

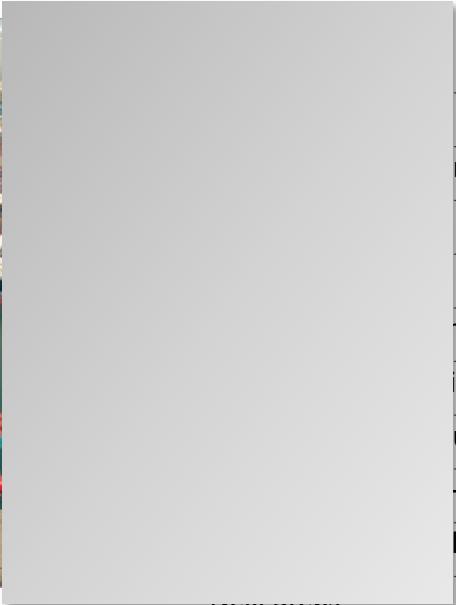
The Port of Los Angeles

TraPac Terminal Program Assessment

April 9, 2014
Final Report



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EXECUTIVE SUMMARY

THE TASK AT HAND

Bronner Group LLC (BRONNER) completed its project to perform an independent, targeted assessment of the TraPac Terminal Development Program (TraPac Program) being implemented by the Port of Los Angeles (POLA). BRONNER conducted its assessment during January 2014.

THE ASSESSMENT

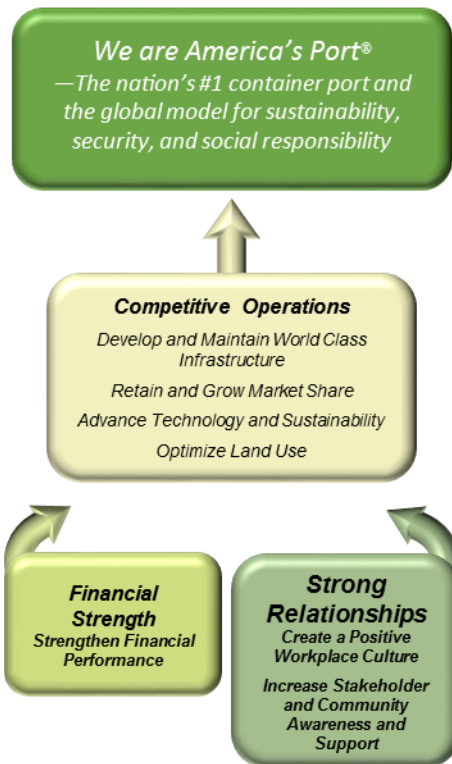
The assessment, which was recommended by an After Action Review (AAR) of the TraPac Program, was directed at analyzing TraPac Program-related events at POLA to identify lessons learned and recommend process changes and improvements that will enhance future project management.

BRONNER’s assessment built upon the work of the AAR and included an examination of documentation relating to pertinent POLA policies, procedures, and organizational and operating framework associated with the development, execution and management of capital projects and programs at POLA,¹ including:

- POLA policies and procedures
- POLA financial documentation
- TraPac Program project reports
- Executive-level TraPac Program project reports
- POLA 2012-2017 Strategic Plan
- June 2011 Industrial, Economic and Administrative Survey (IEAS)

Additionally, BRONNER conducted over 40 on-site and teleconferenced interviews and meetings with individuals engaged or affiliated with the TraPac Program, including current and former POLA staff, managers, and executives; members of the POLA Board of Harbor Commissioners (BOHC); and the AAR facilitator. Interviews focused on TraPac Program-related events; AAR findings and recommendations; and, discussions regarding project control, operations, and governance at POLA.

¹ Projects represent separate components of a larger comprehensive program. Projects can be added to a program through contract and/or lease negotiations between POLA staff and POLA tenants.



LESSONS LEARNED

BRONNER found that POLA has a body of existing policies and procedures designed to facilitate and maintain a framework of internal controls and operating effectiveness. Additionally, POLA has already taken several proactive steps to address issues regarding the TraPac Program, including:²

- Utilizing budgeting and value engineering as cost control mechanisms within the authority of the TraPac contract
- Aligning the Program with the Port’s 2012-2017 Strategic Plan’s goals for growth and competitiveness
- Implementing changes to POLA leadership
- Initiating steps to enhance single point accountability structure

BRONNER’s assessment indicated that there exists a need for an Executive-sponsored, enterprise-wide initiative to enhance and restructure the current POLA operating framework to strengthen risk management and improve integration across business functions. Specifically, this initiative must address issues relating to:

- Promoting increased compliance with existing policies and guidelines in:
 - Project budget estimation
 - Project approval and authorization, particularly with regard to thresholds for submittal to City Council authorization
 - Permit amendment filing
- Developing additional policies and procedures regarding:
 - Project budget review and revision
 - Cost management across project lifecycle
 - Project status and cost reporting
 - Financial risk mitigation in lease agreements
 - Communication of Executive-level decision-making and the consequences of these decisions
 - Communication of decision-making to Executive level and BOHC
- Eliminating gaps in operating framework relating to:
 - Single point of project accountability
 - Efficient and/or accessible project status reporting



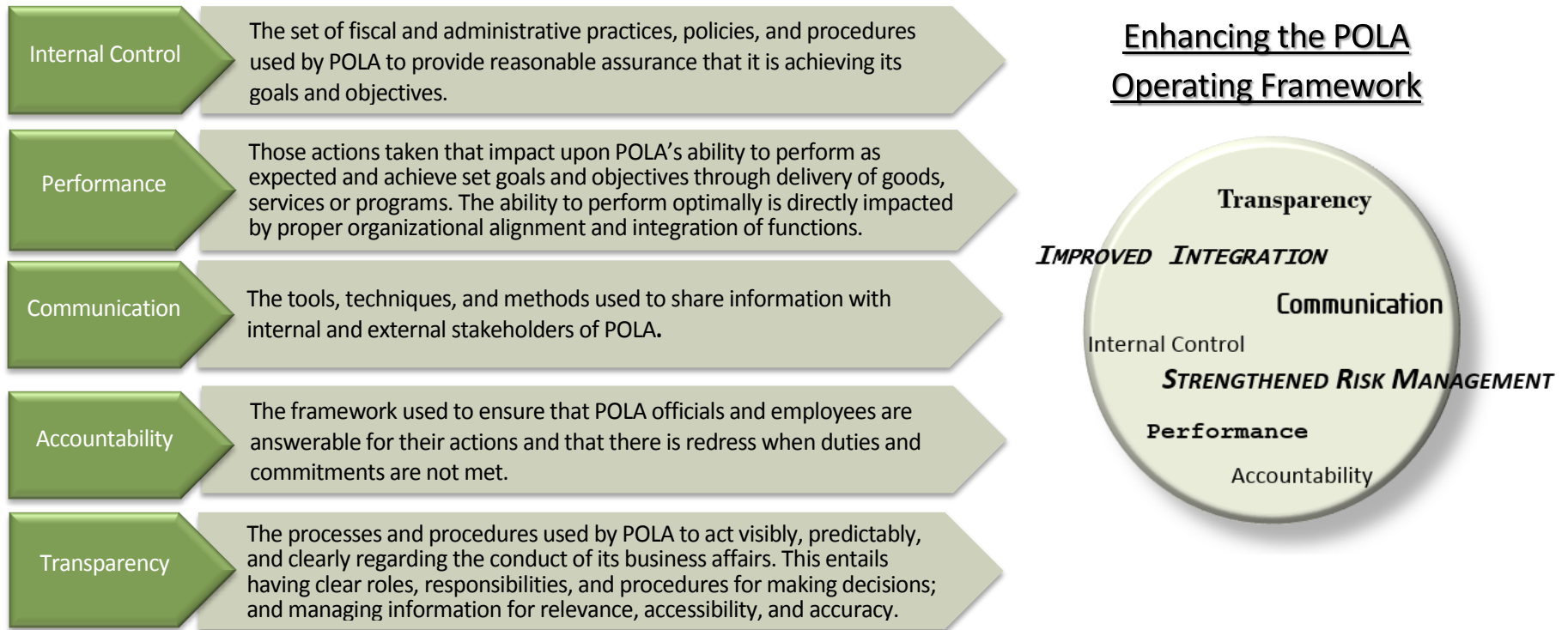
² Several of these actions have been identified in the AAR as “Practices to Sustain” for additional POLA projects and programs. See: Campos, Fernando, MPA. “After Action Review (AAR): TraPac Terminal Program – Permit No. 881.” 20 Dec. 2013.

MOVING FORWARD: APPROACH, RECOMMENDATIONS, AND NEXT STEPS

THEMATIC APPROACH

BRONNER identified two strategic themes emerging from its assessment that require Executive action: *integration* and *risk management*. The various lessons learned highlight a need for action to immediately improve (1) facilitation of well-informed enterprise-wide decisions about processes, capabilities, investments, resources, and other initiatives across the POLA enterprise, vertically and horizontally, to minimize fragmentation (“silos”); and, (2) the coordinated ability to identify, mitigate, and effectively manage risks faced across POLA’s portfolio of projects and investments.

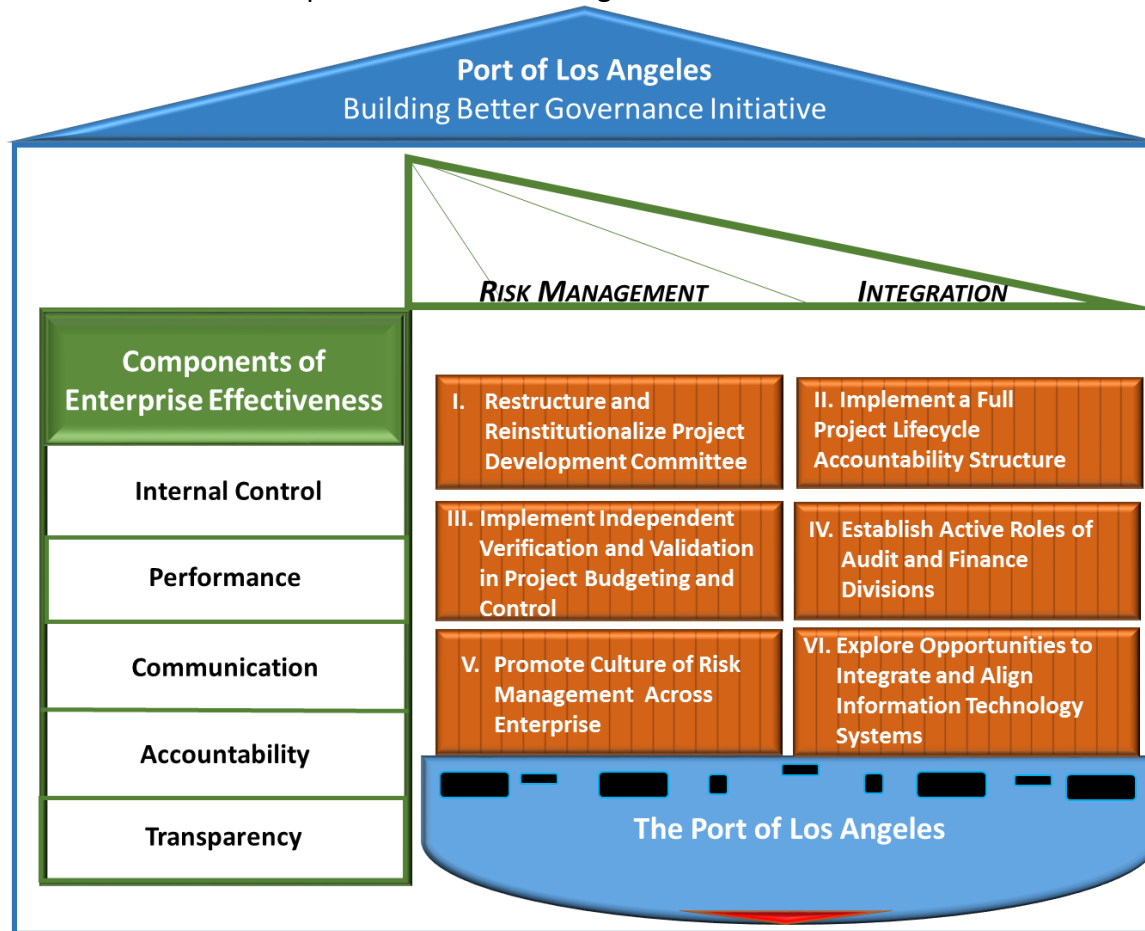
Thematically, BRONNER recommends that POLA commit to enhancing its operating framework through **IMPROVED INTEGRATION** and **STRENGTHENED RISK MANAGEMENT**. Five components that underpin effective integration and risk management, which significantly contribute to enterprise-wide effectiveness and strategic alignment, are identified below:



