis of a sample of the IT Division's procurements, the IT Division was in compliance with the City's and POLA's procurement policies and procedures related to competitive bidding during the audit period; however, more than half of the sample selected was out of compliance with POLA's procurement payment policies and procedures as proper approvals were not obtained prior to ordering or receiving goods and/or services.

Recommendations for the IT Division

- 2.7 IT Division management should take steps to ensure that Division staff is not receiving goods and services prior to a requisition or purchase order being generated.

Recommendations for other POLA divisions

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

2.C. Purchasing Cards

The Information Technology Division was not assigned a purchasing card during the audit review period.

2.D. American Express Cards

Standards and Procedures

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

Risk

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

Audit Tests and Results

The purpose of charge cards at POLA is to pay for travel, business, and meeting event expenses through the use of a charge card to save time, minimize costs, and improve operating efficiencies by minimizing the use of travel cash advances. The charge card expenses are for approved activities and operations in connection with POLA's missions and goals. Phone charges are typically not acceptable and are subject to approval by the City Controller in accordance to the City Travel Policy.

For travel charges made on AMEX cards, POLA's AMEX Policy and Procedures and the City Controller's Travel Manual state that it is the cardholder's responsibility to secure all the appropriate written approvals prior to travel. The AMEX Policy and Procedures state that travel approval is obtained through the use of completing a Travel Authority Form and other documents required by Port and City policy and procedures. The Controller's Travel Manual requires the cardholder to create and submit an encumbering document called the General Accounting Encumbrance Travel (GAETL) document to the Controller's Office ten business days prior to travel.

Cardholders are required to submit a receiving report (for non-travel expenses) or personal expense statement (for travel expenses) to the Department's Accounting Division, "Attention American Express Program Administrator," with written supporting documentation such as itemized receipts for all charge items on or before the tenth calendar day from the date the travel or business is completed. For travel related expenses, the personal expense report or receiving report should be approved by the cardholder's immediate supervisor or next higher level of supervision and submitted to the Program Administrator. For local business expenses, the receiving report should itemize all charges and have all

supporting documentation attached for submission to the Program Administrator. The receiving report must be approved by the cardholder’s immediate supervisor or next level of supervision and submitted.

However, according to the Program Administrator, the ERP system does not make a distinction between a receiving report for non-travel expenses and personal expense statements for travel expenses. The ERP system calls both expense reports.

POLA’s Program Administrator can approve the transaction for payment once he or she receives expense reports and payment to AMEX can then be made. The Program Administrator must ensure proper and timely invoice payments, obtain and resolve supporting documentation issues, and confirm compliance and adherence to relevant City policies, amongst other duties.

To test the IT Division’s compliance with the AMEX Policy and Procedures, the IT Division provided documentation for the 59 charges for the card assigned to the Division for FY 2013-14, which amounted to a total of \$14,384.82 in charges. All purchases were made on one card assigned to an employee of the IT Division. A judgmental sample of six of the IT Division’s 59 total transactions during the period reviewed, or approximately 10 percent, were tested against pertinent Port and City policies and procedures. Supporting documentation of the application for the American Express Card, proof of purchase, the expense report, and payment were examined.

Five of the six transactions, or 83 percent, were not in compliance with the requirement to submit the expense report within 10 calendar days from the date the travel or business transaction has been completed. The non-compliance ranged from 1 to 295 calendar days after the due date, as shown Exhibit 2.12 below.

Exhibit 2.12: Compliance with Requirement to Submit Expense Report to Accounting Division for AMEX Charges within 10 Days, IT Division, FY 2013-14

| IT Sample # | Date travel/business completed | Date expense reported submitted | Calendar days between expense report submission and travel/business completion | # Days of non-compliance | In compliance with AMEX Policy and Procedures? |
|-------------|--------------------------------|---------------------------------|--|--------------------------|--|
| 1 | 9/21/2013 | 9/24/2013 | 3 | n/a | Yes |
| 2 | 10/17/2013 | 8/18/2014 | 305 | 295 | No |
| 3 | 11/21/2013 | 12/12/2013 | 21 | 11 | No |
| 4 | 1/6/2014 | 8/19/2014 | 225 | 215 | No |
| 5 | 5/9/2014 | 8/18/2014 | 101 | 91 | No |
| 6 | 4/11/2014 | 4/22/2014 | 11 | 1 | No |

Source: Accounting Division (ERP)

As shown in Exhibit 2.13 below, for three of the six transactions the Accounting Division had approved payments for transactions between 76 to 291 calendar days before the Division submitted an expense

report for review, indicating that the Accounting Division is not reviewing supporting documentation or confirming compliance with relevant City policies before approving charges for payments.

POLA's AMEX Policy and Procedures do not specify that expense reports must be submitted before the approval for payment; however, the Program Administrator is responsible for confirming compliance with City policies related to travel, business, and meeting event related services and to be an effective control, this should occur prior to paying the AMEX bills. The Program Administrator can only review the expense reports after the cardholder has manually created the expense report and IT Division management has reviewed the transactions before final routing to the Program Administrator for review.

Exhibit 2.13: Number of Days between AMEX Payments Approved and Expense Report Submitted, IT Division, FY 2013-14

| IT Sample # | Date expenses reported submitted | Date Accounting Division approved payment ¹² | Calendar days between payment and expense report submission | Payment approved before expense report received? |
|-------------|----------------------------------|---|---|--|
| 1 | 9/24/2013 | 10/3/2013 ¹³ | 9 | No |
| 2 | 8/18/2014 | 10/31/2013 ¹⁴ | -291 | Yes |
| 3 | 12/12/2013 | 1/6/2014 | 25 | No |
| 4 | 8/19/2014 | 2/4/2014 | -196 | Yes |
| 5 | 8/18/2014 | 6/3/2014 | -76 | Yes |
| 6 | 4/22/2014 | 5/7/2014 | 15 | No |

Source: Accounting Division (ERP)

The Program Administrator is responsible for ensuring timely and proper invoice payment, and all six test transactions were paid timely by the Accounting Division. However, the delay in the IT Division's submission of the expense reports prevents timely review for compliance by the Program Administrator prior to payment.

The IT Division had one travel transaction in the sample reviewed, and the GAETL and the expense report were both input into ERP in a timely manner.

¹² Unless otherwise indicated, these dates reflect the approval stamp of the American Express Card Program Administration.

¹³ No dated approval stamp of the Program Administrator was found; thus, another Accounting Division staff approval stamp and signature was used as a proxy for the Program Administrator approval.

¹⁴ No dated approval stamp of the Program Administrator was found; thus, another Accounting Division staff approval stamp and signature was used as a proxy for the Program Administrator approval.

Other notes

As previously reported in the audit report of the Goods Movement Division, the latest AMEX Policy and Procedures were adopted in 2008 and should be updated to reflect changes in POLA operations due to implementation of the ERP system. For example, the ERP system does not use the GAETL. Furthermore, the ERP system does not make a distinction between a receiving report for non-travel expenses and personal expense statements for travel expenses. The ERP system only uses expense reports. Furthermore, some language should be removed from the AMEX Policy and Procedures. For example, the AMEX Policy and Procedures require submission of receiving reports or personal expense statements to the Accounting Division with "Attention American Express Program Administrator" written on them as part of supporting documentation for all charged items. This process of submitting these documents to the Accounting Division is now automated within the ERP system, where non-Accounting Division staff can create and submit expense reports that will automatically populate in the Accounting Division's expense report audit module.

The only consequence to violation of the AMEX Policy and Procedures is repayment by the cardholder for non-allowed expenses. This is not sufficient enough as a preventative measure against violation of the allowed usages. The AMEX Policy and Procedures should include more severe consequences for violation, such as suspension for repeated offenses, disciplinary action for fraudulent usages, and possible termination of employment for abuse of AMEX cards, at the department's discretion.

Conclusions and Recommendations

There is a lack of control in ensuring timely review of AMEX transactions for compliance with relevant City policies. Cardholders should ensure they are obtaining the appropriate approvals and submitting the expense reports to the Program Administrator in a timely manner. Furthermore, the AMEX Policy and Procedures do not have sufficient consequences for violation.

Recommendations for IT Division

The IT Division should submit expenditure reports with all supporting documentation to the Accounting Division in a timely manner in order to allow for timely review and verification of all required documentation prior to timely and proper invoice payment of AMEX expenditures.

Recommendations for other Port divisions

- 2.9 The Accounting Division should enforce Division submission of expense reports with all supporting documentation in a timely manner in order to ensure compliance with relevant policies and procedures and should withhold payments to AMEX, or require that employee cardholder make payment, until all required documentation has been provided from the divisions.
- 2.10 The Accounting Division should update the AMEX Policy and Procedures to incorporate ERP functions and processes to provide useful guidelines for Division use of AMEX charge cards.

2.11 The Accounting Division should update the AMEX Policy and Procedures to reflect greater punitive measures for violation of the acceptable uses of AMEX cards to ensure compliance.

2.E. Accounts Receivable

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

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 their 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

POLA's Accounting Division maintains a master list of capital assets and updates it biennially (every two years) by sending the master list to all POLA divisions who are asked to update it by identifying whether the listed equipment is still in the possession of the Division, the location of such equipment, and whether any items have been salvaged or moved to other divisions. After divisions provide responses to the Accounting Division, a final centralized master list of all capital assets is prepared and posted so that all employees can review it but no report or memo is prepared or provided to executive management summarizing the results and identifying any discrepancies.

In the most recent biennial inventory in June 2013, POLA's central documentation identified 208 capital assets as assigned to the Information Technology (IT) Division. The Accounting Division requested that all divisions review the listing of capital assets assigned to them, physically locate such assets, verify the information provided, and indicate any exceptions or discrepancies. The IT Division responded to only 69 items on the list, or approximately 33 percent of all items listed as belonging to the IT Division. Of the 69 items that were responded to, the Division identified 54 items (78 percent of the responses) as in the Division's possession and 15 items (22 percent of the responses) as not being in the Division's possession. The Division provided no response to 139 items, or 67 percent, of the 208 items on the biennial inventory list. There was no follow up process between the IT Division and the Accounting Division to resolve the location of the 139 items for which the IT Division did not provide responses.

In addition to reviewing the most recent biennial inventory, the audit team also reviewed a randomly selected sample of six of the 57 IT items that the Accounting Division had indicated were assigned to the IT Division as of June 2014. Of these six items, IT staff was able to identify, and the audit team was able to confirm, the location of three items. IT Division staff noted that two of the six items in the sample were salvaged in 2013, and provided audit staff with documentation of the salvaging. One of these items was salvaged in January 2013, six months before the biennial inventory, but it had not been removed from the Port's master list of capital assets sent out by the Accounting Division for the 2013 inventory. The other item was salvaged on July 26, 2013, about a week after the completion of the

biennial inventory, but was not removed from the Port’s master list. IT Division staff noted that the sixth item, “ERP Equipment 636-8292,” referred to multiple items, such as server equipment, that make up the ERP system. However due to the absence of corresponding identifying information on the fixed asset list and on the equipment identified by staff such as serial numbers, the audit team was not able to confirm that the equipment shown to the audit team by IT Division staff matched the item listed on the fixed asset list provided by the Accounting Division. A summary of our review can be seen in Exhibit 2.14 below.

Exhibit 2.14
Review of Information Technology Capital Assets

| Result | Number of Items | Percent of Sample |
|--|------------------------|--------------------------|
| Identified & Confirmed | 3 | 50% |
| Items Salvaged but not Removed from POLA Asset Master List | 2 | 33% |
| Identified, but not enough information to confirm item | 1 | 17% |
| Total Items | 6 | 100% |

Source: Review of Sample of Capital Assets Assigned to Information Technology Division

POLA’s current approach is not effective to fully and accurately account for all capital assets. Although the Accounting Division conducts biennial inventories, there is little to no follow up to update ERP, the Port’s capital asset database, based on the Divisions’ responses. For instance, as previously mentioned, one item from our sample, an “IBM Comm Controller 3174” (Asset Number 3715), was responded to as salvaged by the IT Division during the 2013 inventory, but the record was never verified or updated by the Accounting Division to reflect the reported salvage and the item was still listed as an active asset on the POLA master list. Similarly, the IT Division did not provide information to the Accounting Division about 139 items on the inventory, or 67 percent of the assets listed by the Accounting Division in July 2013 as in the possession of the IT Division. Discrepancies between the central documentation and Division-specific inventory, apparently caused by the lack of standard identifiers such as serial numbers or purchase order numbers, indicate a weakness in internal controls and a heightened risk of potential fraud, abuse and misuse of POLA assets.

The IT Division maintains its own internal records to track maintenance of its inventory of assets. This inventory, maintained electronically in a system known as “Track-It,” includes 3,037¹⁵ items, most of which are not considered capital assets (i.e., they do not have a unit value of \$5,000 or more). Division management reports that the Track-It system is automatically updated when equipment is connected to the network or disconnected to the network, but there is no designated staff member with responsibility for ensuring the system’s records are accurate and complete. Further, although Division management asserted that the Division asset inventory is reviewed and verified on a quarterly basis by a hardware maintenance vendor, management does not maintain documentation of these verifications. In

¹⁵ As of December 10, 2014

a response to a request for documentation of such inventories over the last three years, audit staff was provided confirmation of inventories conducted in January 2012 and May 2013, but not from any other quarters over the last three years.

Finally, audit staff requested Division policies and procedures for inventory control, including, but not limited to the delivery, receipt, and recording of equipment; distribution to staff; the inventory and auditing of equipment; grant funded equipment; and, the destruction or salvage of equipment. IT Division staff responded by sending a draft diagram summarizing the main steps in the IT Equipment Inventory process. IT Division management should finalize division level procedures and provide more detailed written procedures to ensure staff are aware of their responsibilities as they relate to the management of assets.

Conclusions and recommendations

The IT Division maintains an internal database of equipment, but there is no designated staff member responsible for the completeness and accuracy of the database. Further, while Division management stated that the Port's hardware maintenance vendor conducts quarterly physical inventories, the Division was only able to provide documentation of such an inventory for two of the previous 12 quarters. In addition, the IT Division's internal policies and procedures for the management of capital assets, which consist of a summary draft diagram, do not include specific written procedures detailing the responsibilities of various staff members.

There is a lack of follow up and collaboration between the IT Division and the Accounting Division to locate and/or reconcile all items listed in the ERP system (the asset database used by the Accounting Unit) that are assigned to the IT Division. One cause of the IT Division's inability to identify many of the assets assigned to it in the Accounting Division's asset database (ERP) is the lack of standard identifiers such as serial numbers or purchase order numbers. Discrepancies and a lack of follow-up research and reconciliation between central documentation and Division-specific inventory indicate a risk of potential fraud, abuse, and misuse of POLA assets. Though the full capital asset database is posted and can be viewed by any POLA employee, a summary report is not prepared for executive management to explain changes, the status and any discrepancies or issues pertaining to of the organization's capital assets.

Recommendations for the Information Technology Division

- 2.12 The Division should expand and finalize internal written policies and procedures covering the procurement, tracking/location, transfer, and salvage of equipment to cover those that are considered capital assets (valued at \$5,000 or more). Such policies should include designated staff responsibilities and a requirement that Division staff respond to every item listed on the biennial port equipment inventory and work with the Accounting Division to resolve any discrepancies or outstanding items.

Recommendations for other POLA Divisions

- 2.13 Centralized staff responsible for maintaining POLA's capital inventory should follow up and work with the Information Technology Division and other divisions when such division staff

does not respond to an item or when staff indicates that additional information is required to identify an asset or when an item has been transferred or has been salvaged.

- 2.14 The Accounting Division should consult with Port divisions on the creation of one or more fields in the asset database (ERP) to assist divisions in identifying assets. The Accounting Division should at least consider adding the asset purchase order number and/or contract number.
- 2.15 A summary of the results of the biennial inventory, after discrepancies have been resolved between the Accounting Division and all other divisions, should be provided to executive management.

3. Contracts

Why this function was audited

Professional service contracts were reviewed because the responsibility for awarding and managing high-dollar professional service contracts adds risk to a division. From FY 2011-12 to FY 2013-14, the Port executed 255 professional contracts amounting to \$995,073,848. Awarding professional service contracts to the most qualified bidder helps to ensure that the services provided to the Port are of the highest quality and appropriate price. Once awarded, the Port must manage their contracts effectively so that contractors are paid on time, for the agreed upon service and agreed upon price. Failing to adhere to the City's and Port's contracting policies and procedures could lead to increased costs to the Port, reduced productivity 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's Charter and Administrative Code and further qualified by Port memorandums and Board of Harbor Commissioners' resolutions. Among the requirements, the Charter and Administrative Code provide contract solicitation requirements and competitive bidding requirements to which the Port must adhere. 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 draft POLA-wide contract procedures manual based on City Charter and Administrative Code requirements. The manual was last updated in January of 2013 and provides step-by-step procedures for how a professional service agreement should be executed. CPD management advises, however, that this manual is a draft and has never been approved by the Board of Harbor Commissioners or POLA executive management. However, all Port divisions reportedly use a Request for Proposals (RFP) Checklist, with many of the same requirements as in the draft manual. The RFP Checklist created by CPD in 2010 and updated in 2014, lists all of the steps that the Division and CPD must complete in order to execute a contract.

Risk

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

Audit Tests and Results

To determine the IT Division's compliance with the policies and procedures outlined in the City Charter and Administrative Code as well as the draft CPD manual and RFP Checklist developed by CPD, we selected a judgmental sample of seven out of the IT Division's 31 professional service agreements, or 23 percent, that were active during the audit period from FY 2011-12 to FY 2013-14. We manually reviewed the seven contract files which included documentation of the RFP process, the final contract and required approvals. We also reviewed one invoice for each contract in the sample to determine if the contract expenditures and payment procedures were consistent with the contract terms, scope of work and City and POLA contract and payment policies.

Exhibit 3.1 below details the seven contracts from the sample.

**Exhibit 3.1: IT Contract Sample Characteristics
FY 2011-12 through FY 2013-14**

| Vendor Name | Goods or Services | Effective Date | Contract Term | Total Not-to-Exceed Amount | Was RFP Publically Advertised? | Number of Bidders | Approved by Board of Harbor Commissioners or Executive Director |
|--------------------------|---|----------------|---------------|----------------------------|--------------------------------|-------------------|---|
| Defy Agency | Technical and Design Support for POLA Website | 9/22/2011 | Three Years | \$540,000 | Yes | 9 | Yes |
| NexLevel | Prepare Port's IT Strategic Plan | 12/2/2013 | One Year | \$90,990 | Yes | 25 | Yes |
| AST | POLA ERP Implementation | 9/1/2011 | Three Years | \$8,448,701 | Yes | 12 | Yes |
| Hess & Assoc. | Payroll Conversion | 9/21/2011 | One Year | \$115,000 | N/A | Sole Source | Yes |
| First Call Temp Services | Computer Operator Consulting Services | 6/14/2011 | One Year | \$24,000 | Yes | 2 | Yes |
| Kiefer Consulting, Inc. | SharePoint 2010 Upgrade | 7/10/2012 | Three Years | \$965,800 | Yes | 7 | Yes |
| C3 Business Solutions | ERP Supportive Services | 6/18/2013 | Three Years | \$1,200,000 | Yes | 9 | Yes |

Source: Review of POLA IT Division Records and CPD contract files

Based on the review of the contract files, we found that these contracts were in compliance with City and Port policies and procedures governing the bidding and contract execution processes with one exception.

After reviewing contract invoices, we found that the IT Division's contract expenditures and payment procedures were consistent with the contract terms, scope of work and City and POLA contract and payment policies. However, the Accounting Division was unable to locate the invoice and supporting documentation for the Hess & Associates contract and reported that the documentation may have been misfiled or pulled and not returned. IT Division staff was able to provide the requested contract documentation; however, the task number on the invoice and receiving report sent to the Accounting Division for payment processing differed from the task number on the contract. While the task number differed, the task description and dollar amount coincided with the contract terms. IT Division staff report that the task number on the final invoice and receiving report may have been corrected following the Accounting Division's review but the IT and Accounting Divisions were unable to provide corrected documentation.

Conclusions and Recommendations

Based on our analysis of a sample of the IT Division's contracts, the IT Division was in compliance with the City's and POLA's contract and payment policies and procedures during the audit period.

Recommendations for the IT Division

- 3.1 The IT Division should ensure that all invoices and documentation are consistent with the executed contract.

Recommendations for other POLA divisions

- 3.2 The Contracts and Purchasing Division should submit the RFP Checklist and the draft contract manual to the Board of Harbor Commissioners and/or POLA Executive Director for approval and to be disseminated to all POLA divisions so that all POLA employees are aware of what documentation is required to execute and manage a contract.
- 3.3 The Accounting Division should improve their records management procedures to ensure that all procurement and contract documentation is correctly filed and easily retrievable.

4. Grants

None existed within the scope of our audit for the Information Technology Division.

Process Audits: Port Police Division
Port of Los Angeles

July, 2015

Submitted by

Harvey M. Rose Associates, LLC

<http://www.harveyrose.com>



July 24, 2015

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 Port Police Division of the Port of Los Angeles*. 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 37 recommendations in areas related to the audit scope identified above. Of these recommendations, 20 are directed to the Port Police Division and 17 are directed to other Port of Los Angeles divisions that have a role in the functions and processes reviewed. Comments and input on a draft version of this report were solicited from the Port Police 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,

A handwritten signature in blue ink that reads "Fred Brousseau". The signature is fluid and cursive, with a long horizontal flourish at the end.

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 were:

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 positions, 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.

Port Police Division Results

The key functions performed by the Port Police Division are patrol and surveillance of all Port of Los Angeles property and facilities and surrounding communities. The Division's officers enforce federal, State and local laws as well as environmental and maritime safety regulations. The Division also administers a number of grants primarily aimed at ensuring and enhancing security at POLA.

The Port Police Division's adopted budget for Fiscal Year 2013-14 was \$38,311,056, with 218 regular positions budgeted.

Key findings and issues resulting from this process audit include the following. As can be seen, a number of deficiencies identified in this audit are not exclusively due to the Port Police Division's processes and procedures but, rather, are due to practices of some of POLA's centralized support divisions.

Budgeting

- Budgeting for the Port Police Division could be improved to reduce significant variances between budgeted and actual expenditures. For FYs 2011-12 through 2013-14, these variances

ranged from \$1.9 million to \$6.2 million, funds that could have otherwise been used for other Port purposes if the Division's budgeting was more accurate.

- The variance between budgeted and actual expenditures for the Port Police Division that resulted in net underspending compared to budget was largely the result of underspending on Salaries. This was due to a number of unfilled budgeted positions, which was partially offset by overspending on overtime, and underspending on Other Direct Expenses, which includes materials and supplies, contractual services and other non-personnel costs.
- The Division maintains its own records of its expenditures which are at variance with POLA's centralized financial system expenditure records, resulting in weak spending controls.

Use of POLA Purchasing Cards and American Express cards

- The Division adheres to many of POLA's purchasing card policies and procedures but did not always provide required receipts and documentation to the Accounting Division for payments for purchases made on these cards.
- Similarly, expense reports and required documentation were not provided timely by the Police Division to the Accounting Division for nine sample AMEX card purchases reviewed. Further, the vendor was paid by the Accounting Division without required documentation provided by the Division for eight of these nine transactions.

Capital Asset Management

- While capital assets appear to be managed effectively by the Police Division, POLA's centralized capital asset inventorying and record keeping needs improvement. Most of the Division's capital assets recorded in POLA's centralized capital asset inventory were reported by the Division to be in its possession, but 56 of the approximately 750 capital asset items recorded for the Division, or seven percent, could not be confirmed due to the lack of sufficiently descriptive information for those items in the central records.
- However, in a random sample of 60 items from the centralized inventory, the Division could not identify 16 items, or approximately 27 percent of the sample: 11 due to insufficient identifying information in the centralized records, and five others due to the absence of identifying serial numbers in the records.
- The usefulness of POLA's centralized capital asset inventory is limited because the Accounting Division does not identify each asset by a standardized identifier such as serial number or purchase order number. Further, follow-up is not being performed by the Accounting Division to determine the status or location of items not accounted for in the biennial inventory.

Grants Management

- The Police Division's reported policies and procedures for researching and applying for grants are reasonable in the absence of Port-wide grant administration policies and procedures. However, the Division lacks its own written policies and procedures and its practices are not fully consistent with POLA's draft Grant Administration Manual, prepared in 2012. Practices not in place though recommended in that manual include conducting formal cost-benefit analyses

before applying for grants, pre-planning with other POLA divisions, preparation of formal execution plans detailing how awarded grants will be administered and other best practices.

Other findings and recommendations are presented in the report in the areas of human resource management and other financial controls.

A summary of all findings and recommendations directed to the Police Division as well as other POLA divisions are presented in the table starting on the next page.

Summary of Recommendations

| Human Resource Management | | |
|--|-----------------|--|
| Issue | Recommendations | |
| | | The Police Division should: |
| The Police Division budgeted more for staffing than it expended for three fiscal years reviewed. In FY 2013-14 alone, this tied up approximately \$2.3 million in Port resources unnecessarily. | 1.1 | Reduce the number of budgeted positions so that its staffing levels more accurately reflects its operational needs and the actual time required to fill vacancies. |
| The Division does not adequately monitor how long it takes to fill non-sworn positions. | 1.2 | Monitor the length of time to fill each non-sworn position, in order to better manage its personnel. |
| The Division is meeting all State-mandated training requirements for sworn staff but is not fully compliant with other training requirements or did not have sufficient documentation of staff training completed. | 1.3 | Continue to ensure that all required state training is recorded and accessible. |
| None of the sworn police officers required to take racial and cultural diversity training whose records were sampled were found in compliance, though the Division reported plans to correct this. | 1.4 | Take steps to come into compliance with the racial and cultural diversity training course by January 1, 2016. |
| While most performance evaluations reviewed in a sample were completed timely, a small number were not completed timely during the review period due to a merging of two Division units with different evaluation schedules. | 1.5 | Continue to track the date of staff performance evaluations or use information from the Human Resources Division for this purpose to ensure that each employee receives an annual performance evaluation in a timely manner. |

| Issue | Recommendations | |
|--|-----------------|--|
| Though responsibility for responding to grievances is split between the Port Police Division and the Human Resource Division, the Police Division is not keeping records of all grievance milestones to ensure that the process complies with all timing requirements. | 1.6 | Take steps to ensure that dates are recorded for the steps in the grievance process in which the Division is involved so it is clear if the Division was responsible for any delays. |
| Financial Controls | | |
| | | The Police Division should: |
| Port Police Division and centralized ERP budget and expenditure records do not always agree, weakening controls on Division expenditures. | 2.1 | Reconcile Division budgeted and actual expenditure amounts with ERP data, keeping adequate records of any transfers made throughout the year and end of year actual expenditures, to ensure that the Division is operating within the same financial constraints as recorded in ERP. |
| Port Police Division budget records and central ERP budget records do not always agree. Division staff keeps separate records of expenditures which do not always match those in ERP. | 2.2 | Work with appropriate Divisions to train staff to more fully utilize ERP and its functions more expediently so that the central database reflects the level of detail the Division requires in managing its operations. |
| Budgeting for Port Police Division costs charged to the Port's capital budget does not sufficiently account for direct and indirect costs that will be charged for such purposes. | 2.3 | Work with the Financial Management Division to more accurately assess work that will be performed by the Police Division on capital improvement projects for each budget year and identify and include amounts that will be recovered for such work in the Police Division budget. |
| | | The Accounting Division should: |
| Port Police Division budget records and central ERP budget records do not always agree. Division staff keeps separate records of expenditures which do not always match those in ERP. | 2.4 | Input data in a timely and accurate manner so that information on ERP serves as an effective management tool for Division operations. |
| “ “ | 2.5 | Work with the Division to reconcile ERP records and Division records. |

| Issue | Recommendations | |
|---|-----------------|--|
| | | The Financial Management Division should: |
| Budgeting to recover Port Police Division costs charged to the Port’s capital budget does not account for direct staff and related indirect costs charged for such purposes. | 2.6 | Work with the Division to streamline the process of budgeting Allocated Expenses for POLA divisions in order to ensure that budgeting for Allocated Expenses adequately captures the expenses Divisions incur to enhance Division and Port-wide management of the Allocated Expenses accounts. |
| | | The Police Division should: |
| Most of the Division’s procurements reviewed were in compliance with POLA and Division policies but goods and services were received for some purchases prior to all required approvals. | 2.7 | Police Division management should take steps to ensure that Division staff is not receiving goods and services prior to the purchase order or Authority for Expenditure (AFE) being approved by all required POLA staff. |
| | | The Accounting Division should: |
| In a sample of Division procurements reviewed, the Accounting Division paid some invoices dated prior to the purchase order date, the official documentation approving procurements. | 2.8 | Adopt a policy of not processing invoices if the invoice date or event date precedes the purchase order date without written explanation from a manager from the appropriate division. |
| Though it represents a good practice, the Accounting Division reports that City policy requiring approval for encumbrances for services prior to their being rendered is not consistently followed and is not explicitly required for interdepartmental orders (IDOs) for services. | 2.9 | Make recommendations to the City to clarify the policy regarding approving and encumbering funds for interdepartmental services through IDOs or develop a Port-wide policy that better serves the needs of the Port while providing adequate financial controls. This policy should be approved by POLA management and distributed to all divisions. |

| Issue | Recommendations | |
|---|-----------------|--|
| | | The Police Division should: |
| While the Port Police Division appears to adhere to many of POLA’s purchasing card requirements, in a review of a sample of 31 of the Division’s purchasing card procurements, the Division was noncompliant with the requirement for having signed original receipts for all purchases, having purchases verified and confirmed by another employee, and providing receipts to the Accounting Division within 10 days. | 2.10 | Conduct one or more training sessions to instruct Division employees on the requirements and restrictions to the use of Purchasing Cards. |
| | | The Accounting Division should: |
| The Accounting Division was found to process payments for some purchases made on Division purchasing cards that are not allowed to be charged to purchasing cards. | 2.11 | Conduct due diligence when auditing purchases to ensure compliance with the Purchasing Card Manual. |
| | | The Police Division should: |
| Expense reports and documentation were not provided timely by Division staff for all nine Division sample purchases on the Division’s AMEX card reviewed for this audit. | 2.12 | Submit expenditure reports with all supporting documentation to Accounting in a timely manner in order to ensure timely and proper invoice payment of AMEX expenditures. |
| Two of the nine transactions tested were for phone related charges and did not receive required City Controller approval. | 2.13 | Review the AMEX Policy and Procedures to ensure that the Division is following guidelines for the appropriate use of AMEX cards. |
| | | The Accounting Division should: |
| Eight of the nine Division AMEX purchases reviewed were paid by the Accounting Division before required documentation had been provided. | 2.14 | Enforce Division submission of expense reports with all supporting documentation in a timely manner in order to ensure compliance with the relevant policies and procedures. |

| Issue | Recommendations | |
|--|-----------------|---|
| Current AMEX policies and procedures were adopted in 2008 and don't reflect changes in POLA operations due to the implementation of ERP. | 2.15 | Review and update the AMEX Policy and Procedures to incorporate revised practices based on ERP implementation and use. |
| The only consequence to violation of AMEX policies and procedures is repayment by the cardholder for non-allowed expenses. This is not a sufficiently preventive provision. | 2.16 | Update the AMEX Policy and Procedures to reflect greater punitive measures for violation of the acceptable uses of AMEX cards to ensure compliance. |
| | | The Police Division should: |
| The Port Police Division uses its own tracking numbers for its capital assets, contributing to discrepancies between the Division's capital asset inventory and POLA's centralized master list of all Division assets. | 2.17 | Work with the Accounting Division to ensure that consistent tracking numbers are used in both systems (e.g. purchase order numbers, contract numbers, and/or asset serial numbers) so that biennial inventories are conducted efficiently and effectively and to ensure that the Port-wide Fixed Asset Ledger/asset database is current and accurate. |
| | | Accounting Division staff responsible for maintaining POLA's capital inventory should: |
| There appears to have been little to no follow up by the Accounting Division after its biennial capital asset inventory in instances when the Port Police Division reported that it could not locate certain assets or verification when the Division reports that assets have been transferred to other POLA divisions. | 2.18 | Follow up and work with the Port Police and other divisions when such division staff indicates that additional information is required to identify an asset or when division staff indicates that an item has been transferred or has been salvaged. |
| | | The Accounting Division should: |
| The codes and descriptive information used by the Accounting Division to identify capital assets in the centralized asset inventory are not familiar to Division staff or adequately explained by the Accounting Division. | 2.19 | Consult with Port divisions on the creation of one or more fields in the asset database (ERP) to assist divisions in identifying assets. The Accounting Division should at least consider adding the asset purchase order number, contract number, and/or asset serial number where applicable. |