RECOMMENDATIONS: BUILDING BETTER GOVERNANCE INITIATIVE

Emanating from its assessment, BRONNER has developed the POLA *Building Better Governance Initiative* (BBGI), a high-level, leadership-driven enterprise-wide effort designed to enhance POLA’s operating framework by strengthening risk management and improving integration. The BBGI recommendations are informed and supported by the five components of enterprise effectiveness.

Within this assessment report, BRONNER acknowledges the findings of the June 2011 Industrial, Economic and Administrative Survey (IEAS) of the Port of Los Angeles and the AAR as relevant to BBGI. BRONNER’s recommendations complement several findings the AAR and the IEAS audit have identified.



BRONNER's proposed BBGI incorporates the following recommendations:

I. RESTRUCTURE AND REINSTITUTIONALIZE THE PROJECT DEVELOPMENT COMMITTEE (PDC)

The PDC is a committee consisting of managers and Deputy Executive Directors (DEDs) from several divisions that meets monthly to assess projects for submission to BOHC. The PDC has been viewed as being too informally structured and lacking robust standards for project prioritization and control. POLA would benefit from restructuring the PDC to provide greater oversight of project approvals, reporting, and budgeting, as well as reinstitutionalizing the PDC with the authority to establish high standards for greater project and initiative-related internal control, accountability and transparency among divisions and departments.

II. IMPLEMENT A FULL PROJECT LIFECYCLE ACCOUNTABILITY STRUCTURE

Project managers are currently assigned to each project to act as points of oversight and internal control in addition to their overall responsibility to deliver a completed capital project. Project managers frequently see the structure of project management as defined by the responsibilities of the respective project manager's division. This structure contributes to communication breakdowns and hampers the ability of POLA staff to obtain a complete and accurate understanding of a project's current status in a timely manner. BRONNER recommends that POLA identify and implement a structure that achieves the primary goal of "a single person point of accountability" across the full project development lifecycle or program delivery implementation. The assignment for a single point of project accountability must be empowered with clearly defined roles and responsibilities that would: a) provide for full accountability in managing the budget, scope and schedule of a project/program; b) facilitate enterprise-wide communication and awareness of project status and pertinent information; and, c) ensure identification, communication and resolution of issues impacting budget, scope and schedule.

BRONNER's proposed BBGI incorporates the following recommendations:

- III. IMPLEMENT INDEPENDENT VALIDATION & VERIFICATION (IVV) IN PROJECT BUDGETING AND CONTROL**
POLA utilizes multiple internal control structures to provide project oversight in the areas of compliance, cost, and scheduling, including reporting documents that tie project cost estimations to the annual POLA budget. These structures do not contain sufficient information regarding changes to project budgets to inform assessments of POLA's long-term financial sustainability or evaluation of POLA's long-term priorities. POLA would benefit from increasing the number and effectiveness of control points built into the project lifecycle and financial assessment processes to facilitate more robust risk management and establish an enterprise-wide context for each project's impact on POLA revenues, costs, and strategic goals. The utilization of procedures that engage third parties to perform reviews of certain project reports and budgets can achieve many of these outcomes for POLA. These validation and verification processes can be performed by independent consultants or project teams that cross-check each other's projects.
- IV. ESTABLISH ACTIVE ROLES IN PROJECT CONTROL FOR FINANCE AND AUDIT**
While the Divisions of Audit, Financial Analysis, and Budget Group each play critical roles in the project lifecycle and oversight processes, these Divisions frequently provide input only in response to requests for information. Under this scenario, these Divisions have limited opportunity to provide more proactive and routine oversight, compliance assurance, and risk advisory services throughout the project lifecycle. POLA would benefit from expanding the roles these Divisions play and establishing procedures that augment their ability to engage at the earliest stages in the project lifecycle and enhance internal control, accountability and oversight in the areas of cost management, risk management, and regulatory compliance.

BRONNER's proposed BBGI incorporates the following recommendations:**V. PROMOTE CULTURE OF RISK MANAGEMENT ACROSS ENTERPRISE**

During the TraPac Program development process, differing interpretations of the authority of Executive-level decision-making among POLA DEDs led POLA to advance the TraPac Program without receiving sufficient authorization from BOHC or the City Council at that time. The DED of Business Development moved the TraPac Program forward contrary to the requirements of the project approval process. To establish and reinforce enhancements across the POLA operating framework, leadership must set a clear “tone-at-the-top” that prioritizes risk management; ensures compliance with established rules and guidelines; and, integrates the components of enterprise effectiveness into the POLA operating framework. Similarly, POLA leadership would benefit from engaging with the Office of the City Attorney to identify and implement policies and procedures that reduce exposure to financial risk and regulatory non-compliance within tenant agreements.

VI. EXPLORE OPPORTUNITIES TO INTEGRATE AND ALIGN INFORMATION TECHNOLOGY SYSTEMS

POLA divisions utilize multiple disparate information technology systems to monitor the status and budgets of projects. Various major systems reside and are managed by different divisions and typically contain information that is most relevant to each division's respective tasks and responsibilities. As a result, reports that are generated by each system may not present and/or include other relevant project information that is required at the executive and enterprise levels. In order to readily access and share comprehensive, accurate and timely project information, POLA should explore opportunities for streamlined integration of information management systems and processes across the various divisions.

NEXT STEPS: ALIGNING BBGI WITH THE PORT'S 2012 – 2017 STRATEGIC PLAN

The Building Better Governance Initiative (BBGI) offers POLA a set of recommendations to address identified issues and improve integration and strengthen risk management across the POLA enterprise. BRONNER believes each recommendation in this report should be appropriately considered for timely action.

In this report, BRONNER identifies and discusses specific recommendations and key action items to address lessons learned arising from the assessment of the TraPac Program. The assessment report also includes an implementation plan that prioritizes each recommendation, establishing accountability for implementation and suggesting time frames to accomplish the recommendations and key action items.

It is important to acknowledge the actions POLA has already undertaken to implement the lessons learned discussed in the AAR. POLA's rapid response demonstrates a notable dedication to improve its project management and cost management structures. With POLA's impressive effort already underway, BRONNER presents the BBGI as a complementary plan that will empower POLA to build on these initial accomplishments and enhance its framework of integration and risk management. Through BBGI, POLA can strengthen its operating framework and enhance its alignment with the Port's 2012-2017 Strategic Plan. With a focus on risk management and integration, BBGI will better enable POLA to advance its competitive operations, augment its relationships with internal and external stakeholders, and reinforce its financial strength.

INTRODUCTION

BACKGROUND

Between 2009 and 2013, a terminal development program executed by the Port of Los Angeles (POLA) on behalf of its tenant, TraPac, Inc. (TraPac) increased in estimated and approved cost from \$245 million to \$510 million, due in large part to a change in project scope from a conventional terminal to an automated terminal. During a September 2013 meeting of POLA's governing body, the Board of Harbor Commissioners (BOHC), the then-Executive Director produced a report attributing cost overruns to the change in project scope. The report acknowledged these scope changes were not approved by BOHC or the City Council. The BOHC must approve any expenditure greater than \$150,000 associated with a project, and the City Council must approve any lease or agreement with a duration longer than three years.³

As a result of these project control lapses and cost overruns, an After Action Review (AAR) of the TraPac Terminal Development Program (TraPac Program) was conducted. The AAR identified lessons learned and offered recommendations. To address the AAR's recommendation for an independent review, POLA has engaged Bronner Group, LLC (BRONNER) to conduct a targeted assessment of the TraPac Program.

OBJECTIVES

The objective of BRONNER's assessment was to identify lessons learned based on a review of the TraPac Program and recommend process changes and improvements to enhance future project management.

³ See "Port of Los Angeles Engineering Division Policy and Procedure Manual – Operations: 4.2 Board Agreements." The TraPac Program is part of a 30-year lease term.

APPROACH & METHODOLOGY

For this assessment, BRONNER conducted a series of stakeholder interviews with staff and management from several POLA divisions and departments, including Engineering, Real Estate, Finance, Audit, Legal, and Business Development. BRONNER also interviewed current and former members of the BOHC and the facilitator of the AAR. The consulting team conducted a detailed review of POLA documentation related to project development, management, and reporting; budgeting and cost estimation; department organization and oversight; and, strategic planning. The interviews and documentation review were conducted during January 2014.

Based on its analysis, BRONNER has prepared this report which identifies lessons learned from its assessment and presents recommendations for enhancements to POLA integration and risk management frameworks, along with an implementation plan to facilitate POLA's ability to act upon these recommendations.

RELEVANT TRAPAC TERMINAL DEVELOPMENT PROGRAM EVENTS

1997

- TraPac Master Schedule started to construct container terminal

1997 – 2005

- POLA constructs TraPac terminal development projects

2007

- BOHC certifies EIR for TraPac Terminal Development Program at Berths 136-147

2008

- POLA completes design for Berths 145-147 and awards construction contract

2009

- POLA formalizes lease for TraPac Program with TraPac in Permit 881 at an initial budget of \$245M
- Permit 881 approved for rubber-tire gantry crane system
- TraPac expresses interest in a fully-automated system

2010

- TraPac requests changes in project scope for terminal automation
- Engineering and Real Estate Divisions prepare Second Amendment to Permit No. 811

PREVIOUS WORK CONDUCTED WITH TRAPAC

A TraPac Master Schedule for terminal infrastructure upgrades has been in place since April 1997. Between April 1997 and September 2005, POLA developed multiple projects on behalf of TraPac, including wharf replacements and a new electrical substation.

In December 2007, the BOHC certified the Final EIR for the TraPac Terminal Development Program, which assumed the use of rubber-tired gantry cranes at the terminal. In September 2008, the design for the Wharf Improvements program at Berths 145-147 were completed and the construction contract was awarded. The design process had progressed during the EIR process.

INITIATION OF THIRTY-YEAR LEASE RENEWAL WITH TRAPAC

On August 13th, 2009, the BOHC approved a lease with TraPac to renew its lease of Berths 136-147 with POLA. In September 2009, this lease was formalized in Permit No. 881, which established a 30-year lease term for TraPac to conduct cargo handling operations at POLA and obligated POLA to enhance terminal infrastructure with an initial project budget of \$245 million.

SHIFT TO AUTOMATED TERMINAL DESIGN

During design meetings with the Engineering Division In November 2009, TraPac representatives expressed interest in the development of a fully-automated system at the terminal. While terminal automation technology has been deployed at the Port of Virginia in Norfolk, VA, terminal automation is a new and innovative technology and represents an untested practice for any US port on the West Coast.

2011

- Executive Director signs Letter of Agreement with TraPac that accepts new project scope
- Deputy Executive Director of Business Development instructs Real Estate Division to not move forward with Amendment

2012

- Engineering Division contracts with CH2M Hill to review project design
- BOHC approves revised TraPac project budget of \$364.5M

2013

- BOHC receives revised project budget of \$510M
- Executive Director submits report to BOHC with discussion of project cost overruns and incomplete permit amendment
- After Action Report on TraPac program released

2014

- POLA engages BRONNER to conduct independent review of TraPac Program

HALTING WORK ON PERMIT AMENDMENT

In March 2010, TraPac formalized the development of terminal automation by requesting a change to the project scope established in Permit No. 811. The Real Estate Division (RED) prepared the Second Amendment to Permit No. 811 with a revised project budget of \$272.8 million, with the Engineering Division providing supporting documentation.⁴ However, in April 2011, the Deputy Executive Director (DED) of Business Development instructed the RED to not proceed with filing the amendment, as the DED had concluded that the amendment was unnecessary.

The DED of Business Development made this decision based on action taken by the former Executive Director. In March 2011, the Executive Director signed and issued a Letter of Agreement with TraPac that agreed to the project scope change and the costs associated with terminal automation. TraPac had committed its own funds to the project, which led the DED of Business Development to conclude that additional revenue or cost sharing provisions were not necessary. The DED of Business Development concluded the lack of change in compensation meant that an amendment to the Permit was not necessary.

MOVING FORWARD WITH PROJECT DESIGN

With the Letter of Agreement issued, the Engineering Division moved forward into project design. The Engineering Division contracted with CH2M Hill, an engineering consulting firm which had worked with the Port of Virginia on its terminal automation project, to verify cost estimations for the TraPac Program project design. Following the design review, the budget for the project was increased to \$364.5 million. The Board approved the revised budget at the April 2012 meeting.

⁴ POLA had previously filed an Amendment to include policy changes that did not materially impact project scope.

COST ESCALATIONS RAISE FLAG ON ABSENT PERMIT AMENDMENT

In January 2013, the BOHC Audit Committee was informed of further project cost escalations. At the April 2013 meeting of the Audit Committee of the BOHC, the Committee received a revised project cost estimate of \$510 million. In September 2013, the Executive Director presented the BOHC with a report that described the sources of the cost overruns, acknowledged the error of choosing not to process the Second Amendment, and requested the Board's approval of the project budget and the Second Amendment. The report also requested an independent review of the project to assess POLA project management processes. The Board approved these requests, with the Mayor of Los Angeles publicly concurring with the need for an assessment.

INDEPENDENT ASSESSMENTS OF THE TRAPAC PROGRAM

In December 2013 an After Action Review (AAR) of the TraPac Program identified lessons learned from the project and established corrective actions to address and mitigate the events of the Program. Recommendations in the AAR included the performance of an independent review by a third party outside the City of Los Angeles government. POLA engaged BRONNER in January 2014 to conduct this assessment.

RELATED ISSUES ASSOCIATED WITH TRAPAC EVENTS

The events described above highlight key issues, which reflect systemic gaps in POLA's operating framework. These issues include the following:

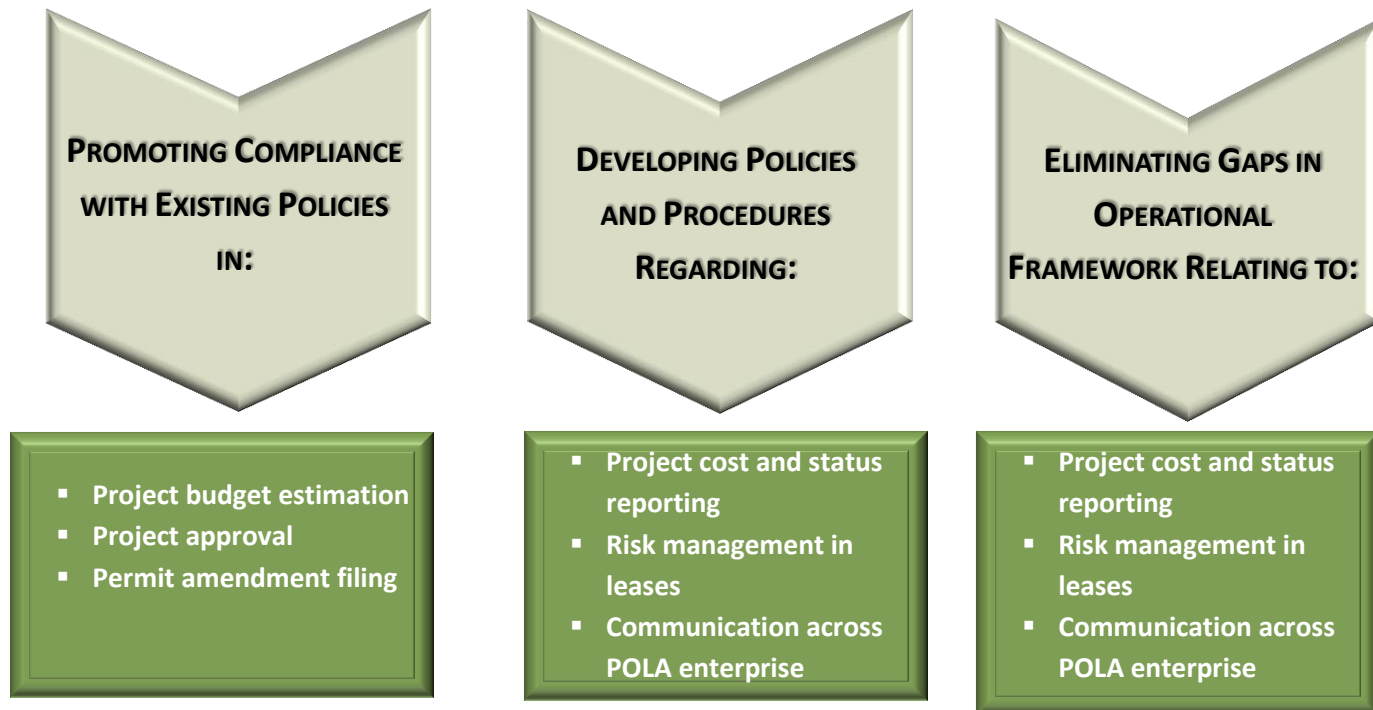
- Substantial increases in project cost estimations⁵
- Significant delay in permit amendment filing
- Failure to follow established tenant lease policies and procedures
- Communication gaps between POLA Divisions, management, and BOHC
- Lack of single point of project accountability across project lifecycle
- Lack of clarity regarding the roles and responsibilities of project manager through the project lifecycle
- Ineffective action taken to revise tenant lease to adequately protect POLA against financial risk

⁵ While a substantial portion of the cost increase was due to a change in project scope that occurred after preparation of the initial project budget, inadequate policies for cost management, including inadequate review of cost estimations prepared by outside consultants and insufficient verification of POLA staff assumptions regarding costs of unfamiliar technology, generated additional cost overruns.

ISSUES

Identified Issues and Components of Enterprise Effectiveness

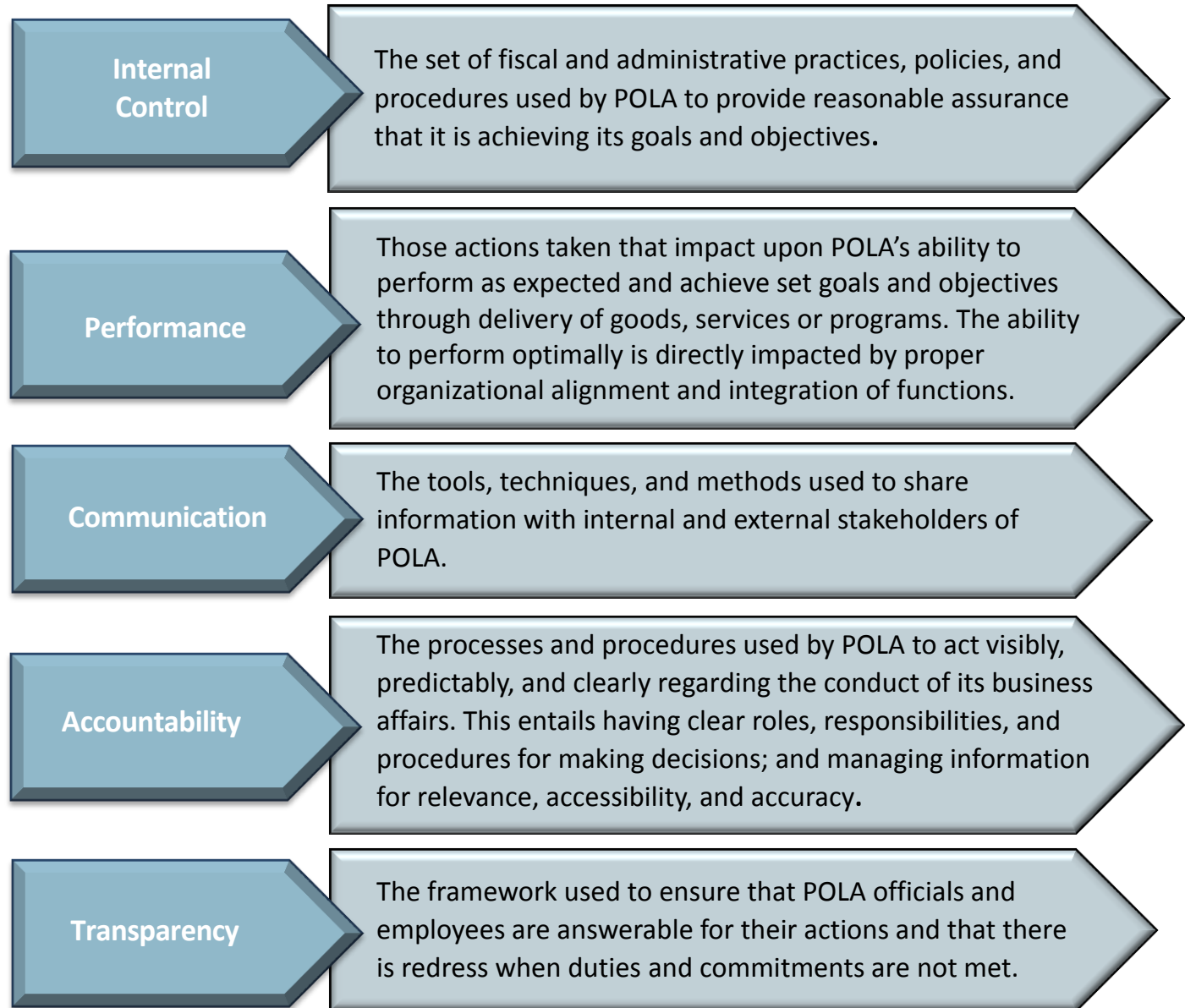
For its assessment, BRONNER reviewed the capability and responsiveness of POLA’s operating framework for project and cost control, communication and accountability in reporting, and compliance with policies and procedures. The assessment of key TraPac Program events identified issues for POLA to address relating to:



From the identified issues, BRONNER recognizes several opportunities to enhance the POLA operating framework in five key components of enterprise effectiveness. Public Sector enterprise effectiveness covers the policies, procedures, and leadership that an agency uses to guide its strategic planning and decision-making, ensure that objectives are met, and operates efficiently and effectively.⁶

⁶ Briggs, Lynn. “Building Better Governance.” *Australian Public Service Commission*. 2007.