| Issue | Recommendations | |
|--|-----------------|---|
| Discrepancies between POLA's centralized capital asset inventory and division records resulting from the biennial inventory are not summarized and reported to executive management. | 2.20 | Provide the results of the biennial inventory to executive management after discrepancies have been resolved between the Accounting Division and all other divisions. |
| Contracts | | |
| | | The Police Division should: |
| In general, the Port Police Division was found to adhere to POLA's contract policies and procedures in transactions reviewed though it did not comply with every step on POLA's RFP Checklist. | 3.1 | Perform all procedures listed on the RFP Checklist or the RFP Checklist should be modified if POLA management determines that some steps are no longer of value. |
| The Port Police Division is not routinely checking to determine if its grant-funded contractors have been debarred or suspended, as required by federal grant rules and guidelines. | 3.2 | In accordance with federal guidelines, the Port Police Division and Contracts and Purchasing Division should collaborate to establish policies and procedures to verify that vendors who provide the Port with goods or services under a grant award have not been suspended or debarred. These procedures should be included in the revised Grants Administration Manual and the revised Procurement and Contracts Manual and distributed to all Port Divisions. |
| | | The Accounting Division should: |
| Vendor payments have been delayed by the Accounting Division in part due to vendor documentation not being requested and/or provided timely. | 3.3 | Request supporting documentation for payment processing in a timely manner. |

| Issue | Recommendations | |
|--|-----------------|--|
| Vendor payments have been delayed by the Accounting Division in part due to vendor documentation not being requested and/or provided timely. | 3.4 | If a vendor fails to provide supporting documentation to pay an invoice in a timely manner, notify Contracts and Purchasing Division staff who should meet with the vendor to resolve the issue, a practice that is currently in place by the Contracts and Purchasing Division, and should document the delinquency. If the delinquency persists, the vendor should be banned from conducting business with the Port. |
| | | The Contracts and Purchasing Division should: |
| In general, the Port Police Division adhered to POLA’s contract policies and procedures during the audit review period though it did not comply with all steps on POLA’s RFP Checklist. | 3.5 | Require the Port Police Division to adhere to the procedures in the RFP Checklist and, to the extent some requirements are no longer practicable, should make modifications to the RFP Checklist, as necessary. |
| A draft POLA Purchasing Manual developed by the Contracts and Purchasing Division has never been formally adopted by executive management for use by all POLA divisions. | 3.6 | Submit the RFP Checklist and the draft contract manual to the Board of Harbor Commissioners and/or POLA Executive Director for approval and to be disseminated to all POLA divisions so that all POLA employees are aware of what documentation is required to execute and manage a contract. |
| Grants | | |
| | | The Police Division should: |
| Two sets of POLA grants management policies were developed, one in 2012 and one in 2014. Goods Movement Division staff asserts that neither policy manual has been approved by executive management or the Board of Harbor Commissioners. The Port Police Division has not consistently followed these policies. | 4.1 | In the absence of officially adopted Port-wide grant administration policies and procedures, grant management staff should review the Division’s procedures for grant administration in order to draft and finalize an internal grants administration manual, incorporating best practices, to provide guidance for safety and security grants and covering at least planning, budgeting, research, identification (including how and when to use cost-benefit analysis to determine if a grant opportunity is in the best interest of the Port), and grant application. |

| Issue | Recommendations | |
|---|-----------------|--|
| <p>Many of the practices in POLA’s draft grant management policies are best practices and would be beneficial to the organization but are not being practiced by the Police Division.</p> | 4.2 | <p>Work with grant management staff as well as staff in other divisions that may interface with the Port Police on grants to create a more formalized long term safety and security grant planning process. The planning process should incorporate periodic needs assessments, a contingency list of “shovel-ready” projects that are likely to receive grant funding, and appropriate budgeting procedures to ensure that local monies are available for projects that may be reimbursed with grant funds.</p> |
| <p>Two sets of POLA grants management policies were developed, one in 2012 and one in 2014. Goods Movement Division staff asserts that neither policy manual has been approved by executive management or the Board of Harbor Commissioners. The Port Police Division has not consistently followed these policies.</p> | 4.3 | <p>In lieu of officially adopted centralized POLA grant administration procedures, staff with responsibility for grants management should, as part of the process outlined in recommendation 4.1, draft and finalize an internal grants administration manual, incorporating best practices, to provide guidance for safety and security grants.</p> |
| <p>Many of the practices in POLA’s draft grant management policies are best practices and would be beneficial to the organization but are not being practiced by the Police Division.</p> | 4.4 | <p>Staff with responsibility for grants management should consider the potential value of preparing project execution plans for safety and security grants and address the use of such plans as part of the processes outlined in recommendations 4.1 through 4.3.</p> |
| | | <p>The Goods Movement Division should:</p> |
| <p>Two sets of POLA grants management policies were developed, one in 2012 and one in 2014. Goods Movement Division staff asserts that neither policy manual has been approved by executive management or the Board of Harbor Commissioners. The Port Police Division has not consistently followed these policies.</p> | 4.5 | <p>Work with Port Police staff and other POLA stakeholders to finalize a POLA grants administration manual covering, at least, grant acceptance, administration (including controls over areas that were found to be deficient in the 2013 Single Audit such as equipment management, sub-recipient monitoring, suspension and debarment, and reporting), and close-out as well as other topics as discussed in Recommendation 4.1.</p> |

Process Audit: Port Police Division

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

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

Phase 1 Risk Assessment

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

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

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

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

Phase 2 Audit Objectives

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

1. To assess the adequacy of the Port's and each Port division's internal controls and policies and procedures in the four functional areas under review.

2. To test sample transactions for each Port division's compliance with Port and division-specific policies and procedures in the four functional areas.
3. To identify possible changes needed in Port and/or division policies and procedures or division practices to minimize risk to the Port.

Process Audit Scope

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

Overview of Port Police Division

The Port's Port Police Division is responsible for protecting Port of Los Angeles passenger, cargo and vessel operations from all hazards through patrol and surveillance of Port property and neighboring communities. The Port Police Division enforces federal, state and local public safety laws. Its officers are California peace officers who patrol the Port's 43 miles of waterfront by land, sea and air. The Division is also responsible for the Port's homeland security initiatives.

The Division's adopted budget for Fiscal Year 2013-14 was \$38,311,056 with 218 approved positions budgeted.

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 Police Division were budgeted at \$30,441,835 in the Port's FY 2013-14 budget, or 79% 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.

If a division has high turnover, 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. Not attending statutorily or city-wide required trainings indicate that employees are not properly prepared to handle certain unpredictable situations and could make the Port liable if harm was done. 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. Lack of compliance with required grievance procedures may be exacerbating such problems.

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

Standards and Procedures

Turnover

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.

Training

City-wide Training Requirements

California Government Code 12950.1 requires that all POLA supervisors and managers complete a sexual harassment prevention training every two years. All POLA employees must also complete a Disaster Service Worker Training course at least once in accordance with the City of Los Angeles' Executive Directive No. 16 issued March 17, 2011. Sworn police officers are exempt from the Disaster Service Worker Training but civilian employees in the Police Division are not. Also, all POLA employees are required to take an Americans with Disabilities Act (ADA) training course facilitated by the City's Department of Disability (DoD) in accordance with the City of Los Angeles' Executive Directive No. 26 issued December 21, 2012.

State - Commission on Peace Officer Standards and Training (POST) Training Requirements

In addition to the City-wide training requirements, sworn police officers are required by State law to take several State training courses. The Commission on Peace Officer Standards and Training (POST) was established by the California State Legislature and sets minimum selection and training standards for California law enforcement personnel. The POST program is voluntary and incentive-based. Law enforcement agencies that agree to participate in the POST program must abide by POST standards and, in return, are eligible to receive services and benefits from the Commission such as reimbursement for training.

To meet POST standards, every police officer in participating agencies must complete a POST-accredited police academy and 24 hours of Continuing Professional Training every two years. For sergeants and officers, 14 hours of the 24 hours must be Perishable Skills training which includes tactical firearm training, arrest and control training, driver training and awareness and training on interpersonal communication. For supervisors and managers in the Port Police Division, POST requires a supervisory and management training course and for specialized positions such as a department instructor or a member of a special unit, POST has either mandated courses or recommended training. Lastly, civilian employees in the Port Police Division that serve as dispatchers are required to take a Public Safety Dispatchers' Basic Course.

State - Other Requirements

According to California Penal Code Section 13518, every police officer must complete a refresher First Aid and CPR course every three years as prescribed by the State of California Emergency Medical Services Authority (EMSA)¹ unless the officer is in a clerical or administrative role. The State also requires police officers, with the exception of command staff in administrative roles, to take the High Speed Vehicle Pursuits course each year which includes an overview of law enforcement's vehicle pursuit policies.² California Penal Code Section 13519.4 requires all police officers to take a racial and cultural diversity training course every five years which provides guidance on how police officers should perform their duties in racially and culturally diverse environments. Lastly, the State requires law enforcement officers who received basic training before January 1, 1986 to participate in domestic violence training.

Performance Evaluations

The Port's Employee Manual Section 2.110 states that each employee will be evaluated over a year-long rating period ending approximately three months prior to the employee's "salary anniversary" date, or the date an employee was awarded their most recent salary. The Human Resources Division reports that that policy 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. Human Resources Division staff was unable to provide documentation of this policy change made by the Executive Director; however, the Human Resources Division sent an internal memorandum in May 2010 to POLA senior managers and division heads requiring them to complete annual evaluations of their employees and return them to the Human Resources Division by no later than May 31, 2010. In addition, the Police Division's Management issued an internal memorandum to Commanding Officers on May 16, 2013 that further clarified when employee performance evaluations were due internally.

Grievances

City and Port policies and procedures and Memorandums of Understanding (MOUs) with labor groups representing POLA employees provide specific steps that should be followed in cases of grievances filed by employees. Each employee is covered by the MOU that is associated with their job classification and explains the grievance process and the timeframe for completion of each step. It is important to note, however, that the time limits between steps of the grievance procedures may be extended by mutual agreement.

Generally, the first step in the grievance process is an informal discussion with the grievant's immediate supervisor and a response from the immediate supervisor. If the grievance is not resolved, the second

¹ California Code of Regulations. Title 22. Divisions 9. Chapter 1.5. Article 3.

² Cal. Pen. Code 13519.8

step is for the grievant to submit a formal grievance and meet with the Department Head (or division head at POLA) or the next level of management who will also provide a response. If the grievance is still not resolved, the third step is for the grievant to appeal and meet with the Executive Director who will provide a response. Some MOUs, such as the MOU between the City of Los Angeles and the Los Angeles Port Police Association, require an extra level of upper management review before the grievant can appeal to the Executive Director. Mediation can be requested at different steps in the process depending on the MOU. If the dispute is still unresolved after all these steps, the final step is arbitration.

Human Resources Division staff report that their involvement during the informal discussion phase of the grievance process varies by division. However, if the grievance is escalated to the second step and beyond, the Human Resources Division will be notified and will help facilitate the process.

Audit Test and Results

1.A. Turnover and Hiring

In FY 2011-12, 222 positions were approved in the Port Police Division's budget. In FY 2012-13 and FY 2013-14, 218 positions were approved in the Division's budget for both years. Due to limitations in data available at the Port and at the Division and due to the absence of City and Port policies and procedures regarding controls on turnover and hiring, we calculated two rates in order to assess the Division's turnover, vacancy and hiring practices compared to two benchmarks. 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.

The Port Police Division provided data showing that 7 employees left the Division in FY 2011-12, which resulted in a turnover rate of 3%.³ In FY 2012-13, 8 employees left, resulting in a turnover rate of 4%. In FY 2013-14, 16 employees left, resulting in a turnover rate of 8%. The turnover rates are lower for the Division 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. As shown in Exhibit 1.1, BLS calculated turnover rates of: 16.1 percent for calendar year 2011, 16.3 percent for calendar year 2012 and 16.0 percent for calendar year 2013 for state and local government in the United States, or an average of 16.1 percent for all three years. The Port Police Division's turnover rates were lower than the national rates for all years reviewed.

³ The calculation for the annual turnover rate is as follows: (the number of separations in the year / average number of employees during the year) *100. Formula source: <http://www.payscale.com/compensation-today/2012/09/turnover>

Exhibit 1.1: Port Police Division Turnover Rate Compared to National Averages

| | Port Police Division Turnover Rate | National Turnover Rate for State and Local Government² |
|------------|---|--|
| FY 2011-12 | 3% | 16.1% |
| FY 2012-13 | 4% | 16.3% |
| FY 2013-14 | 8% | 16.0% |
| Average | 5% | 16.1% |

Source: HR Division, Port Police Division, and BLS Job Openings and Labor Turnover Survey.

² National rates are for calendar years 2011, 2012, and 2013.

In addition to the turnover rate, 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 in order to assess the Division’s turnover, vacancy, and hiring procedures.⁴

As shown in Exhibit 1.1, Port records show that the Division’s average vacancy rate for FY 2011-12 was 6.6 percent, 3.9 percent for FY 2012-13, and 6.8 percent for FY 2013-14. As can be seen, the Division’s average vacancy rate was lower than the POLA-wide averages in FY 2011-12 and in FY 2012-13 but higher in FY 2013-14.

Exhibit 1.2: Port Police Division Vacancy Rates, FYs 2011-12 through 2013-14

| | FY 11-12 | FY 12-13 | FY 13-14 |
|-----------------------------------|-----------------|-----------------|-----------------|
| Port Police Division Vacancy Rate | 6.6% | 3.9% | 6.8% |
| POLA-wide Average Vacancy Rate | 7.0% | 4.1% | 5.9% |

Source: Human Resources Division

The Port Police Division stated that the vacancy rates in FY 2013-14 are due to the Port’s managed hiring process, which the Division does not have control over. However, as shown in Exhibit 2.3 under the Financial Controls section, the Port Police Division underspent by \$1,414,446, or 9% of its \$15,965,779 salaries budget in FY 2013-14. Furthermore, Exhibit 2.3 in the Fiscal Controls section shows that the Division consistently underspent on salaries in all three fiscal years examined by 9 to 10 percentage points. Thus, the Division can revise its staffing levels to reflect its operational needs and reduce its vacancy rates.

⁴ We had data to compare the turnover rate for the Division to a national rate, as we only had the number of employees who left the Division but not for all Port divisions. We have data to compare vacancy rates for the Division to other Port divisions, but were not able to determine an appropriate comparison with BLS data for vacancy rates.

The length of time it took to fill vacant positions was not able to be independently examined as neither the Division nor Human Resources keeps records of this. The Port Police Division has stated that its positions are filled in a timely manner and any positions left vacant have been budgetary decisions. While this may be the case, tracking should be done in a systematic manner to be able to monitor and plan for staffing shortages. The Division's monthly position control documents make notes of movement regarding positions, but no tracking is done to record the length of time required to fill a non-sworn position.

In June 2013, POLA's Fiscal Operations Division conducted a study on the projected attrition at the Port Police Division and calculated a minimum of 24 months to fill sworn positions with new hires, based on the application process, training, and certifications required. The hiring and selection process requires approximately eight to twelve months, the pre-Police Academy requires three to four weeks, the Police Academy requires five months, and patrol training requires twelve months. This study is an effective tool to manage the hiring of sworn positions, and the Division should maintain similar information regarding the hiring of non-sworn positions.

1.B. Training

To determine compliance with Port-wide training requirements, we: 1.) sampled 27 Police Division employees, or 13 percent of the 210 employees that were employed with the Police Division in June 2013 which included 11 civilian employees and 16 sworn police officers, 2) conducted a manual review of the sampled Port Police Division's employee personnel files, and 3) reviewed the Port-wide training completion reports provided by the Port's Human Resources Division.

City-wide Requirements

In FY 2013-14, 15 of the Police Division employees in the sample were required to take the City's biennial sexual harassment prevention training on or before January 1, 2014. According to the Human Resources Division training completion reports and individual employee personnel files, all 15 employees in the sample completed the required training in October and December 2013. In 2011, two years prior to the 2013 training, 13 of 15 employees in the sample required to take sexual harassment training⁵ completed the training by the due date. According to employee records, two of the 15 sampled employees did not complete the 2011 training required biennially by the due date as there is no record of their completion.

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

⁵ 14 of the 15 sampled employees were the same employees required to take the training in 2014 while one was not as the employee was newly hired.