The relevant components of enterprise effectiveness are: Internal Control, Performance, Communication, Transparency, and Accountability:

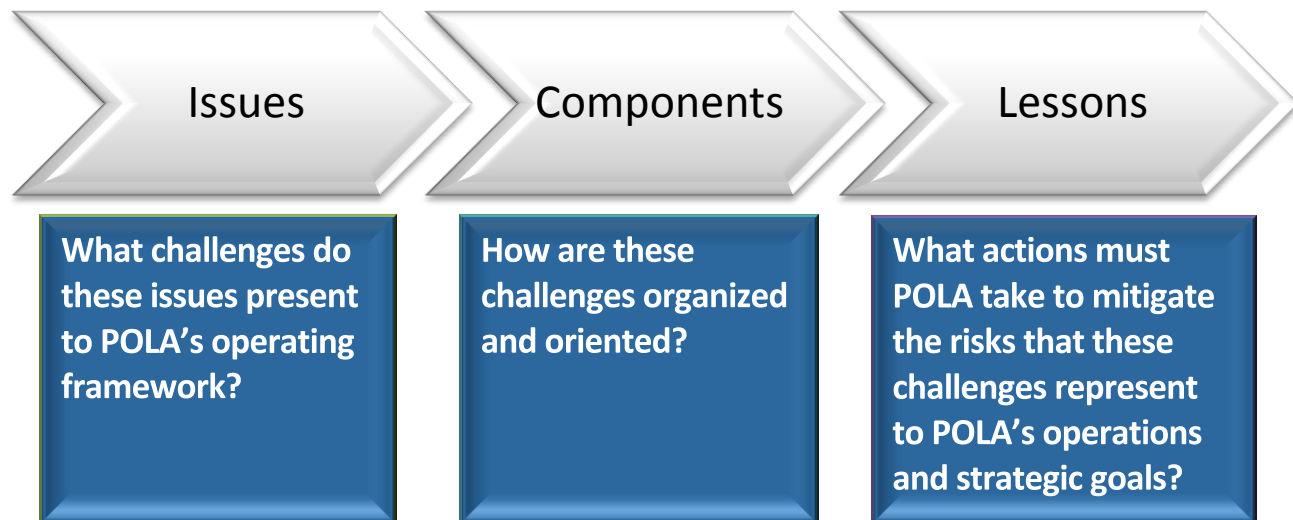


LESSONS LEARNED

Identification of Lessons Learned and Components of Enterprise Effectiveness

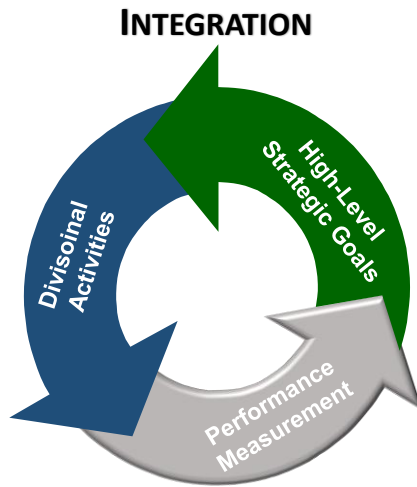
BRONNER’s assessment of the identified issues and the components of enterprise effectiveness leads towards two overarching lessons learned: POLA must improve integration across the enterprise and strengthen risk management processes in its operating framework. Addressing these opportunities will enable POLA to enhance its operating framework within the five components of enterprise effectiveness. It is critical that POLA leadership, management, and staff understand that the components of enterprise effectiveness directly relate to the two approached highlighted in BRONNER’s lessons learned: risk management and integration.

The graphic on the following page demonstrates the alignment between the lessons learned established in BRONNER’s assessment and the five components of enterprise effectiveness.



LESSONS LEARNED - INTEGRATION

INTEGRATION is a systematic and analytical approach to organize an agency's project development and management practices and operations into a cohesive, enterprise-wide system. In an integrated agency, operational planning flows from an agency's strategic goals and priorities to its divisional activities, and a system of performance measurement and evaluation ties every agency function back to its priorities.⁷ The five key components of enterprise effectiveness correlate with a robust integration framework:



Internal Control – Integration as Quality Assurance

- With the establishment of clear performance standards that define and measure success at all levels of the agency, integration facilitates the direct association between staff-level efforts and agency-level goals.

Performance – Integration as Top-Level and Enterprise-Wide Perspective

- Integration from strategic goals to divisional activities provides a comprehensive perspective of agency operations and facilitates the development of streamlined business operations flow that reduces redundancies and inefficiencies.

Communication – Integration as Inter-Divisional Connectivity

- An integration framework consistently sets and affirms the standards for actions, responsibilities, and regulations, as well as affirms them through a consistent system that extends across divisions to reduce the risk of misinterpretation and unnecessary redundancies.

⁷ Briggs, Lynn. "Building Better Governance." *Australian Public Service Commission*. 2007.

LESSONS LEARNED - INTEGRATION

Accountability – Integration as Leadership-Driven, Cross-Division Monitoring

- Integration requires a clear understanding of actions that need to be taken by players in the business process flow, since every division must be aware of a project’s status and ability to progress. Accountability therefore moves up and down organizational hierarchies and transfers across divisions within the integrated agency. Leadership plays a critical role in establishing clear standards as a “tone-at-the-top” that cascades down from the Executive to the divisions.

Transparency – Integration as Seamless System

- Integration requires a clear and accessible system for the exchange of information and the hand-off of information. Under an integrated operating framework, every step in the project lifecycle has a direct point of responsibility for action, completion, and evaluation.

LESSONS LEARNED - RISK MANAGEMENT

RISK MANAGEMENT is a systematic and analytical process to account for threats to an agency's assets, evaluate the probability of each threat, and identify actions that reduce the probability of the risk and mitigate its consequences.⁸ As with integration, the five key components of enterprise effectiveness directly relate to effective risk management:

Internal Control – Risk Management as Agency-Level Initiative

- Risk is managed in an integrated and enterprise-wide approach that focuses on alignment of strategy, objectives, risks, and controls in each business process and each department not only sustaining financial viability but achieving agency-wide goals that secure the organization's existence.

Performance - Risk Management as Driver of Agency Excellence

- Integrated risk management approaches protect against potential downsides and enhance overall business performance through risk minimization and optimization of internal controls for compliance, fiscal sustainability, and performance management.
- Risk management facilitates consistency of cost management across multi-department, multi-year project lifecycles.

Communication – Risk Management as Comprehensive Approach

- Governments are challenged to move away from a “silo-by-silo” approach to manage risk more comprehensively and coherently.

Accountability – Risk Management as Leadership Initiative

- Risk assessment and monitoring are now built into the organizational structure and driven by executive-level management to manage and measure all aspects of risk.

Transparency - Risk Management as Safeguard of Public Trust

- Establishment of an oversight framework to minimize risk and maintain costs enhances the transparency and accountability of agency operations.



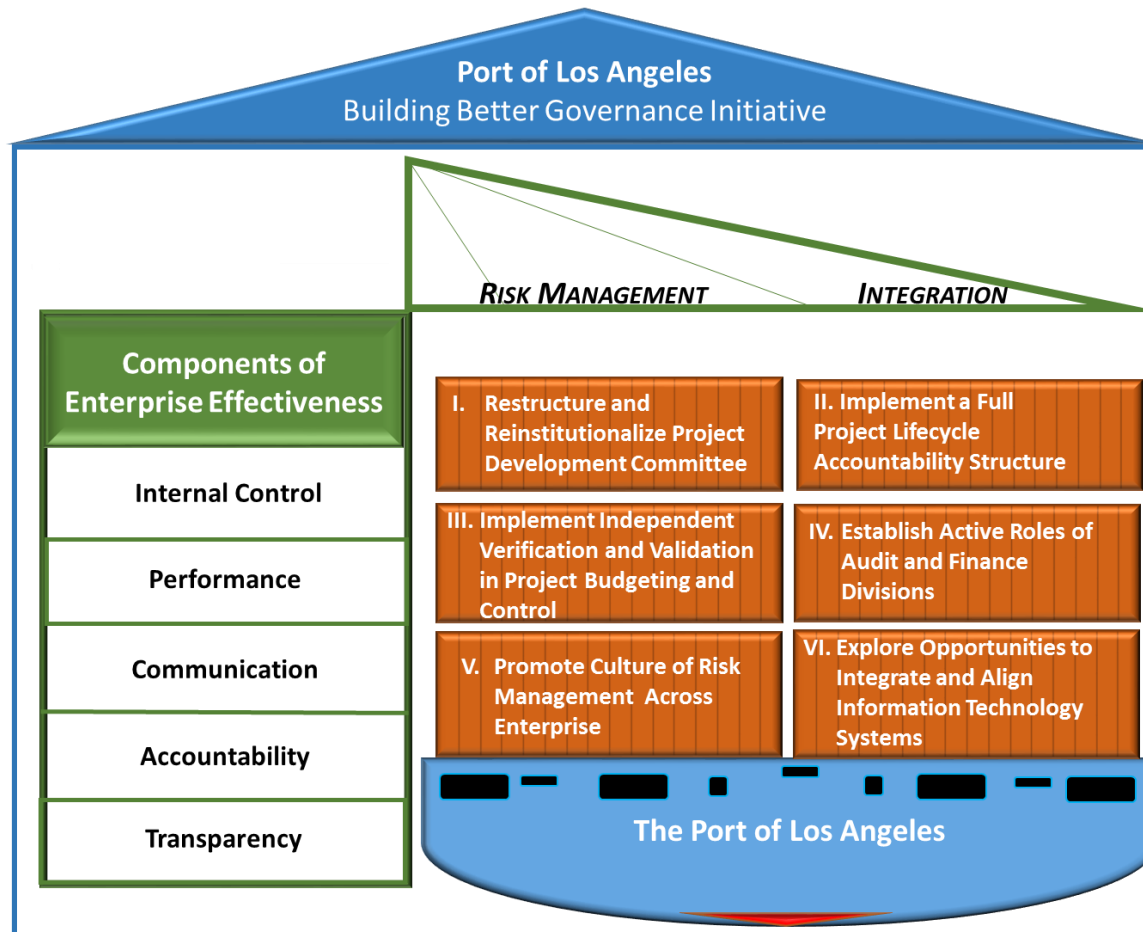
⁸ Decker, Raymond J. United States Government Accountability Office. 31 Oct. 2001.

LESSONS LEARNED - SUMMARY



RECOMMENDATIONS – BUILDING BETTER GOVERNANCE INITIATIVE

BRONNER has organized its recommendations for enhancing the POLA operating framework into a comprehensive, leadership-driven plan: the Building Better Governance Initiative (BBGI). BBGI links every action to the components of enterprise effectiveness to ensure POLA can expand its capacity for optimal risk management and enterprise integration. BBGI provides clear, measurable actions to enhance performance and oversight across the organization in seamless alignment with the Port’s 2012-2017 Strategic Plan.



The following table shows how each of the BBGI recommendation addresses the key issues and helps achieve enterprise effectiveness and targeted outcomes.



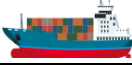
Recommendations	TraPac Issues Addressed	Components of Enterprise Effectiveness	Target Outcomes
<p><i>I. REENGINEER AND REINSTITUTIONALIZE PROJECT DEVELOPMENT COMMITTEE</i></p>	<ul style="list-style-type: none"> • Substantial increases in project cost estimation • Significant delay in permit amendment filing • Failure to follow established tenant lease policies and procedures • Communication gaps between POLA Divisions, management, and BOHC 	<p>Internal Control Performance Accountability Communication</p>	<ul style="list-style-type: none"> ✓ Adequate number of control points in project lifecycle under PDC oversight ✓ Established schedule of PDC meetings and agendas ✓ Reduction in project cost overruns ✓ Reduction in non-compliant actions
<p><i>II IMPLEMENT A FULL PROJECT LIFECYCLE ACCOUNTABILITY STRUCTURE</i></p>	<ul style="list-style-type: none"> • Lack of single point of project accountability across project lifecycle • Lack of clarity regarding the roles and responsibilities of project manager through the project lifecycle • Communication gaps between POLA Divisions, management, and BOHC 	<p>Communication Accountability Transparency</p>	<ul style="list-style-type: none"> ✓ Department-wide use of Project Lifecycle Accountability Structure as primary source of project information and decision-making ✓ Quicker communication of specific information to Executive level ✓ Enhanced consistency of data and information between divisions ✓ Improved outcomes in POLA performance metrics measuring financial sustainability
<p><i>III. IMPLEMENT INDEPENDENT VALIDATION & VERIFICATION (IVV) IN PROJECT BUDGETING AND CONTROL</i></p>	<ul style="list-style-type: none"> • Substantial increases in project cost estimation • Ineffective action taken to revise tenant lease to adequately protect POLA against financial risk 	<p>Internal Control Performance Transparency</p>	<ul style="list-style-type: none"> ✓ Reduction in project budget revisions ✓ Fewer project cost overruns ✓ Adequate number of control points in project lifecycle ✓ Improved outcomes in POLA performance metrics measuring financial sustainability ✓ Development of oversight over performance metrics ✓ Enhanced consistency of data and information between divisions ✓ Shorter project development timeline

Recommendations	TraPac Issues Addressed	Components of Enterprise Effectiveness	Target Outcomes
<p>IV. ESTABLISH ACTIVE ROLES IN PROJECT CONTROL FOR FINANCE AND AUDIT</p>	<ul style="list-style-type: none"> Substantial increases in project cost estimation Failure to follow established tenant lease policies and procedures Communication gaps between POLA Divisions, management, and BOHC 	<p>Internal Control Performance Communication Accountability</p>	<ul style="list-style-type: none"> ✓ Enhanced participation of Finance Division in project budgeting estimation and reporting ✓ Fewer project cost overruns ✓ Greater cost / revenue / risk sharing as percentage of project cost in project leases ✓ Reduction in non-compliant actions ✓ Improved outcomes in POLA performance metrics measuring financial sustainability ✓ Development of oversight over performance metrics
<p>V. PROMOTE CULTURE OF RISK MANAGEMENT ACROSS ENTERPRISE</p>	<ul style="list-style-type: none"> Ineffective action taken to revise tenant lease to adequately protect POLA against financial risk Communication gaps between POLA Divisions, management, and BOHC 	<p>Communication Accountability Transparency</p>	<ul style="list-style-type: none"> ✓ Shorter project development timeline ✓ Reduction in non-compliant actions ✓ Enhanced reporting of Executive decisions and the specific actions that those decisions authorize
<p>VI. EXPLORE OPPORTUNITIES TO INTEGRATE AND ALIGN INFORMATION TECHNOLOGY SYSTEMS</p>	<ul style="list-style-type: none"> Communication gaps between POLA Divisions, management, and BOHC 	<p>Internal Control Performance Communication Accountability Transparency</p>	<ul style="list-style-type: none"> ✓ Greater availability of cost and financial information from POLA information systems ✓ Enhanced consistency of data and streamlined interfacing of information between divisions

RECOMMENDATIONS, KEY ACTIONS, AND PRIORITY RANKING

The following pages present each recommendation and discuss the recommendation’s associated key action items. These discussions provide each key action item’s purpose and scope parameters. Each page presents target outcomes that can act as criteria for evaluation of POLA’s progress in the implementation of these recommendations.

Recommendation priority rankings are assigned using the following system:

	HIGH PRIORITY
	MEDIUM PRIORITY
	LOW PRIORITY

Each page highlights goals and objectives of the Port’s 2012-2017 Strategic Plan that the recommendations support and advance. As identified in the 2011 IEAS audit, formal connection between POLA project management and POLA strategic goals can play a critical role in enterprise-wide management and performance effectiveness.⁹

The six recommendations are as follows:


- I. RESTRUCTURE AND REINSTITUTIONALIZE PROJECT DEVELOPMENT COMMITTEE
- II. IMPLEMENT A FULL PROJECT LIFECYCLE ACCOUNTABILITY STRUCTURE
- III. IMPLEMENT INDEPENDENT VALIDATION & VERIFICATION (IVV) IN PROJECT BUDGETING AND CONTROL
- IV. ESTABLISH ACTIVE ROLES IN PROJECT CONTROL FOR FINANCE AND AUDIT
- V. PROMOTE CULTURE OF RISK MANAGEMENT ACROSS ENTERPRISE
- VI. EXPLORE OPPORTUNITIES TO INTEGRATE AND ALIGN INFORMATION TECHNOLOGY SYSTEMS

⁹ Thompson, Cobb, Bazilio and Associates and Norbridge, Inc. “Industrial, Economic and Administrative Survey Report: Los Angeles Harbor Department.” June 2011.

“The Port of Los Angeles is the nation’s number one port and is a major economic driver for our local, regional, and national economy. ... Keeping our port at peak performance is key.”

Mayor of Los Angeles
Eric Garcetti
in 89.3 KPCC Southern
California Public Radio
October 22, 2013

RECOMMENDATION I: RESTRUCTURE AND REINSTITUTIONALIZE PROJECT DEVELOPMENT COMMITTEE


- 
- ➔ **Review and formalize Project Development Committee charter, membership and participation rules**
 - PDC policies and procedures will clearly establish the Committee's authority and balance authority and decision-making between PDC, ED, and BOHC
 - PDC structure and participation rules will include specific guidelines for ED's engagement and participation in the PDC

 - ➔ **Establish and formalize criteria, policies and procedures for PDC to assess project at different lifecycle stages**
 - PDC will set a "tone-at-the-top" to demonstrate high-level commitment to robust project control and quality management that protects POLA against financial risk

 - ➔ **Implement policies and procedures for divisions to submit and review project status reports with PDC**
 - PDC policies and procedures will establish a workflow of project review and approval to the BOHC, including project deliverables
 - Policies and procedures will include a framework for change control that can account for modification in assumptions for a project's business case

RECOMMENDATION I: RESTRUCTURE AND REINSTITUTIONALIZE PROJECT DEVELOPMENT COMMITTEE

DESIRED STRUCTURE AND AUTHORITY FOR PROJECT DEVELOPMENT COMMITTEE



**Determine assignment of responsibilities
in project review and approval process**

Which PDC member(s) can and should do what?

**Define needs and objectives for
project review and approval**

What does the PDC want to do?

What are the PDC's objectives?

- Risk management
- Integration

**Determine authority and capacity
for project review and approval**

Which PDC member(s) can and should do what?

- Legal framework
- Political realities

Priority Level



RECOMMENDATION I: RESTRUCTURE AND REINSTITUTIONALIZE PROJECT DEVELOPMENT COMMITTEE



Target Outcomes

- Adequate number of control points in project lifecycle under PDC oversight
- Established schedule of PDC meetings and agendas
- Reduction in project cost overruns
- Reduction in non-compliant actions

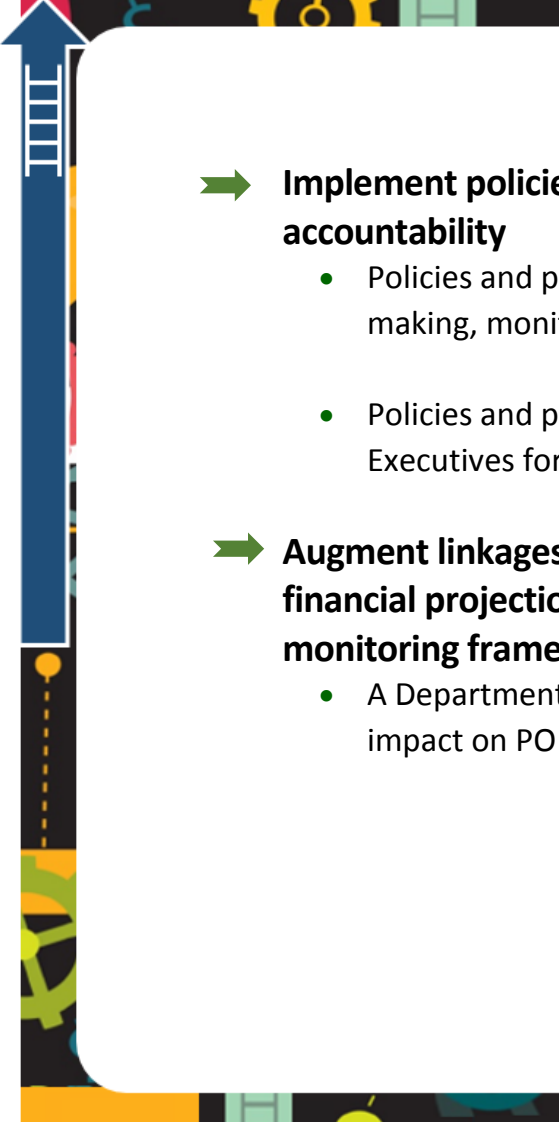
Alignment with 2012 – 2017 Strategic Plan Goals and Objectives