All 11 civilian Police Division employees in the sample were required to take the City's one-time Disaster Service Worker Training course. As of August 11, 2014, only one of the 11 employees in the sample had not completed the training,⁶ according to training completion reports provided by the Port's Human Resources Division.

With regard to ADA training that the City's DoD is facilitating, there is currently no deadline to complete the training course; however, as of September 2014, only 23 Police Division employees out of approximately 210, or 10%, had not completed the training.

POST and State-mandated Training

All of the sworn Police Division employees in the sample completed the POST-accredited police officer's academy and satisfied the Continuing Professional Training requirements during the three year audit review period. The police officers in the sample that serve in supervisory or management roles and/or work in a specialized unit also completed their POST-required training courses.

All but one of the four police officers in the sample that were required to take the CPR course every three years completed the training; however, Police Division training staff reported that the Police Officer completed the course but the Division was unable to furnish any documentation of this training.

With respect to the State-mandated domestic violence training required of officers who received their basic training before January 1, 1986, three sworn employees in our sample of 15 received their basic training prior to that date, but all three are supervisory personnel and are exempt from the training.

Four of six security officers that are required to take the State-mandated CPR course every three years completed the course and two did not.

All of the four police officers in the sample that were required to take the annual High Speed Vehicle Pursuit course completed it in 2011 and 2014; however, the Police Division training staff could not provide course completion records for these individuals for 2012 and 2013.

Neither the Port Police Division nor the POLA Human Resources Division were able to provide records of any of the 16 sampled police officers completing the racial and cultural diversity training course. Police Division training staff reported they are aware of their non-compliance for this requirement and advised that POST has been in the process of producing a new racial and cultural diversity training course DVD on the topic. The Police Division was waiting for the release of the DVD instead of sending each police officer to an eight hour off-site training. Police Division training staff further noted that the DVD was recently released as of September of 2014 and training will be completed in the upcoming quarter.

⁶ One of these employees was on medical leave intermittently in 2012 and 2013; however, there was a six-month period when the employee was not on medical leave and could have taken the course.

1.C. Performance Evaluations

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, we reviewed the personnel files of the same sample of 27 Police Division employees. We reviewed the dates of their performance evaluations for Calendar Years 2011, 2012 and 2013 to determine whether these evaluations were in compliance with the Port’s practice. However, two of the Police Division employees that were included in the sample were not employed with the Port until the end of 2013 and did not have performance evaluations to review; therefore, those two employees were removed from the sample, leaving a sample of 25 employees.

We found that in all three Calendar Years, performance evaluations were completed for the majority of Police Division employees in our sample, as shown in Exhibit 1.2 below, and within two months of the date of their previous year’s performance evaluation. However, eight of the 25 evaluations in 2012 were three to six months later than the date of their 2011 performance evaluation. According to Police Division staff, the five performance evaluations that were six months late were security officers who previously worked under the supervision of another Port division which had a different performance evaluation schedule. In 2012, the Police Division took over the security responsibility and aligned the security officer’s evaluations with the rest of the Police Division employees, resulting in a year and a half between performance evaluations.

**Exhibit 1.2: Performance Evaluation Completion Rates
Police Division
Calendar Years 2011 through 2013**

| Performance Evaluation Status | Evaluations Completed in CY 2011 | Percentage | Evaluations Completed in CY 2012 | Percentage | Evaluations Completed in CY 2013 | Percentage |
|--------------------------------------|---|-------------------|---|-------------------|---|-------------------|
| Completed | 25 | 100% | 21 | 84% | 21 | 95% |
| Not Completed | 0 | 0% | 4 | 16% | 1 | 5% |
| Total | 25 | 100% | 25 | 100% | 22¹ | 100% |

Source: POLA Personnel Files

¹ Two sworn officer were on medical leave during this period and another retired in 2013.

1.D. Grievance/discipline process

To determine compliance with the grievance process, we selected a sample of four grievances out of ten that were submitted by Police Division employees and were still active between FYs 2011-12 and FY 2013-14. We reviewed all documentation provided by POLA's Human Resources Division and determined each grievant's MOU based on their classification and used it to test compliance. We also interviewed Human Resources Division staff.

We found instances of non-compliance in all four of the grievances we reviewed as shown in Exhibit 1.3 below. For three of the grievances, we found incomplete documentation of the dates in which milestone events in the grievance process occurred such as the date of the event that is in dispute and the date the grievant submitted an appeal to and met with the Executive Director. For three of the grievances, upper management and/or the Executive Director's response to the initial grievance or grievance appeal was submitted past the time frame stated in the MOU. Upper management's response was between 27 and 48 days past the time frame stated in the grievant's MOU and the Executive Director's response was 93 days past the time frame stated in the grievant's MOU. The MOU that covers each of the four grievants states that the time frames between steps can be extended if mutually agreed upon; however, there was no documentation of such an agreement in any of these cases. Once a grievance has escalated past the second step, depending on the MOU, the Division's involvement is limited.

**Exhibit 1.3: Reasons for Non-Compliant Police Division Grievances
FY 2011-12 to FY 2013-14**

| Grievance Identifier | Incomplete Documentation | Written Response from Upper Management Late | Written Response from Executive Director Late |
|-----------------------------|---------------------------------|--|--|
| Grievance 1 | ✓ ¹ | | |
| Grievance 2 | | ✓ | |
| Grievance 3 | ✓ | ✓ | |
| Grievance 4 | ✓ | | ✓ |

¹ For this grievance, the date of the appeal to the Executive Director was not in the grievance file because the union typically appeals the grievance to the Executive Director, according to HR Division staff; therefore, we could not determine exactly how many days it took for the Executive Director to respond; however, 133 days passed from the date the mediation occurred, the step before submitting the appeal, to the date when the Executive Director responded to the appeal.

Conclusions and Recommendations

Turnover and Hiring

The division had a turnover rate lower than the national rate for all three fiscal years examined. The Division had a lower vacancy rate for FY 2011-12 and FY 2012-13 than the Port-wide average, but a higher vacancy rate in FY 2013-14. The Port Police Division stated that it does not have control over the filling of vacancies. However, the Division consistently underspent on its salaries budget during the audit

review period as shown in the Financial Management section of this report. Thus, there is evidence that the number of budgeted positions should be reduced to reduce the Division's vacancy rate.

The Division does not track the length of time to fill a non-sworn position but makes note on its monthly position control summaries regarding movement of its positions. The length of time to fill non-sworn personnel should be tracked to be able to monitor and plan for staffing shortages.

Training

For the most part, the 27 sampled Police Division employees were compliant with the City-wide training requirements. It should be noted that all 15 sworn staff positions in the audit sample were found to be in compliance with State Peace Officer Standards and Training (POST) requirements. However, the Division is not in full compliance with all other training requirements and/or was unable to produce documentation of employees attending mandated training. Human Resources and the Police Division should take steps to bring all required employees into compliance with the Disaster Service Worker Training and CPR training where most, but not all, employees were found to be in compliance. Though the Division reports compliance, training documentation could not be found for all reportedly compliant employees in the mandated areas of sexual harassment prevention, CPR and High Speed Vehicle Pursuit training.

None of the sworn police officers were in compliance with the racial and cultural diversity training course mandated by the State though the Division reports they are developing a plan for meeting this mandate with new courses being developed by the State Commission on Peace Officer Standards and Training.

Performance Evaluations

Based on the Port's reported practice of conducting performance evaluations on an annual basis, in 2011, all but one Police Division employee received a performance evaluation, or 96 percent. In 2012, the completion rate declined to 84 percent and slightly increased in 2013 to 95 percent. If we remove the four security guards whose evaluations were six-months late due to their transition between Port divisions, only three performance evaluations were not within two-months of the date of their last year's performance evaluation, indicating that the Port Police Division is conducting performance evaluations in a timely manner. To ensure that the completion rates continue to increase, Police Division management should continue to systematically track performance evaluation dates and/or use information collected by the Human Resources Division, if determined to be reliable by the Port Police Division.

Grievances

The Police Division had ten grievances filed during the audit period of FY 2011-12 through FY 2013-14 and we reviewed a sample of four. Of the four grievances, several of the steps in the grievance process were out of compliance with the timeframes stated in the employees' MOUs including upper management and the Executive Director's response to the grievance initiation and grievance appeal, respectively. Also, several dates were not recorded for significant events that occurred during the grievance process.

Human Resources Division staff noted that due to all of the parties involved in the grievance process, it can be difficult to coordinate meetings and complete grievance forms within the MOU timeframes. Human Resources Division staff further noted that in accordance with the MOUs, timeframes are commonly extended at the request of one of the parties and mutually agreed upon, but the request and agreement is often verbal and not always documented. 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.

Recommendations for the Police Division:

- 1.1 The Division should reduce the number of budgeted positions so that its staffing levels more accurately reflects its operational needs and the actual time required to fill vacancies .
- 1.2 The Division should monitor the length of time to fill each non-sworn position, in order to better manage its personnel.
- 1.3 The Police Division should continue to ensure that all required state training is recorded and accessible.
- 1.4 The Police Division should take steps to come into compliance with the racial and cultural diversity training course by January 1, 2016.
- 1.5 The Police Division should continue to track the date of staff performance evaluations or use information from the Human Resources Division for this purpose to ensure that each employee receives an annual performance evaluation in a timely manner.
- 1.6 The Police Division should take steps to ensure that dates are recorded for the steps in the grievance process in which the Division is involved so it is clear if the Division was responsible for any delays.

2. Financial Controls

Why this function was audited

The specific financial controls areas tested for this audit were:

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

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

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

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

The results of testing in each area for the Port Police 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, 2012-13, and 2013-14 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 Port Police provided its internal budget tracking documents for FYs 2011-12 through 2013-14. We examined any over- or under- budgeting by fiscal year, by month, and by accounts; and we reviewed discrepancies between ERP data and internal budget tracking documents.

FY 2011-12 – 2013-14 analysis

The Budget Operating Guidelines state that POLA divisions are expected to operate within their adopted budget. As shown in Exhibit 2.1 below, the Port Police Division underspent on its budget by \$3,173,569 in FY 2011-12 and by \$6,189,011 in FY 2013-14. The Port Police Division overspent on its budget in FY 2013-14 by \$1,961,598.

While some variance between budgeted and actual expenditures can be expected for any division as conditions change during the year compared to what was expected when the budget was prepared and the Port Police Division stated that some differences are expected due to time lags, the variance

amounts were significant and warrant a review of Division and POLA budgeting practices discussed further below.

**Exhibit 2.1: Actual Expenses Relative to Adopted Budgeted Amounts for Total Expenses,
Port Police Division, FYs 2011-12 – 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|-----------------------|----------------------|--------------------|----------------------|
| Total Adopted Budget | \$38,293,346 | \$34,914,109 | \$38,311,056 |
| Total Actuals | \$35,119,777 | \$36,875,707 | \$32,122,045 |
| Actual less Budget | (\$3,173,569) | \$1,961,598 | (\$6,189,011) |
| % Over/(Under) Budget | (8%) | 6% | (16%) |

Source: Financial Management Division (ERP)

The Port Police Division’s budget is comprised of four main categories of expenses: (1) Salaries and Benefits, (2) Other Direct Expenses, (3) Capital Equipment and 4) Allocated Expenses. Each component of the Port Police Division’s budget is now discussed.

Salaries and Benefits

As shown in Exhibit 2.2 below, the Port Police under-spent on its FY 2011-12 and FY 2013-14 salaries and benefits budgets by considerable amounts but spent close to its budgeted amount in FY 2012-13.

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

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|------------------------------------|---------------------|-------------------|---------------------|
| Salaries & Benefits Adopted Budget | \$27,741,284 | \$27,478,920 | \$30,441,835 |
| Salaries & Benefits Actuals | \$26,046,265 | \$27,740,821 | \$28,136,744 |
| Actual less budget | -\$1,695,019 | \$261,901 | -\$2,305,091 |
| % Over/(Under) Budget | (6%) | 1% | (8%) |

Source: Financial Management Division (ERP)

The salaries and benefits expenditures is comprised of budgets and actuals for salaries, paid overtime, booked overtime, and employee benefit expenses. As shown in Exhibit 2.3 below, the Port Police has been spending between 90 to 91 percent of its salaries budget in the three fiscal years examined and relatively close to its benefits budget, but over-spent on its paid and booked overtime¹ in all three fiscal years. The biggest area of variance was salary underspending, reflecting a large number of funded, but unfilled positions.

¹ Port Police staff explained that Paid Overtime covers actual payments for overtime hours worked and Booked Overtime is compensated overtime that is saved for later use as time off, thus represents a future cost to the Division.

Exhibit 2.3: Actual Expenses Relative to Budgeted Amounts for Salaries & Benefits Expenses by Account, Port Police Division, FYs 2011-12 -- 2013-14

| | Salaries | Paid Overtime | Booked Overtime (Earned) | Employee Benefits Expense | Salaries & Benefits Total |
|------------------------------|----------------------|----------------------|---------------------------------|----------------------------------|--------------------------------------|
| FY 2011-12 Budget | \$15,061,464 | \$2,372,953 | \$307,500 | \$9,999,367 | \$27,741,284 |
| FY 2011-12 Actuals | \$13,611,180 | \$2,976,191 | \$402,212 | \$9,056,682 | \$26,046,265 |
| Actuals Less Budget | (\$1,450,284) | \$603,238 | \$94,712 | (\$942,685) | (\$1,695,019) |
| % Over/(Under) Budget | (10%) | 25% | 31% | (9%) | (6%) |
| FY 2012-13 Budget | \$15,326,734 | \$2,372,953 | \$307,500 | \$9,471,733 | \$27,478,920 |
| FY 2012-13 Actuals | \$13,940,547 | \$3,617,612 | \$420,707 | \$9,761,955 | \$27,740,821 |
| Actuals Less Budget | (\$1,386,187) | \$1,244,659 | \$113,207 | \$290,222 | \$261,901 |
| % Over/(Under) Budget | (9%) | 52% | 37% | 3% | 1% |
| FY 2013-14 Budget | \$15,965,779 | \$2,372,953 | \$307,500 | \$11,795,604 | \$30,441,835 |
| FY 2013-14 Actuals | \$14,551,333 | \$3,110,114 | \$337,017 | \$10,138,281 | \$28,136,744 |
| Actuals Less Budget | (\$1,414,446) | \$737,161 | \$29,517 | (\$1,657,323) | (\$2,305,091) |
| % Over/(Under) Budget | (9%) | 31% | 10% | (14%) | (8%) |

Source: Financial Management Division (ERP)

The Port Police Division staff explained that booked overtime is supposed to be based on average actual overtime booked in prior years but has not been increased from \$307,500 in several years due to POLA efforts to control spending. The Port Police Division staff explained that the division has exceeded the booked overtime budget in recent years but not significantly enough to seek increases in the budget, and the Division covers any overages with attrition savings.

Port Police Division management stated that the unfilled positions are due to the Department's managed hiring process, which the Port Police Division does not have control over. However, the Division can manage its budget to reflect its operations and attrition. The Port Police Division has underspent in a consistent pattern on its salaries in all three fiscal years examined by 9 to 10 points. Furthermore, the Port Police Division has consistently exceeded its overtime budgeted figures, as can be seen in Exhibit 2.3 above, with the difference for overtime expenditures covered by attrition savings, according to Port Police Division staff. The Port Police Division staff explained that the overtime budget was budgeted for the three years reviewed for this audit based on FY 2009-10 actual expenditures in order to control costs. However, this effort to control overtime costs has not been effective. Therefore, the Port Police Division should adjust its budget to reflect its actual personnel and overtime use.

The Port Police Division staff explained that the overtime budget was increased in Fiscal Year 2014-15 to better match actual expenditures, taking into account additional budgeted staff, new operations, and an increase in hourly rates in employee MOUs.

Other Direct Expenses

The Port Police Division underspent on Other Direct Expenses (or all non-salaries and benefits expenditures) in all three fiscal years reviewed, as seen in Exhibit 2.4 below. At over \$1 million per year for FYs 2011-12 and 2012-13 and \$306,975 in FY 2013-14, the underspending was significant.