- Competitive Operations
- Financial Strength
- Grow Market Share
- Strengthen Financial Performance

RECOMMENDATION II: IMPLEMENT A FULL PROJECT LIFECYCLE ACCOUNTABILITY STRUCTURE

- 
- ➔ **Redefine or expand the project management roles and responsibilities that would enable a single human point of accountability throughout a project's full development lifecycle**
 - Project Accountability structure must foster effective collaboration and coordination among all staff from various divisions
 - Consider expanding the current concept and designation of a Project Manager, which does not necessarily have to be from the Engineering Division
 - Roles, responsibilities and authority of the Project Manager will be based on the requirements of the project scope and lifecycle, not necessarily on the staff's position within the POLA organizational structure
 - Roles, responsibilities and authority of the Project Manager will be clearly defined across the various stages of the lifecycle and in relation to staff from other divisions
 - Roles and responsibilities of project team members across divisions will be clearly defined across the various stages of the lifecycle and in relation to the Project Manager

RECOMMENDATION II: IMPLEMENT A FULL PROJECT LIFECYCLE ACCOUNTABILITY STRUCTURE

- 
- **Implement policies and procedures that would support a single point of accountability**
 - Policies and procedures must facilitate effective cross-divisional participation, decision-making, monitoring, and reporting
 - Policies and procedures will clearly define participation and involvement of POLA Executives for executive oversight, directions, and issue resolution

 - **Augment linkages between project budgets, CIP, annual POLA budget, long-term financial projections, and strategic goals through consistent, enterprise-wide monitoring framework**
 - A Department-wide context is necessary to evaluate each project in terms of its overall impact on POLA's financial sustainability

RECOMMENDATION II: IMPLEMENT A FULL PROJECT LIFECYCLE ACCOUNTABILITY STRUCTURE

Transitioning to Full Accountability



Current Project Management Structure

Project Manager: Responsible for day-to-day operational management and information management

Project Sponsor: Responsible for strategic decisions regarding project

Future Project Accountability Structure

Project Manager: Single Human point of accountability with appropriate level of authority to obtain and manage information, move projects forward, and elevate issues for resolution

Priority Level



RECOMMENDATION II: IMPLEMENT A FULL PROJECT LIFECYCLE ACCOUNTABILITY STRUCTURE

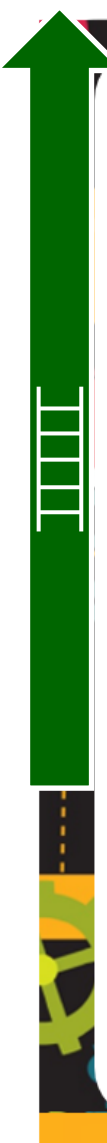
Target Outcomes

- Department-wide use of Project Lifecycle Accountability Structure as primary source of project information and decision-making
- Quicker communication of specific information to Executive level
- Enhanced consistency of data and information between divisions
- Improved outcomes in POLA performance metrics measuring financial sustainability

Alignment with 2012 – 2017 Strategic Plan Goals and Objectives

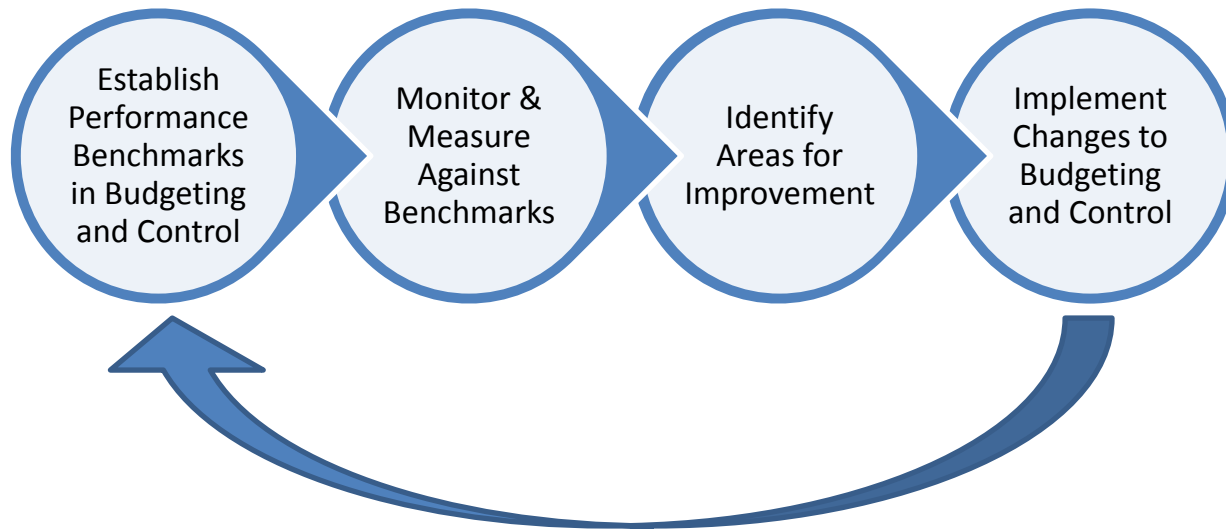
- Competitive Operations
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RECOMMENDATION III. IMPLEMENT INDEPENDENT VALIDATION & VERIFICATION (IVV) IN PROJECT BUDGETING AND CONTROL

- 
- ➔ **Establish policies and procedures for review of cost estimations**
 - Cost estimation reviews will operate both internally and externally
 - Outside consultation will provide project cost review services, but not as a substitute for internal controls on project cost management
 - ➔ **Establish verification and validation processes at multiple control points across project lifecycle**
 - Responsibility for processes will not belong to any single division or project team
 - Processes will rely on the technical expertise of each division
 - ➔ **Facilitate and strengthen linkage between initial budgets, subsequent revisions, and budget tracking**
 - Tracking history of budget revisions within each project will facilitate the identification and mitigation of project cost overruns
 - ➔ **Implement policies and procedures for communication and distribution of project information**
 - Specific standards and reporting structures are necessary to ensure that the flow of budget information is consistent and accurate

RECOMMENDATION III. IMPLEMENT INDEPENDENT VALIDATION & VERIFICATION (IVV) IN PROJECT BUDGETING AND CONTROL

Independent Verification and Validation



Priority Level



RECOMMENDATION III. IMPLEMENT INDEPENDENT VALIDATION & VERIFICATION (IVV) IN PROJECT BUDGETING AND CONTROL

Target Outcomes

- Reduction in project budget revisions
- Fewer project cost overruns
- Adequate number of control points in project lifecycle
- Improved outcomes in POLA performance metrics measuring financial sustainability
- Development of oversight over performance metrics
- Enhanced consistency of data and information between divisions
- Shorter project development timeline

Alignment with 2012 – 2017 Strategic Plan Goals and Objectives

- Competitive Operations
- Financial Strength
- Grow Market Share
- Strengthen Financial Performance

RECOMMENDATION IV. ESTABLISH ACTIVE ROLES IN PROJECT CONTROL FOR FINANCE AND AUDIT




➔ **Implement policies and procedures for Finance Division to participate adequately on project cost estimations and lease agreements**

- Policies will establish precise points at which Finance Division participates in the budget review and lease agreement processes to ensure that projects remain within acceptable cost parameters and to remain aware of any changes in project cost and scope
- The goal is for the Finance Division to be aware of changes to project budgets, understand why these changes occurred, and have a system in place to evaluate the impact on POLA's financial sustainability

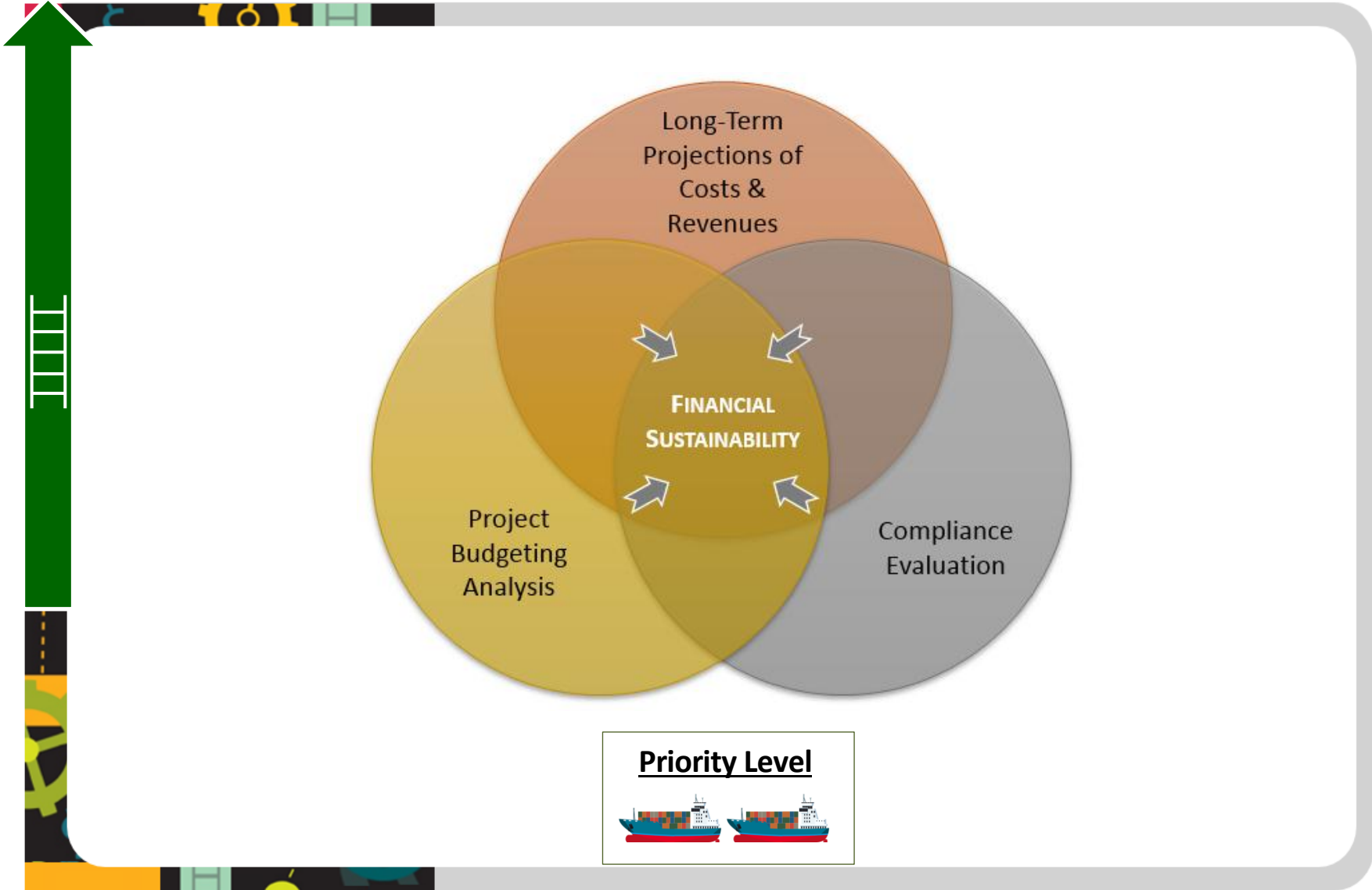
➔ **Establish program wherein Audit conducts spot audits on sample of active projects to ensure compliance**