**Exhibit 2.4: Actual Expenses Relative to Budgeted Amounts for Other Direct Expenses,
Port Police Division, FYs 2011-12 – 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|-------------------------------|---------------------|---------------------|-------------------|
| Other Direct Expenses Budget | \$4,849,839 | \$3,831,839 | \$4,310,896 |
| Other Direct Expenses Actuals | \$3,354,569 | \$2,609,254 | \$4,003,921 |
| Actual Less Budget | -\$1,495,270 | -\$1,222,585 | -\$306,975 |
| % Over/(Under) Budget | (31%) | (32%) | (7%) |

Source: Financial Management Division (ERP)

The Port Police Division staff explained that the majority of Other Direct Expenses underspending in FY 2011-12 and FY 2012-13 was due to the slow spending on the \$2,000,000 Security System Maintenance Contract. The Port Police Division staff explained that the processes for the RFP, board approval, contract execution, invoice issuance, and grant approval contributed to the delays in the Security System Maintenance Contract and resulted in the underspending. As shown in Exhibit 2.4 above, the Port Police Division’s spending was closer to its budgeted amount in FY 2013-14.

Capital Equipment

In addition to Salaries and Benefits and Other Direct Expenses, the Division also has a capital equipment budget. As shown in Exhibit 2.5 below, Port Police Division actual expenditures on capital equipment were close to budgeted amounts in FYs 2011-12 and 2013-14, but nearly doubled the \$3.6 million budgeted in FY 2012-13.

**Exhibit 2.5: Actual Expenses Relative to Budgeted Amounts for Equipment above \$5,000
Port Police Division
FYs 2011-12 – 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|--------------------------------|-------------------|--------------------|-------------------|
| Equipment above \$5000 budget | \$5,702,223 | \$3,603,350 | \$3,558,325 |
| Equipment above \$5000 actuals | \$5,720,656 | \$7,071,703 | \$3,517,294 |
| Actual Less Budget | \$18,433 | \$3,468,353 | (\$41,031) |
| % Over/(Under) Budget | 0% | 96% | -1% |

Source: Financial Management Division (ERP)

The Accounting Division staff explained that actual capital equipment expenditures were incorrectly reported for FY 2012-13, and the Financial Management Division explained that the error was due to the implementation of the ERP system. According to the Financial Management Division, the Capital Equipment actual expenditures reported for capital expenditures for some divisions in some years were rolling sums of the current and previous fiscal years, which explains the significant variance between the Capital Equipment budget and actual expenditures the Financial Management Division reported in the Adopted Annual Budget Supporting Schedules for FY 2012-13 and shown in Exhibit 2.5 above.

After pointing out the variance in FY 2012-13 to the Port Police Division, Port Police Division staff provided a figure of \$2,344,569 as the corrected Capital Equipment actual expenditures for FY 2012-13. The corrected figure is 65% of the FY 2012-13 budgeted figure of \$3,603,350. The Port Police Division explained that the underspending was due to purchases for which funds were encumbered during Fiscal Year 2012-13 but not received that fiscal year.

While corrected figures were able to be provided to the audit team, the reporting of budgeted and actual expenditures in official POLA budget documentation needs increased accuracy. The budget and expenditure records lack transparency and do not serve as an effective reporting and management tool if the Capital Equipment budget and actual expenditures cannot be compared. The Financial Management Division explained that the reporting was corrected in FY 2013-14.

Allocated Expenses

Some POLA Divisions have Allocated Expenses to account for costs for services provided by one division to another division. Allocated Expenses are made up of Direct Allocations and Indirect Allocations. According to the Financial Management Division, Direct Allocations are for Division costs billed to work orders and paid for from POLA's capital budget such as Port Police Division labor costs incurred on capital improvement projects. Indirect allocations cover overhead costs related to capital equipment purchases and work performed by the Port Police Division and charged to the capital budget. The Financial Management Division explained that Allocated Expenses should be budgeted during the regular budget process and that it works with the Accounting Division to budget for these expenses each year for all POLA divisions.

The Port Police Division had no funds centrally budgeted for Allocated Expenses for all three fiscal years, yet Exhibit 2.6 below shows actual expenditures recorded in ERP for Allocated Expenses for the Division. The amounts shown are negative because these amounts are recovered by the Division as "transfers in" from the capital budget, offsetting the Division's Operating Budget costs.

**Exhibit 2.6: Actual Expenses Relative to Budgeted Amounts for Allocated Expenses
Port Police Division, FYs 2011-12 - 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|-----------------------------------|-------------------|--------------------|-------------------|
| Allocated Budget | \$0 | \$0 | \$0 |
| <i>Direct Allocated Actuals</i> | (\$2,520) | (\$546,071) | (\$18,711) |
| <i>Indirect Allocated Actuals</i> | \$807 | \$0 | \$92 |
| Allocated Actuals | (\$1,713) | (\$546,071) | (\$18,620) |
| Actual Less Budget | (\$1,713) | (\$546,071) | (\$18,620) |
| % Over/(Under) Budget | - | - | - |

Source: Financial Management Division (ERP)

Actual Port Police Division Allocated Expense expenditures have fluctuated significantly in the past three fiscal years, with Direct Allocations making up the majority of these costs, as shown in Exhibit 2.6 above. The Accounting Division explained that staff at each division inputs their time worked on capital improvement projects into the payroll system, and the number of hours worked is used to calculate the salary expenditures on capital improvement projects, which is the basis for the Direct Allocation actual expenditure component of Allocated Expenses. The Accounting Division also explained that each division inputs their own operating expenses for Indirect Allocated Expenses, and the Accounting Division will review the budget and actuals monthly but does not necessarily make corrections unless the numbers appear unreasonable. However, ERP shows that the Port Police Division had charges for actual Allocated Expense expenditures that had not been budgeted for in all three fiscal years reviewed.

The Port Police Division explained that it will charge to the Direct Allocations: 1) when the Division has prior knowledge of an amount that will be reimbursed for training hours from grant funds and 2) during the period from 2007 through 2013 when the Port Police Homeland Security Section managed various Port Security grants. Port Police stated that a budget plan for the management of these grants was in place when the grants were established. However, official POLA documents do not reflect this budget for the Division for any of the three fiscal years examined.

Month to Month Analysis for FY 2013-14

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

As shown in Exhibit 2.7 below, the Port Police Division under-spent its budget for 11 out of 12 months by a range of 2 to 41 percent in FY 2013-14. This highlights the need to reduce its budget to reflect historical actual expenditures.

**Exhibit 2.7: Year-to-Date Actual Expenses Relative to Year-to-Date Budgeted Amounts,
Port Police Division, FY 2013-14**

| FY 2013-14 | Monthly Budget | Monthly Actuals | \$ Variance | % Over/(under) budget |
|----------------------|---------------------------|------------------------|--------------------|--------------------------------------|
| July | \$4,036,285 | \$2,242,133 | (\$1,794,153) | -44% |
| August | \$3,728,407 | \$2,495,028 | (\$1,233,379) | -33% |
| September | \$4,125,700 | \$2,445,570 | (\$1,680,129) | -41% |
| October | \$3,050,631 | \$2,890,756 | (\$159,875) | -5% |
| November | \$3,083,326 | \$2,463,810 | (\$619,516) | -20% |
| December | \$3,085,983 | \$2,776,368 | (\$309,615) | -10% |
| January | \$2,920,880 | \$2,123,810 | (\$797,070) | -27% |
| February | \$2,834,763 | \$2,504,419 | (\$330,343) | -12% |
| March | \$2,867,802 | \$2,819,701 | (\$48,100) | -2% |
| April | \$3,019,727 | \$2,133,850 | (\$885,877) | -29% |
| May | \$2,740,462 | \$2,623,802 | (\$116,660) | -4% |
| June | \$2,734,065 | \$4,062,066 | \$1,328,001 | 49% |
| END OF YEAR TOTAL | \$38,228,030 ² | \$31,581,313 | (\$6,646,716) | -17% |

Source: Financial Management Division (ERP)

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

POLA's Budget Operating Guidelines require that divisions operate within their adopted budget and therefore monitor their budget activities to ensure expenditures are transacted within allocations as approved by the Board of Harbor Commissions. The Budget-to-Actual Report provided to all divisions by the Accounting Division shows the fiscal year-to-date approved budget, actual expenditures, and unexpended budget, and assists divisions in monitoring their respective budgets.

The Port Police Division has expressed concerns regarding the accuracy and timeliness of the data on ERP, and thus the Port Police 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 internal records serve to let the Port Police Division monitor its available funds in real time, while ERP data is utilized for reconciliation at an aggregate level. The two databases therefore may not match throughout the year, but actual expenditures are reconciled monthly and would match at year's end.

² The end-of-year total for FY 2013-14 in Exhibit 2.7 shows the adjusted budget, which captures the adopted budgets and any transfers made throughout the year, whereas Exhibit 2.1 shows only the adopted budget. Furthermore, at the time of this analysis, only preliminary FY 2013-14 monthly budget figures were provided. The final budget figures for FY 2013-14 were an adjusted budgeted amount of \$38,223,045 and actuals of \$32,122,045, an underspending by 16%.

Division staff explained that each captain is provided a monthly budget and expenditure report to review available fund. The Division also explained that it will report monthly on the status of POLA's Available Funds Report for the division, noting any over- or under-spending for the month and if any overages or under-spending in any one account is anticipated.

As shown in Exhibit 2.8 below, discrepancies were found between the ERP and Division accountings of actual expenditure amounts for the Division's other direct expenses, which excludes salaries and benefits and allocated expenses, for each year between FYs 2011-12 and 2013-14. According to the Port Police Division, the Division's actuals reflect encumbrances for annual Purchase Orders and blanket authorities for the fiscal year. The Division was unable to provide internal records that showed a summary reconciling the budget reported amounts by the Financial Management Division and the internal Port Police Division reported amounts.

These differences indicate that the Division is not operating with the same set of financial records as in ERP. Except for FY 2013-14, the variance between central and Division records of actual expenditures were significant. The records should agree to ensure that Division management is controlling its expenditures.

**Exhibit 2.8: Actual Other Direct Expenses as Reported by ERP and Port Police
Division Records,
Port Police Division, FYs 2011-12 – 2013-14**

| Source | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|-------------------------------|--------------------|--------------------|-------------------|
| Central (ERP) Actuals Amount | \$3,354,569 | \$2,609,254 | \$4,003,921 |
| Division Actuals Amount | \$4,268,157 | \$3,434,654 | \$4,093,384 |
| Division less ERP Records | (\$913,588) | (\$825,400) | (\$89,463) |
| <i>% Over/(Under) Central</i> | -27% | -32% | -2% |

Source: Accounting Division (ERP) and Port Police records

Transfers

According to the Financial Management Division, 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 transfers between the Port Police and other POLA divisions' budgets throughout the year. Exhibit 2.9 below shows the results of the net transfers in and out of the Port Police Division's budget between FYs 2011-12 and 2013-14, as identified in ERP records. As can be seen, the transfers ranged from \$16,514 in FY 2012-13 to approximately \$6.2 million in FY 2013-14.

**Exhibit 2.9: Port Police Transfers as Reported by ERP
Police Division, FYs 2011-12 -- 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|------------------------------------|-------------------|-------------------|-------------------|
| <i>Adopted Budget</i> | \$38,293,346 | \$34,914,109 | \$38,311,056 |
| <i>Adjusted Budget</i> | \$32,685,774 | \$34,897,595 | \$32,122,045 |
| Adopted - Adjusted (net transfers) | \$5,607,572 | \$16,514 | \$6,189,011 |

Source: Financial Management Division (ERP)

However, a comparison of the record of transfers identified in ERP to the Division’s internal records revealed significant variances ranging from \$222,313 to over \$6 million for the three years reviewed, as shown in Exhibit 2.10 below.

**Exhibit 2.10: Port Police Transfers as Reported by ERP and Port Police Division Records
Police Division, FYs 2011-12 -- 2013-14**

| | FY 2011-12 | FY 2012-13 | FY 2013-14 |
|--|--------------------|--------------------|--------------------|
| Adopted less Adjusted (transfers) from ERP | \$5,607,572 | \$16,514 | \$6,189,011 |
| Transfers Recorded in Police Division Records | \$204,501 | \$238,827 | \$187,873 |
| <i>Variance between ERP and Police Records</i> | \$5,403,071 | (\$222,313) | \$6,001,138 |

Source: Financial Management Division (ERP) and Port Police Division

The comparison between ERP and Division transfer records reveal a difference in the manner in which budget adjustments are recorded. Port Police Division records show transfers as budget expenditures on accounts, whereas ERP records show transfers as adjustments to the budget. The Port Police Division uses internal records on transfers for internal management purposes only to ensure that accounts are not overspent and uses ERP for monthly reconciliation. However, the variance in transfers between what was recorded in the Division’s internal records and what was recorded in ERP were significant, and the data should be reviewed and reconciled to ensure that the Port Police Division’s internal records match the ERP recording of transfers.

Conclusions and Recommendations

The Port Police Division under-spent on its budget in FY 2011-12 and FY 2013-14 but overspent on its budget in FY 2012-13. Division staff reports the under-spending in FY 2011-12 was largely due to spending less than planned on the \$2,000,000 Security System Maintenance Contract, while the situation in FYs 2011-12 and 2013-14 was due to underspending generally on salaries, benefits, and other direct expenses. The Division and other POLA staff should improve the budgeting process to better match division budgets to reflect historical and actual future need.

The Port Police Division has stated that budgetary needs vary due to adjustments in mission execution, equipment, and technical systems and that historical data should not be a significant driver of development of future budgets. Further, Division management states that the Port Police plays a

significant role in the security of the Harbor operations and the budget should be reflective of various initiatives. However, components of the budget such as salaries and overtime have showed consistent trends over the three fiscal years examined and could be adjusted to reflect evidenced operational needs.

The Port Police Division's nearly \$2 million in overspending in FY 2012-13 was primarily due to overspending on capital equipment. Port Police Division staff explained that the error was due to the use of different capital equipment accounts in the transition to ERP, which resulted in an error of adding multiple years of expenditures into the total for FY 2012-13. Given the significant discrepancy between budgeted and actual expenditures in FY 2012-13, expenditure data should have been reviewed in the ERP transition to ensure that accurate information was uploaded and should have been reviewed during the budget reporting process to ensure that accurate information was reported.

The Port Police Division should work with the Financial Management division to better plan for and manage their charges capital improvement projects, which are reported as Direct Allocation expenditures. The Port Police Division explained that a budget plan for Direct Allocations for the Port Security grant funds management exists, but official POLA budget documents do not reflect this budget for the Division for any of the three fiscal years examined.

The Port Police Division expressed concerns regarding the accuracy and timeliness of ERP data. The Port Police Division staff also explained that internal records allow for record keeping in greater detail and allow for more immediate staff access to budget information, instead of awaiting uploads of ERP data by the Accounting Division. The Port Police Division staff has also explained that it works to regularly reconcile its records with ERP and correct errors in ERP data. The Port Police Division staff also explained that ERP has evolved since its initial implementation to allow for greater detail in the system, and staff has been increasing its use of ERP. Thus, the Port Police Division should continue to maintain internal budget records to effectively manage its operations, but work to improve reconciliation efforts between Division records and ERP records.

Recommendations for the Port Police Division

- 2.1 The Port Police Division should reconcile Division budgeted and actual expenditure amounts with ERP data, keeping adequate records of any transfers made throughout the year and end of year actual expenditures, to ensure that the Division is operating within the same financial constraints as recorded in ERP.
- 2.2 The Port Police Division should work with appropriate Divisions to train staff to more fully utilize ERP and its functions more expediently so that the central database reflects the level of detail the Division requires in managing its operations.
- 2.3 The Port Police Division should work with the Financial Management Division to more accurately assess work that will be performed by the Police Division on capital improvement

projects for each budget year and identify and include amounts that will be recovered for such work in the Police Division budget.

Recommendations for Other Port Divisions

- 2.4 The Accounting Division should input data in a timely and accurate manner so that information on ERP serves as an effective management tool for Division operations.
- 2.5 The Accounting Division should work with the Division to reconcile ERP records and Division records.
- 2.6 The Financial Management Division should work with the Division to streamline the process of budgeting Allocated Expenses for POLA divisions in order to ensure that budgeting for Allocated Expenses adequately captures the expenses Divisions incur to enhance Division and Port-wide management of the Allocated Expenses accounts.

2.B. Purchase Orders

Standards and Procedures

Purchasing guidelines are outlined in Sections 370 and 380 of the City Charter and are further detailed in Divisions 9 and 10 of the City Administrative Code. Resolutions approved by the Board of Harbor Commissioners (the Board) also provide requirements for purchases that have been delegated to the Board for execution. The Port of Los Angeles' Contracts and Purchasing Division (CPD) developed a draft purchasing manual in 2012 that draws from all of these sources. The purchasing manual describes who can authorize purchases of certain dollar amounts, the Port's purchase requisition process, and the complete purchasing process for purchases of various dollar amounts.¹ According to the draft 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.² 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.

According to the CPD Purchasing Manual and internal memorandums, purchases less than \$25,000 require a quote from only one vendor; purchases greater than \$25,000 but less than \$100,000 require CPD staff to solicit a minimum of three vendors when possible; and purchases greater than \$100,000 require the purchase to be advertised in the Los Angeles Business Assistance Virtual Network (LABAVN) and the POLA Website and a minimum of three bidders is should be solicited by CPD staff when possible.

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 is for a short period of time where a formal contract would not be efficient. In accordance with the Los Angeles Administrative Code Section 10.2, all AFE's greater

¹ 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.

² AFEs do not require quotes.

than \$1,000 must be reviewed and approved by the City Attorney. Following City Attorney approval, the AFE must be submitted to the Controller before the service is provided.³

The General Accounting Encumbrance Interdepartmental Order (GAEID or IDO) can be used to encumber funds for materials or services provided by another City department or fund. Both the AFE and GAEID represent a contractual commitment and records obligations before goods are received or services are rendered.⁴

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 Police Division executed approximately 331 procurements from August 1, 2012, when the Port's current ERP system was initially implemented, through FY 2013-14 totaling approximately \$5,106,554 as shown in Exhibit 2.11 below. This consisted of 224 one-time purchase orders, 79 Authorities for Expenditure (AFEs), ten interdepartmental orders (GAEIDs or IDOs) and 18 purchase agreements that were active during the audit period.^{5 6} We selected a sample of approximately 10 percent, or 35 procurements, from this time period consisting of 22 one-time purchase orders, seven purchase agreements, four AFEs and two GAEIDs. We reviewed invoices and payment records for the procurements in the sample to ensure that the procurement expenditures were in compliance with the City's and POLA's procurement policies and payment procedures.

³ Controller Manual Revised March 2013: 1.4.3.1 General Accounting Encumbrance.

⁴ Ibid.

⁵ Active during the audit period means that the agreement could have been executed prior to the audit period but purchases were made during the audit period which is from October 1, 2012 to FY 2013-14.

⁶ The 20 purchase agreements consist of the IT Division's one-year agreements and do not include sub-purchase orders from these agreements.

Exhibit 2.11: Police Division Procurement Summary, August 1, 2012 to FY 2013-14

| Type | Number of Procurements | Total Estimated Procurement Amounts |
|---------------------------|-------------------------------|--|
| Purchase Agreements | 18 | \$403,810 [#] |
| One-Time Purchase Orders | 224 | \$4,492,265 |
| Authority for Expenditure | 79 | \$155,647 |
| Interdepartmental Orders | 10 | \$54,832 |
| Total | 331 | \$5,106,554 |

Source: POLA Information Technology Division Central Purchasing Reports

* This number is based on funds that were released for each agreement by the Port as of 7/7/14; however, funds could have been released prior to August 1, 2012 if the agreement is for one-year and was executed prior to the audit period, but was active during the audit period.

51 percent of our sample, or 18 procurements, were less than \$25,000; 34 percent, or 12 procurements, were greater than \$25,000 but less than \$100,000; six percent, or two procurements, were greater than \$100,000 but less than \$150,000 and nine percent, or three procurements, were greater than \$150,000.

The sample procurements were in compliance with City and POLA procurement policies as quotes were received by CPD for all sampled procurements under \$25,000. For seven of the 11 procurements that were greater than \$25,000 but less than \$100,000, three or more vendors were solicited or the opportunity was publically advertised on LABAVN as shown in Exhibit 2.12. Three Police Division procurements that were greater than \$25,000 but less than \$100,000 were sole source: one was for a rent payment for using a specific site that was owned exclusively by the vendor, one was for a warranty for a specific manufacturer and the last was for a service that reportedly only one vendor was qualified to provide, as documented in the procurement's file.

Exhibit 2.12: Competitive Bidding Details for Police Procurement Sample, August 1, 2012 to FY 2013-14

| Competitive Bidding Details | Procurements |
|--|---------------------|
| <i>Procurements Over \$100,000:</i> | |
| Advertised on LABAVN | 5 |
| <i>Procurements \$25,000 to \$100,000:</i> | |
| Three or More Vendors Solicited | 6 |
| Solicited on LABAVN | 1 |
| Sole Source | 3 |
| Corporate Purchasing Agreement | <u>1</u> |
| <i>Subtotal</i> | <i>11</i> |
| Total | 16 |

Based on our review of invoices, 69 percent of the procurements in the sample were compliant with the City’s and Port’s payment procedures while 31 percent, or 11 procurements, were not in compliance, as shown in Exhibit 2.13 below. The nine non-complaint procurements consisted of five, one-time purchase orders and four AFEs for training courses. Two IDOs for services from the City’s Information Technology Agency (ITA) were not approved until after the services were provided but such approval is not explicitly required by City or POLA policies. The five purchase orders were out of compliance because the service was rendered or product purchased before the purchase order was approved.

**Exhibit 2.13: Compliance Summary of Police Division Procurement Sample,
August 1, 2012 to FY 2013-14**

| Procurement Type | Number of Procurements In Compliance | Percentage of Sample in Compliance | Number of Procurements Out of Compliance | Percentage of Sample Out of Compliance | Total |
|---|---|---|---|---|--------------|
| AFE or IDO | 2 | 6% | 4 | 11% | 6 |
| Under \$25,000 | 10 | 29% | 3 | 9% | 13 |
| More than \$25,000 but less than \$100,000 | 9 | 26% | 2 | 6% | 11 |
| More than \$100,000 but less than \$150,000 | 2 | 6% | 0 | 0% | 2 |
| Over \$150,000 | 3 | 9% | 0 | 0% | 3 |
| Total | 26 | 74% | 9 | 26% | 35 |

Source: Harvey M. Rose Associates, LLC based on sample data provided by POLA Police and Accounting Division

The four non-compliant AFEs did not receive required approvals prior to the training taking place. Two AFEs were not approved by the City Attorney or Department Head (division head at the Port) until after the training occurred and the remaining two AFEs did not receive City Attorney or Division Head approval at all.⁷ Additionally, only one of the four AFEs received the Division Head’s approval prior to the event occurring while two AFEs received the Division Head’s approval after the event occurred. The fourth AFE was signed by the Division Head but was not dated therefore prior approval could not be determined.

Similarly, as mentioned above, the two IDOs were not approved until after the service was provided. The two IDOs were for annual or several months of services provided by the ITA to the Police Division. The Police Division was billed at the end of the period which is when the IDO was created and approved.

⁷ City Attorney signature is required for AFE’s over \$1,000 pursuant to the Controller’s Revised Manual March 2013: 1.4 Contract Budget and Encumbrance Processes

According to Accounting Division staff, while the City policy generally is to obtain approval for encumbrances prior to services being rendered, this policy is not necessarily followed Citywide and is not explicitly required for interdepartmental orders though it represents a good practice to ensure that committed funds are encumbered as soon as possible.

Accounting Division staff report that the IDO cannot be created until after the City department providing the service sends the invoice and supporting documentation to the Accounting Division. For both IDOs, the ITA did not provide the invoice until after the service had been rendered; however, Police Division staff reports that the Division and ITA had agreed upon the charges prior to the initiation period. One IDO was paid under an MOU agreement between POLA and ITA. Accounting Division staff further noted that, in most cases, the IDO is prepared only for the purpose of completing the payment instead of obtaining authorization and confirming the agreement in advance. Accounting Division staff explained that there are other agreements and internal memorandums between the providing and receiving departments and divisions that serve this purpose.

Conclusions and recommendations

In the sample procurements reviewed, the Police Division and CPD were in compliance with the City's and POLA's procurement policies and procedures related to competitive bidding; however, the Police Division was not always in compliance with the City's and Port's procurement payment policies. While the majority of procurements received required approvals prior to purchasing the product or service, others did not. None of the AFEs and IDOs in the sample received approval prior to the service being rendered. Accounting Division staff report that IDOs are not typically used by City departments as authorization for providing and receiving interdepartmental services but that there are other agreements made and memorandums sent between departments that serve this purpose.

Recommendations for the Police Division

- 2.7 Police Division management should take steps to ensure that Division staff is not receiving goods and services prior to the purchase order or AFE being approved by all required POLA staff.

Recommendations for other POLA divisions

- 2.8 The Accounting Division should adopt a policy of not processing invoices if the invoice date or event date precedes the purchase order date without written explanation from a manager from the appropriate division.
- 2.9 The Accounting Division should make recommendations to the City to clarify the policy regarding approving and encumbering funds for interdepartmental services through IDOs or develop a Port-wide policy that better serves the needs of the Port while providing adequate financial controls. This policy should be approved by POLA management and distributed to all divisions.

2.C. Police Division Purchase Cards

Standards and Procedures

The Port does not have its own specific policies and procedures related to use of purchasing cards 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 Police 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 Police Division. 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 Police Division’s compliance with the Cardholder Manual, POLA’s Accounting Division provided the charges for the cards assigned to the Division for FY 2013-14, during which time there were a total of 350 transactions made under the Purchasing Card program for the Police Division with a total value of \$117,176.26. All purchases were made on eight cards assigned to eight employees of the Division. We selected a judgmental sample of 31 transactions, or about nine percent of the 350 total transactions for the Police Division, with a value of \$17,119.64 made on a total of 5 Purchasing Cards. Supporting documentation of the application for the card, proof of purchase, and payment with Accounting were examined.

All 31 transactions were in compliance with the limit of \$1,000 per transaction, the limit of \$5,000 per monthly cycle, the limit of 30 transactions per cycle, and the limit of 10 transactions per day. An itemized receipt or invoice was provided for all thirty-one transactions. However, three of the 31 transactions were not in compliance with the acceptable uses of the Purchasing Card. The Purchasing Card Manual strictly prohibits the purchase of items such as electronic items, computer hardware, and computer peripherals. One purchase of \$431.08 was used for a computer monitor and computer peripherals. Two purchases of \$714.37 and \$970.92 each were made for electronic equipment.

Nine of the 31 transactions were completed at the vendor location, while 22 of the 31 transactions were completed by Internet, phone, mail, or fax. For purchases completed at the vendor location, the Purchasing Card Manual requires the cardholder to obtain an itemized original invoice or customer receipt, to sign the invoice or receipt, and submit the signed invoice or receipt to Accounting. However, none of the nine transactions showed receipts or invoices with the cardholder signature.

Furthermore, the Purchasing Card Manual requires cardholders to have another individual (a City employee from the same unit and at an equal or higher classification as the cardholder) review the invoices, verify the costs, and confirm receipt of goods by signing the invoice or receipt for all purchases.

The verification and confirmation of receipt of goods is an important control for purchases not completed at the vendor location to ensure that charges are not falsified. Six of the 31 transactions showed evidence of this review, while the 25 other transactions, or 81% of the sampled transactions, showed no evidence of review. Of the six transactions showing evidence of review, only two identified the reviewing individual. All six showing evidence of review were purchases completed by internet, phone, mail, or fax, and the 16 other transactions, or 73 percent of the 22 transactions completed by Internet, phone, mail, or fax, showed no evidence of review by another City employee.

The Purchasing Card Manual requires that the original documents and the Purchasing Card Payment Record (PCPR) are sent to the Accounting Division within 10 business days of the closing cycle date. Twenty transactions, or 65 percent of the 31 transactions, were not in -compliance with the requirement to submit all documentation to the Accounting Division within 10 business days of the closing cycle date. The 20 transactions were in non-compliance for a range of six to 392 business days.

Conclusion and Recommendations:

The Purchasing Card Program was established to create a more efficient, cost-effective method of paying for low-valued items and strictly prohibits the purchase of items such as electronic items, computer hardware, and computer peripherals. Of the 31 samples, three were used for prohibited purchases. The purchases were audited by the Accounting Division on June 17, 2014, but no subsequent or corrective action was taken on the 3 purchases. There is a lack of control on the use of Purchasing Cards and in the audit process by the Accounting Division.

Cardholders are also not signing the invoices or receipts for purchases made at the vendor location, and the Division is not adequately reviewing invoices, verifying costs and confirmation of receipt of goods. Division employees are also not submitting documentation to the Accounting Division in a timely manner.

Recommendations for the Police Division

- 2.10 The Police Division should conduct one or more training sessions to instruct Division employees on the requirements and restrictions to the use of Purchasing Cards.

Recommendations for other divisions

- 2.11 The Accounting Division should conduct due diligence when auditing purchases to ensure compliance with the Purchasing Card Manual.

2.D. American Express Cards

Standards and Procedures

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

Risk

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

Audit Tests and Results

To test the Port Police Division's compliance with the AMEX Policy and Procedures, the Port Police Division provided the charges for the card assigned to the Division for FY 2013-14. During FY 2013-14, there were a total of 88 transactions made with the AMEX card for the Port Police Division for a total of \$21,564. All purchases were made on two cards assigned to two employees of the Port Police Division. A judgmental sample was taken. Nine transactions, or approximately 10 percent of the Port Police Division's 88 total transactions during the period reviewed, were tested for the Port Police Division against pertinent Port and City policies procedures. Supporting documentation of the application for the Purchasing Card, proof of purchase, the expense report, and payment were examined.

The AMEX Policy and Procedures require the submission of personal expense statements to the Accounting Division's Program Administrator of the American Express Charge Card and Meeting Planners' Account Program on or before the tenth calendar day following the date the travel or business purchase is completed. Of the nine transactions reviewed, none were in compliance with this requirement. The non-compliance ranged from six to 337 calendar days, with a median of 36 days, as shown in Exhibit 2.14 below.

All nine transactions were paid timely by the Accounting Division, and the expense report for one transaction was submitted to the Accounting Division in a timely manner. However, for eight of the nine transactions, the Port Police Division submitted the expense report 8 to 313 calendar days after the Accounting Division approved the transactions for payment, with a median of 36 days, as shown in Exhibit 2.14 below.

Exhibit 2.14: Number of Days between Expense Reports Submitted in Excess of 10 Day Requirement, Police Division, FY 2013-14

| Police Sample # | Date travel/business completed | Date expense reported submitted | # Days expense report submitted after travel/business completion | # Days of non-compliance | Date Accounting Division approved payment ^[1] | # Days expense report submitted after payment made |
|-----------------|--------------------------------|---------------------------------|--|--------------------------|--|--|
| 1 | 7/25/2013 | 8/12/2013 | 18 | 8 | 7/31/2013 | 12 |
| 2 | 7/15/2013 | 8/12/2013 | 28 | 18 | 7/31/2013 | 12 |
| 3 | 7/21/2013 | 9/5/2013 | 46 | 36 | 7/31/2013 | 36 |
| 4 | 6/30/2013 | 9/5/2013 | 67 | 57 | 7/31/2013 | 36 |
| 5 | 8/21/2013 | 10/30/2013 | 70 | 60 | 8/28/2013 | 63 |
| 6 | 8/30/2013 | 8/12/2014 | 347 | 337 | 10/3/2013 | 313 |
| 7 | 12/27/2013 | 3/14/2014 | 77 | 67 | 2/4/2014 | 38 |
| 8 | 5/19/2014 | 6/11/2014 | 23 | 13 | 6/3/2014 | 8 |
| 9 | 6/9/2014 | 6/25/2014 | 16 | 6 | 7/1/2014 | -6 |
| Median | | | | 36 | | 36 |

Source: Accounting Division

POLA's AMEX Policy and Procedures do not specify that expense reports must be submitted before the approval for payment; however, the Program Administrator is responsible for confirming compliance with City policies related to travel, business, and meeting event related services. The Program Administrator can only review the expense reports after the cardholder has manually created the expense report and Port Police Division management has reviewed the transactions before final routing to the Program Administrator for review. The Program Administrator is also responsible for ensuring timely and proper invoice payment, and the delay in the Port Police Division's submission of the expense reports prevents timely review for compliance by the Program Administrator prior to payment.

According to the AMEX Policy and Procedures and the City Controller's Travel Manual, it is the cardholder's responsibility to secure all the appropriate written approvals prior to travel. The Controller's Travel Manual requires the cardholder to create and submit an encumbering document called the General Accounting Encumbrance Travel (GAETL) document to the Controller's Office ten business days prior to travel. According to the Accounting Division, the Controller's policies have

changed and now the requisition (which shows the three lines: Registration, Airfare, Expenses) along with the supporting documents (the travel memo and Travel Authority Form) serves as the GAETL. The requisition and supporting documents must be submitted to the Controller's Office ten business days prior to travel per the travel policy.