- Spot audits can and will be conducted on a cycle basis for judgmentally sampled projects at any project phase or at any time to maintain the integrity of information across the project lifecycle
- Assessment parameters should include cost estimates and change orders, project schedules, and authorizations and approvals received

RECOMMENDATION IV. ESTABLISH ACTIVE ROLES IN PROJECT CONTROL FOR FINANCE AND AUDIT

- 
- ➔ **Engage Financial Analysis Group in early stages of project budgeting for assessment of financial sustainability**
 - Policies will establish precise points in project budgeting at which Financial Analysis Group conducts review of project budgets to evaluate adherence to POLA annual budget and adequacy of cost controls and to evaluate the value and impact of the project lifecycle over a longer timeframe

RECOMMENDATION IV. ESTABLISH ACTIVE ROLES IN PROJECT CONTROL FOR FINANCE AND AUDIT



RECOMMENDATION IV. ESTABLISH ACTIVE ROLES IN PROJECT CONTROL FOR FINANCE AND AUDIT


Target Outcomes

- Enhanced participation of Finance Division in project budgeting estimation and reporting
- Fewer project cost overruns
- Greater cost / revenue / risk sharing as percentage of project cost in project leases
- Reduction in non-compliant actions
- Improved outcomes in POLA performance metrics measuring financial sustainability
- Development of oversight over performance metrics

Alignment with 2012 – 2017 Strategic Plan Goals and Objectives

- Competitive Operations
- Financial Strength
- Grow Market Share
- Strengthen Financial Performance

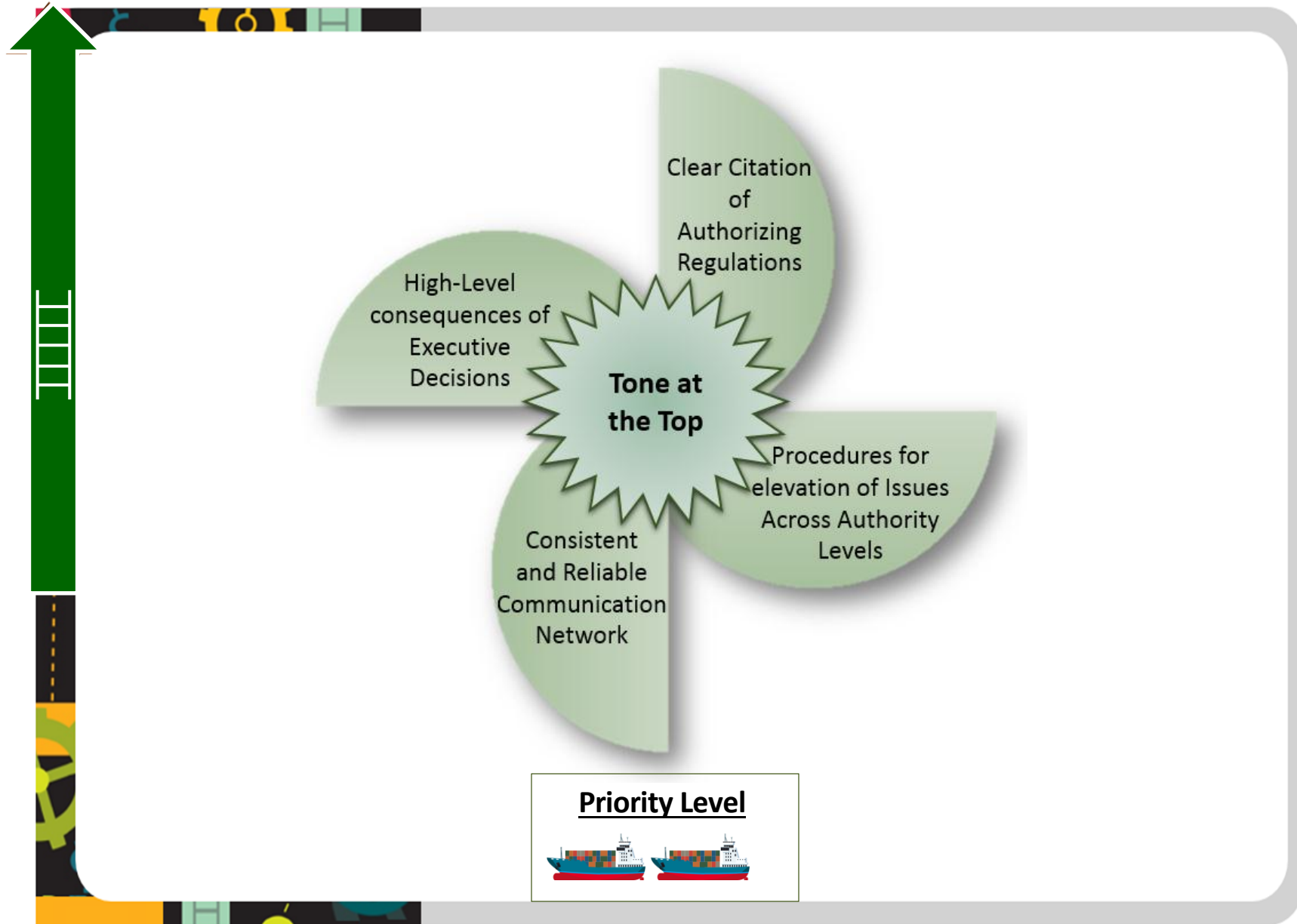
RECOMMENDATION V. PROMOTE CULTURE OF RISK MANAGEMENT ACROSS ENTERPRISE

- 
- ➔ **Initiate meeting between Office of City Attorney and Real Estate Division to review terms of lease agreement**
 - Engaging the Office of City Attorney in the review of the written agreement between POLA and tenant will enhance RED's ability to reduce POLA's risk exposure and balance risk sharing with the tenant

 - ➔ **Request Office of City Attorney to recommend process to ensure City contracting authority is upheld**
 - Process will produce more robust oversight procedures that ensure established project lease policies are followed and minimize the risk of non-compliant actions related to lease negotiations

 - ➔ **Establish policies and procedures for communication and distribution of Executive decisions to set a clear “tone-at-the-top”**
 - POLA staff and management must have a reliable source of consistent information on Executive decision-making to ensure enterprise-wide coordination on POLA priorities and strategic direction

RECOMMENDATION V. PROMOTE CULTURE OF RISK MANAGEMENT ACROSS ENTERPRISE



RECOMMENDATION V. PROMOTE CULTURE OF RISK MANAGEMENT ACROSS ENTERPRISE



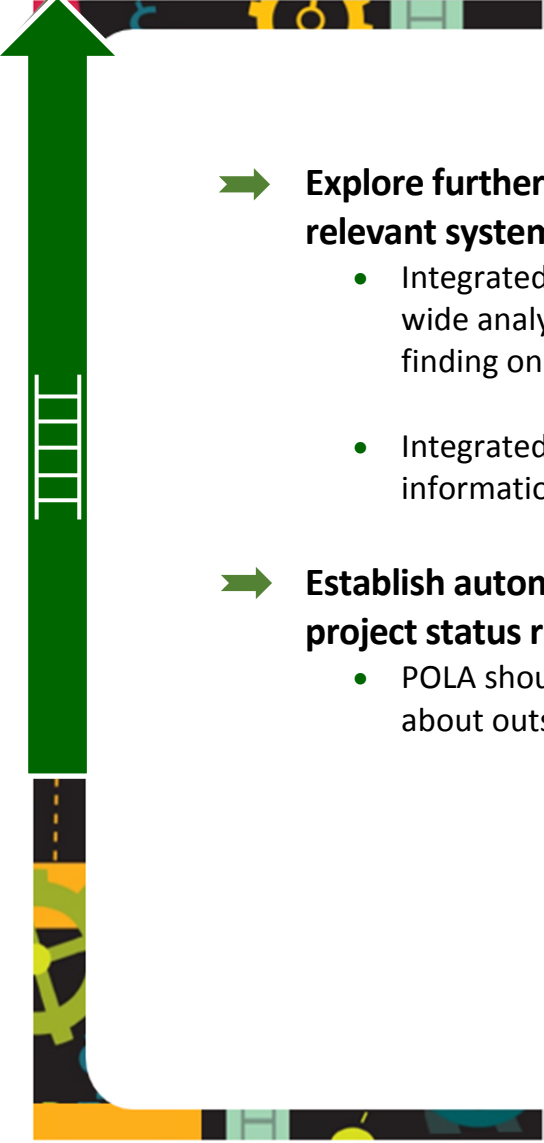
Target Outcomes

- Shorter project development timeline
- Reduction in non-compliant actions
- Enhanced reporting of Executive decisions and the specific actions that those decisions authorize