The Port Police Division had one travel transaction (sample #8), and the expense report was not submitted in ERP in a timely manner. According to the AMEX Policy and Procedures, the cardholder should submit the receiving report or personal expense report to the Accounting Division within ten calendar days after the purchase of an item or a service or a return from the trip. The expense report was submitted 23 calendar days after the travel was completed, or was 13 calendar days in non-compliance.

POLA's AMEX Policy and Procedures states that phone charges are typically not acceptable and subject to approval by the City Controller in accordance with the City Travel Policy. However, two of the transactions tested, sample #3 and #7, were for phone related charges and did not receive City Controller approval.

Other notes

The latest AMEX Policy and Procedures were adopted in 2008 and should be updated to reflect changes in POLA operations due to implementation of the ERP system. For example, the ERP system does not use the GAETL. Furthermore, the ERP system does not make a distinction between a receiving report for non-travel expenses and personal expense statements for travel expenses: the ERP system only uses expense reports. Furthermore, some language should be removed from the AMEX Policy and Procedures. For example, the AMEX Policy and Procedures require submission of receiving reports or personal expense statements to the Accounting Division with "Attention American Express Program Administrator" written on them as part of supporting documentation for all charged items. This process of submitting these documents to the Accounting Division is now automated within the ERP system, where non-Accounting Division staff can create and submit expense reports that will automatically populate in the Accounting Division's expense report audit module.

The only consequence to violation of the AMEX Policy and Procedures is repayment by the cardholder for non-allowed expenses. This is not a sufficient preventative measure against violation of the allowed usages. The AMEX Policy and Procedures should include more severe consequences for violation, such as suspension for repeated offenses, disciplinary action for fraudulent usages, and possible termination of employment for abuse of AMEX cards, at the department's discretion.

Conclusions and Recommendations

POLA and Port Police Division controls are inadequate for ensuring timely review of AMEX transactions for compliance with relevant City and POLA policies. Cardholders should ensure they are obtaining the appropriate approvals and submitting the expense reports to the Accounting Division's Program Administrator in a timely manner.

Further, the Port Police Division is utilizing their card for purposes that the AMEX Policy and Procedures does not allow.

Recommendations for Port Police Division

- 2.12 The Port Police Division should submit expenditure reports with all supporting documentation to Accounting in a timely manner in order to ensure timely and proper invoice payment of AMEX expenditures.
- 2.13 The Port Police Division should review the AMEX Policy and Procedures to ensure that the Division is following guidelines for the appropriate use of AMEX cards.

Recommendations for other Port divisions

- 2.14 The Accounting Division should enforce Division submission of expense reports with all supporting documentation in a timely manner in order to ensure compliance with the relevant policies and procedures.
- 2.15 The Accounting Division should review and update the AMEX Policy and Procedures to incorporate revised practices based on ERP implementation and use.
- 2.16 The Accounting Division should update the AMEX Policy and Procedures to reflect greater punitive measures for violation of the acceptable uses of AMEX cards to ensure compliance.

2.E. Accounts Receivable

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

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

Port Policy requires that a physical inventory of assets be conducted every two years to ensure that Port records are complete, correct, and the equipment is in the possession of the division in charge of such. To comply with this requirement, POLA's Accounting Division maintains the Fixed Assets Ledger, a master list of all POLA capital assets, and updates it biennially (every two years) by sending the master list to all POLA divisions who are asked to update it by removing any items salvaged or moved to other divisions and adding any new items not already on the list.

In the most recent biennial inventory in June 2013, POLA's central documentation identified approximately 750¹ capital assets as assigned to the Port Police Division. The Accounting Division requested that all divisions review the listing of capital assets assigned to them, physically locate such assets, verify the information provided, and indicate any exceptions or discrepancies. The Port Police Division provided a response for every item on the list, with the vast majority of items reported as still in the Division's inventory. The Port Police responded that about 675², or 90 percent, of the items on the inventory list were in the Division's possession while 22, or approximately three (3) percent, were not in the possession of the Division. Additionally, the Port Police reported to the Accounting Division that the Division could not identify 56 items, or approximately seven (7) percent of all capital assets associated with the Port Police, due to a lack of sufficient descriptive information.

In addition to reviewing the most recent biennial inventory, the audit team also reviewed a randomly selected sample of 60 of 550 items that the Accounting Division had indicated were assigned to the Port Police as of June 2014. Of these 60 items, the Port Police staff was able to identify and the audit team was able to confirm the location of 40 items, or 67 percent of the items in the sample. The Port Police staff was unable to determine the identity or location of sixteen items, or 26 percent of the sample, eleven due to an insufficient amount of identifying information from the asset database used by the

¹ Note that we estimated the number of capital assets assigned to the Port Police since the Accounting Division's inventory did not include a count and was not available in an electronic form (e.g. as a spreadsheet).

² Ibid

Accounting Division and five due to the absence of serial numbers in the inventory. Further details of our review can be seen in Exhibit 2.14 below.

Exhibit 2.15
Results: Review of Sample of 60 Port Police Capital Assets

| Result | Number of Items | Percent of Sample |
|--|-----------------|-------------------|
| Number of Assets in POLA Fixed Assets Ledger Identified by Port Police as in their Possession & Confirmed by Auditor | 40 | 67% |
| Number of Assets that Could not be Identified by Port Police due to Insufficient Identifying Information in POLA Asset Inventory | 11 | 18% |
| Number of Assets Not Confirmed by Port Police due to Absence of Serial Numbers (Rifle Scopes) ^a | 5 | 8% |
| Tax Refunded or Paid ^b | 2 | 3% |
| Transferred to IT Division | 1 | 2% |
| Item Replaced by Manufacturer | 1 | 2% |
| Total Items | 60 | 100% |

Source: Review of Sample of Capital Assets Assigned to Port Police

^a Five of the items in the sample were rifle scopes which are in the possession of the Port Police and catalogued in the Division’s internal equipment inventory system. However, the asset database used by the Accounting Division does not include information, such as a serial number, that would specifically identify each of these items.

^b Two of the items in the sample were related to taxes paid or refunded to the Port Police.

POLA’s current approach is not effective to fully and accurately account for all capital assets. Although the Accounting Division conducts biennial inventories in accordance with City Controller requirements, there appears to have been little to no follow up to update the Port’s asset database based on the Division’s responses. For instance, one item from our sample, a Motorola Antenna Cable Radio (Asset Number 5354), was listed as residing with the IT Division by the Port Police during the 2013 inventory, but the record was never researched or updated by the Accounting Division to reflect the reported transfer in the asset database. Similarly, as mentioned above, the Port Police were unable to identify 56 capital assets during the 2013 inventory and indicated the reason (for each applicable item) as “requires more descriptive information.” However, there was no follow up process between the Port Police and the Accounting Division to determine the location of these items. Discrepancies between the central documentation and Port Police Division specific inventory indicate a weakness in internal controls and a heightened risk of potential fraud, abuse and misuse of POLA assets.

Although not required to do so, the Port Police Division maintains its own internal records of capital assets to track and manage its inventory. However, the database used by the Port Police does not track

items using the same identifying information as the Accounting Division (e.g. asset number³, “infor asset” number, and job facility/tag number), which has led to multiple discrepancies. Further, the asset database used by the Accounting Division does not consistently include serial numbers and does not include other information that Port Police staff note would be helpful for identifying assets such as purchase order numbers or contract numbers.

Finally, audit staff reviewed POLA and Division specific policies and procedures for inventory control, including but not limited to the delivery, receipt, and recording of equipment; distribution to staff (including uniformed staff); the inventory and auditing of equipment; grant funded equipment; and, the destruction or salvage of equipment. 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 Port Police Division, the Division should work with the Accounting Division to ensure that there are consistent tracking numbers and to reconcile the Port Police equipment inventory with the POLA Fixed Assets Ledger (assets database). Discrepancies between central documentation and Division-specific inventory indicate a risk of potential fraud, abuse, and misuse of POLA assets.

Recommendations for the Port Police Division

- 2.17 The Division should work with the Accounting Division to ensure that consistent tracking numbers are used in both systems (e.g. purchase order numbers, contract numbers, and/or asset serial numbers) so that biennial inventories are conducted efficiently and effectively and to ensure that the Port-wide Fixed Asset Ledger/asset database is current and accurate.

Recommendations for other POLA Divisions

- 2.18 Centralized staff responsible for maintaining POLA’s capital inventory should follow up and work with the Port Police and other divisions when such division staff indicates that additional information is required to identify an asset or when division staff indicates that an item has been transferred or has been salvaged.
- 2.19 The Accounting Division should consult with Port divisions on the creation of one or more fields in the asset database (ERP) to assist divisions in identifying assets. The Accounting Division should at least consider adding the asset purchase order number, contract number, and/or asset serial number where applicable.
- 2.20 The results of the biennial inventory, after discrepancies have been resolved between the Accounting Division and all other divisions, should be provided to executive management.

³ Port Police staff stated that the Division began tracking assets with the asset number in the spring of 2014 so that there could be some tie back to the database used by the Accounting Unit.

3. Contracts

Why this function was audited

Professional service contracts were reviewed because the responsibility for awarding and managing high-dollar professional service contracts adds risk to a division. From FY 2011-12 to FY 2013-14, the Port executed 255 professional contracts amounting to \$995,073,848. Awarding professional service contracts to the most qualified bidder helps to ensure that the services provided to the Port are of the highest quality and appropriate price. Once awarded, the Port must manage their contracts effectively so that contractors are paid on time, for the agreed upon service and agreed upon price. Failing to adhere to the City's and Port's contracting policies and procedures could lead to increased costs to the Port, reduced productivity 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 Services Agreement

Standards and Procedures

Professional service agreement requirements are codified in the City of Los Angeles' Charter and Administrative Code and further qualified by Port memorandums and Board of Harbor Commissioners' resolutions. Among the requirements, the Charter and Administrative Code provide contract solicitation requirements and competitive bidding requirements to which the Port must adhere. According to the Contracts and Purchasing Division (CPD), there are several sections in the Administrative Code that the Port has not adopted as a policy such as certain vendor qualifications.

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

Risk

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

Audit Tests and Results

To determine the Police Division's compliance with the policies and procedures outlined in the City Charter and Administrative Code as well as the draft CPD manual and RFP Checklist developed by CPD, we selected a judgmental sample of six out of Police Division's ten professional service contracts, or 60 percent, that were active during the audit period from FY 2011-12 to FY 2013-14 as shown in Exhibit X below. We manually reviewed the six contract files which included documentation of the RFP process, the final contract and required approvals. We also reviewed invoices for each contract in the sample to ensure that the contract expenditures and payment procedures were consistent with the contract terms, scope of work and City and POLA contract and payment policies.

**Exhibit 3.1: Police Contract Sample Summary,
FY 2011-12 through FY 2013-14**

| Vendor Name | Effective Date | Contract Term | Not-to-Exceed Amount | Was the RFP Publically Advertised | Number of Bidders | Approved by Board of Harbor Commissioners or Executive Director | Grant Funded |
|--------------------------------|----------------|---|----------------------|-----------------------------------|-------------------|---|--------------|
| Summit Security Services, Inc. | 8/17/2012 | One Year with Two, One Year Renewal Options | \$150,000 | Yes | 5 | Yes | No |
| SAIC - CCTV Maintenance | 1/11/2010 | One Year with Two, One Year Renewal Options | \$5,000,000 | Yes | 3 | Yes | Yes |
| Convergint Technologies | 6/18/2013 | One Year with Two, One Year Renewal Options | \$4,000,000 | Yes | 5 | Yes | Yes |
| Leidos | 3/5/2014 | One Year | \$150,000 | Yes | 10 | Yes | Yes |
| Halcrow, Inc. | 7/31/2009 | One Year with Two, One Year Renewal Options | \$750,000 | Yes | 8 | Yes | Yes |
| Transystems Corporation | 3/3/2011 | One Year with Two, One Year Renewal Options | \$500,000 | Yes | 15 | Yes | Yes |

Source: Review of POLA Police Division Records and CPD contract files

We found that the sampled contracts were mostly in compliance with City and Port procurement policies and procedures; however, there was one instance in which the Division did not obtain a memorandum from the Division Head approving the selection committee which is required according to the RFP Checklist. CPD noted in the file that the selection panel members' signed conflict of interest forms satisfied this requirement; however, these forms do not show evidence of the Division Head's approval.

We also found that two invoices were paid approximately three and one-half months after the Port had received the invoice. After receiving both invoices, Accounting Division staff requested additional supporting documentation from the vendor to process the payment. For one invoice, the Police Division reported that the vendor did not respond to the request for supporting documentation for two-months. Once the supporting documentation was submitted, Police Division staff created the receiving report the next day and submitted it to Accounting Division staff who processed the payment a month later. Police Division staff report that the second late invoice payment was due to a delayed request made by the Accounting Division for a piece of supporting documentation that was needed to process the invoice.

Pursuant to CPD's draft Purchasing Manual, which was described previously in Section 2.B, Purchase Orders, contracts that receive federal grants must include grant flow-down language in the bid or RFP. Flow-down language informs the consultant and/or sub-consultants of the federal grant's rules and regulations. Additionally, in accordance with federal guidelines, grant receiving entities such as the Port should have an official, written policy in place that prohibits awarding a contract or subcontract to any suspended or debarred party.¹ Federal guidelines also state that a grant receiving entity should have a defined process in place for staff to follow to determine whether vendors are suspended or debarred.²

Only one out of the five contracts that received grant funding from the sample had the required grant flow down language included in the RFP and one contract had included the flow-down language in the executed contract but not in the RFP.

With respect to the debarment search, it is unclear who or what Division is responsible for conducting this search as there is no official, written Port-wide policy. According to Police Division staff, prior to 2012, staff in the Grant Administration Office (GAO) checked vendor debarment status prior to awarding a grant funded contract; however, responsibility for this step became unclear after the grants function shifted to the Goods Movement Division. Police Division staff report that although there is no formal policy, it is their internal practice for the Police Division's Grants Manager to check debarment status prior to sending an invoice to the Accounts Payable Division for processing. CPD staff report that CPD staff checked debarment status in the past prior to awarding a contract, however, CPD staff are not certain whose responsibility it is.

Our review found that the Police Division's Grants Manager completed debarment searches prior to submitting the sampled invoices for the five grant funded contracts to the Accounting Division for payment processing; however, no documentation was provided that indicated a debarment search was conducted prior to awarding the contract.

CPD staff reported that a checkbox was added to the pre-approval form in 2012 to flag when a procurement or contract would be using grant funds to remind staff to include the flow-down language and conduct the debarment search.

Conclusions and Recommendations

In general, the Police Division adhered to the City's and POLA's contract policies and procedures during the audit period with the exception of missing documentation for one contract. Two invoices were paid three and a half months after the Port had received the invoice due to vendor delays and a delayed request for information by the Accounting Division which was needed to process the payment. Additionally, CPD staff did not include required grant flow-down language in the RFP for the majority of the grant funded contracts. CPD staff report that they have improved the RFP process by adding a

¹ OMB Circular A-133, Suspension and Debarment Federal Requirements

² OMB Circular A-133 Compliance Supplement 2014

checkbox to the pre-approval form so that POLA staff are alerted of when to include the required flow-down language in the RFP.

Although the Police Division consistently conducts a vendor debarment and suspension search prior to sending contract invoices to the Accounting Division for payment processing, there is no written Port-wide policy that states which Division is responsible for conducting the debarment search prior to awarding the contract and during the invoice payment process.

Recommendations for the Police Division

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

Recommendations for other Divisions

- 3.2 In accordance with federal guidelines, the Goods Movement Division and Contracts and Purchasing Division should collaborate to establish policies and procedures to verify that vendors who provide the Port with goods or services under a grant award have not been suspended or debarred. These procedures should be included in the revised Grants Administration Manual and the revised Procurement and Contracts Manual and distributed to all Port Divisions.
- 3.3 The Accounting Division should request supporting documentation for payment processing in a timely manner.
- 3.4 If a vendor fails to provide supporting documentation to pay an invoice in a timely manner, the Accounting Division should notify Contracts and Purchasing Division staff who should meet with the vendor to resolve the issue, a practice that is currently in place by the Contracts and Purchasing Division, and should document the delinquency. If the delinquency persists, the vendor should be banned from conducting business with the Port.