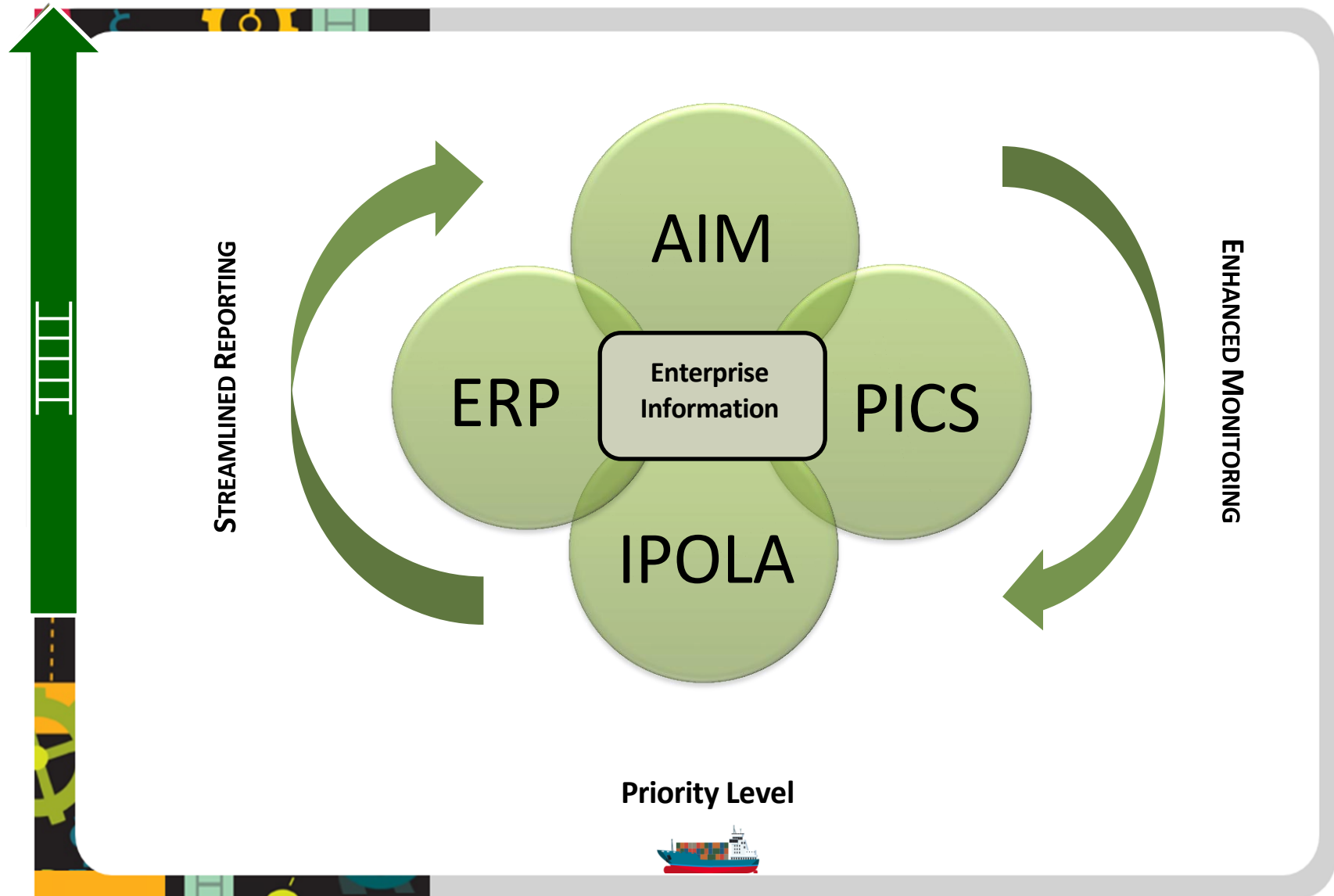
Alignment with 2012 – 2017 Strategic Plan Goals and Objectives

- Competitive Operations
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RECOMMENDATION VI. EXPLORE OPPORTUNITIES TO INTEGRATE AND ALIGN INFORMATION TECHNOLOGY SYSTEMS

- 
- ➔ **Explore further the feasibility of integrating PICS / AIM / ERP / IPOLA and other relevant systems to integrate project information and streamline reporting**
 - Integrated project information will augment efforts to conduct and maintain enterprise-wide analyses of POLA financial sustainability, as discussed in the 2011 IEAS Audit's finding on interfacing financial accounting systems
 - Integrated systems will facilitate the exchange of understandable, accessible information between Divisions that is relevant to the functions of each Division
 - ➔ **Establish automated workflows and case management systems that enhance project status reporting and monitoring**
 - POLA should consider implementing trigger mechanisms that automatically notify staff about outstanding project issues or tasks

RECOMMENDATION VI. EXPLORE OPPORTUNITIES TO INTEGRATE AND ALIGN INFORMATION TECHNOLOGY SYSTEMS



RECOMMENDATION VI. EXPLORE OPPORTUNITIES TO INTEGRATE AND ALIGN INFORMATION TECHNOLOGY SYSTEMS



Target Outcomes




- Greater availability of cost and financial information from POLA information systems
- Enhanced consistency of data and streamlined interfacing of information between divisions




Alignment with 2012 – 2017 Strategic Plan Goals and Objectives

- Competitive Operations
- Financial Strength
- Grow Market Share
- Strengthen Financial Performance

RECOMMENDED IMPLEMENTATION PLAN

The following table summarizes BRONNER’s recommendations and key action items, which requires POLA’s input to assign the respective timeframe and key action item owner. Ranking of the recommendations uses a cargo ship to indicate priority, with a larger number of cargo ships signifying greater priority for implementation. Recommendations are listed in descending order of priority.

Recommendations and Key Action Items	Priority Ranking	Timeframe	Key Action Item Owner
<i>I. RESTRUCTURE AND REINSTITUTIONALIZE PROJECT DEVELOPMENT COMMITTEE (PDC)</i>			
I.1. Review and formalize PDC charter, membership and participation rules			
I.2. Implement policies and procedures for divisions to submit and review project status reports with PDC			
I.3. Establish and formalize specific criteria, policies and procedures for PDC to assess projects			
<i>II. IMPLEMENT A FULL PROJECT LIFECYCLE ACCOUNTABILITY STRUCTURE</i>			
II.1. Redefine or expand the project management roles and responsibilities that would enable a single human point of accountability throughout a project’s full development lifecycle			
II.2. Implement policies and procedures that would support a single point of accountability			
II.3. Augment linkage between project budgets, CIP, annual POLA budget, long-term financial projections, and strategic goals through consistent, enterprise-wide monitoring framework			
<i>III. IMPLEMENT INDEPENDENT VALIDATION & VERIFICATION (IVV) IN PROJECT BUDGETING AND CONTROL</i>			
III.1. Establish policies and procedures for review of cost estimations			
III.2. Establish verification and validation processes at multiple points across project lifecycle			

Recommendations and Key Action Items	Priority Ranking	Timeframe	Key Action Item Owner
III.3. Facilitate and strengthen linkage between initial budgets, subsequent revisions, and budget tracking			
III.4. Implement policies and procedures for communication and distribution of project information			
IV. ESTABLISH ACTIVE ROLES IN PROJECT CONTROL FOR FINANCE AND AUDIT			
IV.1. Implement policies and procedures for Finance Division to participate adequately on project cost estimations and lease agreements			
IV.2. Establish program wherein Audit conducts spot audits on sample of active projects to ensure compliance			
IV.3. Engage Financial Analysis Group in early stages of project budgeting for assessment of financial sustainability			
V. PROMOTE CULTURE OF RISK MANAGEMENT ACROSS ENTERPRISE			
V.1. Initiate meeting between Office of City Attorney and Real Estate Division to review terms of lease agreement			
V.2. Request Office of City Attorney to recommend process to ensure City contracting authority is upheld			
V.3. Establish policies and procedures for communication and distribution of Executive decisions to set a clear “tone-at-the-top”			
VI. EXPLORE OPPORTUNITIES TO INTEGRATE AND ALIGN INFORMATION TECHNOLOGY SYSTEMS			
VI.1. Explore further the feasibility of integrating PICS / AIM / ERP / IPOLA and other relevant systems to integrate project information and streamline reporting			
VI.2. Establish automated workflows that enhance project status reporting and monitoring			

NEXT STEPS

To transform the results of BRONNER's assessment into tangible improvements to the POLA operating framework, BRONNER recommends the following Next Steps for POLA leadership and management:

1. Review and accept recommendations and key action items
2. Establish and seat a BBGI Implementation Steering Committee
3. Assign accountability and timeframe for individual key action items



4. Establish monitoring framework to ensure tasks are accomplished

CONCLUSION: MOVING FORWARD WITH BBGI

“Maintaining our position as the nation’s premier trade gateway to the Pacific Rim requires a renewed and revitalized commitment to our key factors for success”

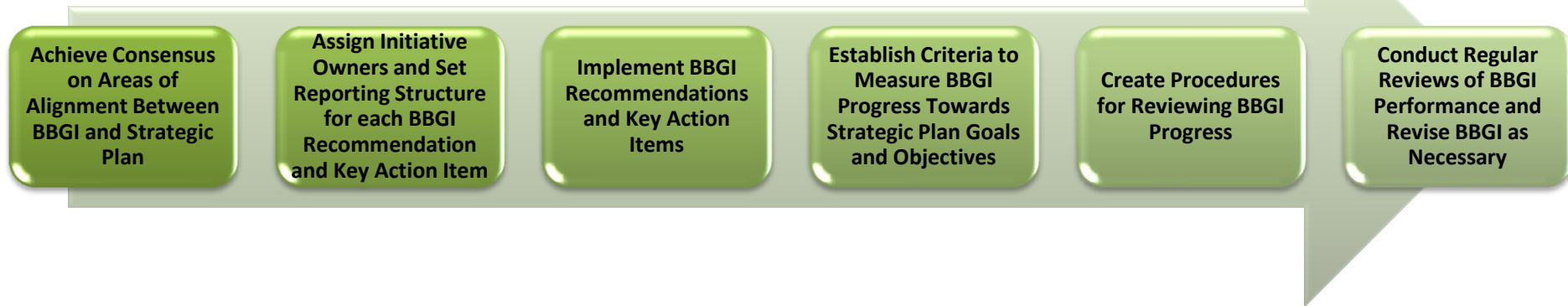
**Port of Los Angeles
2012 – 2017 Strategic Plan**

In this report, BRONNER identifies and discusses specific recommendations to address lessons learned arising from the assessment of the TraPac Program. To enhance the POLA operating framework, BRONNER has established the Building Better Governance Initiative (BBGI): a series of recommendations to improve integration and strengthen risk management across the enterprise.

In recognition of the excellent work in the IEAS audit and the AAR that have preceded BRONNER’s assessment, along with the impressive efforts that POLA has already taken to act upon the suggestions of these reviews, BRONNER offers the BBGI recommendations as further improvements to existing efforts. BBGI establishes a structure for enhancements that extends targeted improvements to project controls and the project lifecycle throughout the POLA operating framework.

With this comprehensive perspective in place, BRONNER is confident that BBGI will integrate seamlessly into the Port’s 2012-2017 Strategic Plan as a tool to ensure that POLA has the policies, procedures, practices, and culture of leadership to pursue its goals and objectives at every functional level. With a targeted focus on risk management and integration as a framework for robust internal control, BBGI will enable POLA to advance its competitive operations, augment its strong relationships with internal and external stakeholders, and reinforce its financial strength.

BBGI IMPLEMENTATION AND INTEGRATION PROCESS



Appendix: List of Interviewees

BRONNER conducted over 40 on-site and teleconferenced interviews and meetings, which involved multiple discussions with twenty-one (21) staff members, not including the former Executive Director or Deputy Executive Director – Business Development.

Name	Division
• Mike Galvin	Special Projects
• Steve Otera	City Attorney
• Christina Sar	Engineering
• Dave Walsh	Engineering
• Mike Christensen	Development
• Dina Aryan-Zahlan	Engineering
• Karl Pan	Finance
• Mike Russell	Finance
• David Mathewson	Planning & Economic Development
• Tony Gioiello	Engineering
• Julie Wichmann Huerta	Board of Harbor Commissioners Staff
• Marisa Katnich	Fmr. Engineering; Currently with Los Angeles World Airports
• Fernando Campos	Office of the Chief Administrator, City of Los Angeles
• Doug Krause	Audit Committee, BOHC
• David Arian	BOHC
• Eileen Yoshimura	Finance
• Janie Cardamone	Engineering
• Molly Campbell	Finance and Audit
• Gary Lee Moore	Executive Director
• Janna Sidley	City Attorney
• Jim Olds	Audit