Recommendations for other POLA divisions

- 3.5 The Contracts and Purchasing Division should require the Goods Movement Division to adhere to the procedures in the RFP Checklist and, to the extent some requirements are no longer practicable, should make modifications to the RFP Checklist, as necessary.
- 3.6 The Contracts and Purchasing Division should submit the RFP Checklist and the draft contract manual to the Board of Harbor Commissioners and/or POLA Executive Director for approval and to be disseminated to all POLA divisions so that all POLA employees are aware of what documentation is required to execute and manage a contract.

4. Grants Management

Why this function was audited

The specific grants management areas tested for this audit were:

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

These areas were selected because of the risk posed to the Port if they are not efficiently and effectively managed. As of August 2014, the Port of Los Angeles had been awarded \$276,781,690 since 2008 in Federal, State, and local grants. Of this amount, the Port Police Division was responsible for obtaining \$13,046,414, or 4.7 percent, which represents the safety and security related grants. As shown in Exhibit 4.1 below, in FY 2013-14, the Port had a total of \$12,972,852 in safety and security grant expenditures, with \$12,432,258 spent under the Federal Emergency Management Agency (FEMA) Port Security Grant Program¹, and \$540,594 from grant revenue under the Mayor's Office Urban Area Security Initiative Grant Program for a total of \$12,972,852 in grant expenditures.

The grant expenditure amounts represented in Exhibit 4.1 are all from grants that have been closed as of June 30, 2014 with the exception of those from FEMA's Port Security Grant program awarded in FY 2012 (Round 12), which had \$5,207,577 in unexpended award funds as of June 30, 2014.

Exhibit 4.1
Port Police Grant Expenditures 2008-14

| Grantor/Program | Grant Expenditures |
|---|---------------------------|
| FEMA- Port Security Grant Program | \$12,432,258 |
| Subtotal- Federal Grants | \$12,432,258 |
| Mayor's Office Urban Area Security Initiative (FY 2011) | \$412,732 |
| | |
| Mayor's Office Urban Area Security Initiative (FY 2012) | 127,862 |
| Subtotal- State & Local Grants | \$540,594 |
| Total Grants | \$12,972,852 |

Source: Drafts of Schedule of Federal Awards and Schedule of State Awards as of June 30, 2014

¹ FEMA's Port Security Grant Program funds have been awarded to the Port of Los Angeles in several separate awards ("rounds"), including rounds, 8, 9, 12, and 13. The number of the round corresponds to the year that the funds were awarded for (e.g. Round 8 funds were awarded for FY 2008).

To the extent that Port Police staff are not aware of grant opportunities or focus on potential grants that are not a net benefit for the Port, the work of the Port is not being executed as needed to accomplish the organization's mission and goals and Port dollars are not being well spent. Further, grantor rewards require numerous compliance measures that must be adhered to at the risk of potential retraction of grant monies by the grantor.

The results of testing in each area for the Port Police Division are now presented.

4.A. Grant Research and Application

Standards and Procedures

There have been two sets of policies developed by staff previously in the Grants Administration Office and more recently in the Goods Movement Division since 2012 (one dated February 2012 and a second manual dated August 2014) that cover grants management at the Port of Los Angeles. However, Goods Movement Division staff asserts that neither policy manual has been approved by executive management or the Board of Harbor Commissioners and that both have always been considered draft procedures, which the Goods Movement Division has not formally disseminated to other divisions. For this review, we consider the February 2012 draft policies as best practices as they were prepared by POLA grants management staff and were at least informally used by some Port staff during the sample period. However, because the draft grant management policies and procedures have not been formally adopted by POLA executive management or Board of Harbor Commissioners, the Port Police cannot be considered deficient for not adhering to these practices.

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

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

Risk

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

Audit Tests and Results

A judgmental sample of seven grants with initial terms beginning between June 1, 2007 and July 1, 2014, with a total of \$19,829,340 in entitlements² (\$15,881,830 in Federal grants and \$3,947,510 in State grants), were selected from all safety and security grants based on dollar amount, grant status, and whether the grant was included in findings from the Port's most recent Single Audit. In addition, Port Police staff members with grant management responsibility were interviewed to obtain a more complete understanding of the Division's roles, responsibilities, and actual practices.

According to Port Police staff, the Division has responsibility for researching, identifying, applying for, administering, and closing out all safety and security related grants. Staff members note that some of these tasks are conducted in collaboration with other divisions, including the Engineering Division if the grant involves construction.

Port Police staff report that they have not utilized any version of the draft grants administration manual that was prepared by staff from the former Grants Administration Office in 2012 and later revised in August 2014 by the Goods Movement Division, which absorbed the former Grants Administration Office in 2014. Further, Port Police staff notes that there is no internal Division set of policies and procedures for grants administration. Division staff asserts that the grants that the Port Police Division competes for are limited to two programs that are released on an annual basis under the same general grantor rules and standard application processes and that staff members follow those rules and application processes closely.

Although there is some collaboration between divisions for defining and meeting POLA's needs as well as planning and performing advocacy-related activities, planning and collaboration could be improved. A Grants Oversight Committee, consisting of representatives from various divisions including Port Police, Goods Movement, Engineering, Finance, and Executive Management was created a few years ago and previously met on a monthly basis, but now typically meets on a quarterly basis to monitor the progress of grant projects and to ensure that grant funds are being drawn down properly. Staff has indicated that the Grants Oversight Committee does not pro-actively encourage collaborative grants planning and advocacy on behalf of the Port and we found no evidence of efforts to do so. Further, Port Police staff has indicated that the Port does not maintain a contingency list of projects that are most likely to be awarded grant funding (i.e. shovel-ready projects). Rather, Port staff request funding on an ad-hoc basis from POLA's Project Development Committee, an inter-divisional body responsible for approving project funding for any projects that are not included in the Capital Improvement Program.

Contrary to the process recommended in the 2012 Draft Grants Manual, we did not find any evidence to show that the Port Police Division performed formal cost benefit analyses prior to applying for any of the grants in the sample. Staff noted that in the previous three fiscal years (FY 2011-12 through FY 2013-14) the Division only applied to the Federal Emergency Management Agency (FEMA) Port Security Grant

² Total amount provided under the grant.

Program ³ (PSGP) due to the size and nature of the grant opportunities provided by this program. Staff further noted that this grant program is widely considered to be cost effective as it reimburses system maintenance costs and that the Division has not given serious consideration to any other grant opportunities in the previous three fiscal years.

Consistent with the policy in the 2012 Draft Grants Manual, we did not find any safety and security grants that required a separate application, for an amount less than \$1 million.

Although staff indicated that the Port Police have a quality assurance process (the Deputy Executive Director for Public Safety and Emergency Management reviews all applications and investment justifications⁴ prepared by Port Police Division grants staff before being submitted), the Division is not using formal, team-oriented quality assurance reviews of grant applications staffed by a combination of expert authors, grants experts, and division-supplied subject matter experts as stipulated in the 2012 Draft Grants Manual.

As all seven of the grants in our sample were applied for before the draft Grants Manual was compiled and distributed, they did not include evidence of Board of Harbor Commissioners approval prior to grant application submission as stipulated in the 2012 Draft Grants Manual and as required under Los Angeles Administrative Code, Division 14. However, all of the projects funded with the grants necessitated cooperative agreements between the Port and the grantor agency, which required approval by the Board of Harbor Commissioners, before the award was finalized and the projects could be initiated. We found no evidence that the Port Police or any other division at the Port is centrally logging approvals as they are received for each grant, as recommended in POLA's 2012 Draft Grants Manual.

Conclusions and Recommendations

The Port Police Division's reported policies and procedures for researching and applying for grants are reasonable in the absence of officially adopted Port-wide grant administration policies and procedures. However, the Port Police Division lacks written policies and procedures for grant management and its practices have not been fully consistent with the Grants Administration Manual as drafted in 2012. The 2012 Draft of the Grants Administration Manual is considered by the audit team as best practices as they were prepared by POLA grants management staff and were at least informally used by Port staff during the sample period.

Planning and collaboration within the Port Police Division and between the Port Police and other POLA divisions to define and meet POLA's safety and security needs could improve. Although there is a POLA

³ The Port Security Grant Program is a Federal program under the Federal Emergency Management Agency, which dedicates funding support to select high-threat, high-density ports in order to address their unique multi-discipline planning, organization, equipment, training, and exercise needs in building and sustaining capabilities to prevent, protect against, respond to, and recover from threats or acts of terrorism.

⁴ The applications for safety and security grants only require very basic information about the Port whereas the investment justification is a detailed description of the project being proposed for grant funding.

Grants Oversight Committee, its focus has been primarily on the status of existing grants rather than identifying and meeting the needs of the Port that could potentially be addressed and funded by other available grants. Further, Port Police staff members note that there is no centralized or active list of “shovel-ready” projects, which could inform long term budgeting decisions and are the most likely to receive grant funding.

The Port Police Division did not conduct formal cost-benefit analyses for any of the grants in the sample. Although Port Police staff asserts that the Division only applies for FEMA and Urban Areas Security Initiative (UASI) grants, which have standardized application processes, are generally for amounts larger than \$1 million, and reimburse maintenance costs, the lack of a formal review process raises the risk that the Port Police may apply for a grant that would result in a net cost to the Port or may be missing other opportunities, though the Division states that system maintenance grants should not result in net costs for the Port.

Although we did not find that the Division is utilizing formal, team-oriented quality assurance reviews of grant applications staffed by a combination of expert authors, grants experts, and division-supplied subject matter experts, the Deputy Director of Homeland Security reviews all grant applications and investment justifications before they are submitted.

Recommendations for the Port Police Division

- 4.1 In the absence of officially adopted Port-wide grant administration policies and procedures, Port Police grant management staff should review the Division’s procedures for grant administration in order to draft and finalize an internal grants administration manual, incorporating best practices, to provide guidance for safety and security grants and covering at least planning, budgeting, research, identification (including how and when to use cost-benefit analysis to determine if a grant opportunity is in the best interest of the Port), and grant application.
- 4.2 Port Police management should work with grant management staff as well as staff in other divisions that may interface with the Port Police on grants to create a more formalized long term safety and security grant planning process. The planning process should incorporate periodic needs assessments, a contingency list of “shovel-ready” projects that are likely to receive grant funding, and appropriate budgeting procedures to ensure that local monies are available for projects that may be reimbursed with grant funds.

Recommendations for other Port Divisions

None

4.B. Grant Administration and Compliance

Standards and Procedures

There have been two sets of policies developed by staff previously in the Grants Administration Office and more recently in the Goods Movement Division since 2012 (one dated February 2012 and a second manual dated August 2014) that cover grants management at the Port of Los Angeles. However, Goods Movement staff asserts that neither policy manual has been approved by executive management or the Board of Harbor Commissioners and that both have always been considered draft procedures, which the Goods Movement Division has not formally disseminated to other divisions. For this review, we consider the February 2012 draft policies as best practices as they were prepared by POLA grants management staff and were at least informally used by some Port staff during the sample period. However, because the draft grant management policies and procedures have not been formally adopted by POLA executive management or Board of Harbor Commissioners, the Port Police cannot be considered deficient for not adhering to these practices.

In relation to grant administration and compliance tasks that may apply to the Port Police, the 2012 Draft Grants Policy Manual states that the Port of Los Angeles will establish a project execution plan for each grant to help ensure: (1) resource alignment; (2) expenditure of all grant monies; and, (3) delivery of all expected results within the grant timeline.

In addition, as a grantee, the Port must adhere to grantor requirements. Requirements that are especially pertinent to the Port Police for grant administration are contained in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. The Port is reviewed on an annual basis for compliance with such standards in what is known as a "single audit." Significant compliance requirements for Federal grants include competitive procurement processes, ensuring no federal grant funds go to vendors who have been debarred or suspended, monitoring of sub-recipients for compliance with all grant requirements, and submission of progress reports.

Risk

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

Audit Tests and Results

A judgmental sample of seven grants, with initial terms beginning between June 1, 2007 and July 1, 2014, with a total of \$19,829,340 in entitlements⁵ (\$15,881,830 in Federal grants and \$3,947,510 in State grants), were selected from all safety and security grants based on dollar amount, grant status, and whether the grant was included in findings from the Port's most recent Single Audit. In addition, Port Police staff members with responsibility for grant management were interviewed to obtain a more complete understanding of the Division's roles and responsibilities as well as actual practices, including the extent of internal controls.

In our review, none of the seven grants had a formal project execution plan, as recommended in POLA's draft grants administration manual, detailing resource alignment, grant money expenditures, and a timeline detailing all expected results. However, the Port Police submitted staff reports to the Board of Harbor Commissioners accompanying all of the grant proposals for acceptance by the Board. These staff reports included elements such as a description of the project(s) and the financial impact to the Port, which are similar to what is envisioned by the Project Execution Plans, but still don't provide a detailed plan for administration of the grant. Port Police staff with responsibility for grant management asserts that the grants they are responsible for administering are relatively straightforward and are primarily from the FEMA Port Security Grant Program, which offers grant opportunities on an annual basis using the same processes for application and administration.

The Port Police do not maintain written policies and procedures for the administration of grant funds and do not consistently follow guidelines as written in the Port's draft 2012 grants administration manual. Port Police staff with responsibility for grant management state that they follow grantor processes and guidelines for grant management, particularly for the Federal Emergency Management Agency (FEMA) Port Security Grant Program, which offers grant opportunities on an annual basis using the same processes for application and administration.

Regarding reporting requirements, we found three exceptions in our review, which were limited to one of the seven grants reviewed (Port Security Grant Program, Round 7). Specifically, we found that two of three progress reports were dated more than the requisite 30 days following the end of the reporting period and one progress report that had a date within the reporting period. These exceptions are detailed in Exhibit 4.2 below. Division staff notes that the first two exceptions occurred under previous staffing and that it appears the two errors occurred as a result of the grant not being properly entered into the U.S. Department of Homeland Security's Grants Management System. A third exception appears to be the result of a clerical error. Port Police Division Homeland Security staff are singularly responsible for ensuring that reporting requirements (quarterly financial reports and semi-annual progress reports for FEMA and semi-annual progress reports and as needed financial reports for the State) are met. Staff report that they set up reminders in their electronic calendars to ensure that they meet reporting requirements in a timely fashion.

⁵ Total amount provided under the grant.

Exhibit 4.2
Exceptions Found in Port Police Progress Reports

| Grant | Progress Report Time Period | Progress Report Due Date | Date of Report | Result |
|--|-----------------------------|--------------------------|----------------|--------------|
| FEMA- Port Security Grant Program, Round 7 | 6/1/07 to 6/30/07 | 7/30/07 | 7/30/08 | 1 year late |
| FEMA- Port Security Grant Program, Round 7 | 7/1/07 to 12/31/08 | 1/30/09 | 7/30/10 | 18 mos. Late |
| FEMA- Port Security Grant Program, Round 7 | 1/1/10 to 6/30/10 | 1/28/10 | 7/30/10 | 6 mos. late |

Source: Progress Reports provided by Port Police staff for Port Security Grant Program Round 7

We found no procurement exceptions from our review of seven grant files. Further, Division staff reports that they follow the Port’s draft Purchasing Manual, which is in compliance with Federal procurement standards. The US Department of Homeland Security allows grant recipients to use their own procurement procedures and regulations, provided that the procurement conforms to applicable Federal law and standards. Specifically the Purchasing Manual requires a formal bid process with a solicitation minimum of three bidders when possible for purchases of \$100,000 and above. Federal requirements state that all sole-source procurements in excess of \$100,000 must receive prior written approval of the awarding agency.

As described in more detail in Section 3.A. of this report (Professional Service Agreements), invoices for five grant-funded contracts were reviewed by our audit team. This review found that the Police Division’s Grants Manager completed debarment searches for the five grant funded contract invoices that were sampled prior to sending the invoice to Accounts Payable for processing; however no documentation was provided that indicated a debarment search was conducted by the Grants Manager prior to awarding the contract, as recommended in POLA’s draft grants administration manual.

None of the seven grants in our sample had sub-recipients. Further, Port Police grants management staff indicated that the Division does not currently administer any grants with sub-recipients nor does it anticipate a future situation that will involve administration of sub-recipients.

Conclusions and Recommendations

The Port Police does not have formally approved policies and procedures to clearly identify its grant administration roles and responsibilities as well as how the Division should be collaborating with other divisions. Further, Division staff have not utilized (or had access to) the Grants Administration Manual as drafted by staff in the Goods Movement Division (formerly the Grants Administration Office). The lack of policies and procedures, a key internal control, raises the risk of oversights which could lead to the retraction of grant funding.

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