

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: September 8, 2017

TO: John L. Reamer, Director
Department of Public Works – Bureau of Contract Administration

FROM: 
Alfred Rodas, Director of Auditing
Office of the Controller

SUBJECT: LIMITED SCOPE FISCAL AUDIT AT THE BUREAU OF CONTRACT ADMINISTRATION

The Controller's Office conducted a limited scope fiscal audit at the Department of Public Works, Bureau of Contract Administration (BCA) focused on cash handling and payroll. Specifically, we performed a surprise cash count of BCA's petty cash fund to determine whether adequate controls were in place; and we reviewed payroll for sampled employees over a two-week period.

Our audit was performed in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Overall Results

Petty cash was properly accounted for and the related internal controls were sound. Regarding payroll, payments for hours worked and bonuses were properly supported; but controls related to the payment of mileage reimbursements and overtime require enhancement.

In response to a prior (2012) Controller audit issue, BCA management had attempted to revise its mileage policy to comply with the Los Angeles Administrative Code (LAAC), but had been unsuccessful due to resistance from organized labor. During this audit a revised policy was agreed upon and implemented; and while an improvement, it will continue to allow some employees to be reimbursed for what are essentially normal "commuting" miles, a condition we take exception to. Our audit also identified issues with the completeness of Mileage Statement Forms, and documentation of pre-approval and overtime worked.

Bureau Response

A draft report was provided to BCA on July 21, 2017, and their formal response, dated August 25, 2017, is included as an Attachment to this report. Based on the Bureau's Action Plan, we now consider recommendations 2.2 and 2.3 as Implemented, recommendations 2.1 and 3.1 as In Progress, and recommendation 1.1 as Disagree. We appreciate the cooperation and assistance provided by BCA management and staff during our audit.

OBSERVATIONS: PAYMENTS FOR MILEAGE REIMBURSEMENT

During Fiscal Year 2015-16, 220 BCA employees received a total of \$1,122,141 in mileage reimbursements, averaging \$5,101 per employee; the highest mileage reimbursement received by one employee totaled \$13,243. The table below summarizes the distribution of mileage reimbursements among the BCA employees who received mileage during FY 2015-16.

Reimbursement Ranges	Number of Employees	% of Total Employees	Reimbursements Received	% of Total Reimbursements
Under \$2,000	35	16%	\$ 35,133	3%
\$2,000-\$4,000	50	23%	\$ 151,373	13%
\$4,000-\$6,000	50	23%	\$ 256,374	23%
\$6,000-\$8,000	54	25%	\$ 382,400	34%
\$8,000-\$10,000	23	10%	\$ 204,540	18%
\$10,000-\$12,000	5	2%	\$ 54,273	5%
\$12,000-\$14,000	3	1%	\$ 38,048	3%
Total	220	100%	\$ 1,122,141	100%

The BCA deploys construction inspectors throughout the City help ensure contractors' compliance with the plans and specifications for construction of public facilities, and for work conducted within the public right-of-way (City streets). The BCA authorizes its construction inspectors to use their personal vehicles to drive to these construction sites, and to submit a bi-weekly Mileage Statement Form to request mileage reimbursement.

LAAC 4.233 governs the "Use of Privately Owned Automobiles on City Business and Reimbursement Therefor" and specifies that mileage employees receive reimbursement for miles driven between a day's first and last stop, and any

miles driven to and from the first and last stop in excess of their normal commute miles, i.e. home to headquarters (HHQ).

The LAAC further specifies that no employee shall be reimbursed for mileage traveled between his HHQ; and that the administrative head of City Departments shall assign a permanent headquarters to all mileage employees. "Headquarters" is defined by the LAAC as "those places of assignment to which an employee is required to report for instructions, such as City Hall, Branch City Halls, various departmental division yards, plants and stations and other similar places of assignment." However, when an employee is not required to report to such a place for instructions, the administrative head shall designate a headquarters near the employee's area of assignment.

Moreover, the LAAC specifies that if an employee reports at a new headquarters for more than 30 days, that location shall be considered thereafter as the employee's permanent headquarters.

Observation No. 1: BCA's mileage policies result in some employees being reimbursed for normal "commuting" miles.

The BCA's 1993 mileage policy which was in place during this review indicates that mileage employees are "usually assigned" to a Bureau headquarters nearest their home; that is, the nearest of one of the five Offices of the Bureau. Thus, we found that the Bureau's written policy was being used to assign a headquarters location that was nearest to an employee's home, versus a Bureau (or other) headquarters nearest to an employee's area of assignment; as specified by the LAAC. This had the effect of minimizing the HHQ, and maximizing the miles claimed for reimbursement.

While BCA inspectors may perform their work at multiple field locations throughout the City, some are directed to work at the same field location for an extended period. For example, four of the 15 sampled mileage employees reported driving to and from the same work location for months, even years. Yet, since their designated headquarters was the BCA location closest to their home instead of being the location of their permanent work assignment, the employees' received significant mileage reimbursement (\$1,221 during the two-week period). Had these employees' work assignments been designated as their headquarters, they would have instead received \$302 (\$919 less in mileage reimbursements).

We noted that the work assignment and driving pattern for these four employees was consistent in the preceding 12 months, which resulted in approximately \$20,000 in mileage reimbursements for what was essentially normal "commuting" miles.¹ BCA's designation of a headquarters that is closest to a mileage employee's home, regardless of their work assignment, *even when their work assignment is permanent*, results in the mileage employee receiving a significantly higher mileage reimbursement payment than what should be paid.

The Controller's 2012 Audit of Citywide Mileage Reimbursements identified similar issues and recommended that the BCA review the designated headquarters for mileage employees to comply with the LAAC. While BCA management attempted to implement a revised mileage policy to address the discrepancy with headquarter designation for its mileage employees, by April 2014 negotiations with Municipal Construction Inspectors Association (MCIA), the labor union representing construction inspectors, resulted in an impasse.

During this audit, BCA management renewed its efforts to implement a revised mileage reimbursement policy by proposing a draft policy through a meet and confer process. With the concurrence of representatives from MCIA, and the Office of the City Attorney (OCA), BCA implemented its revised policy. Although the revised policy now requires the assignment of a Bureau headquarters nearest to an employee's work assignment, it allows BCA to grant a special status to certain employees that would enable them to essentially receive normal "commute" miles.

The revised policy uses an exception in the LAAC that permits employees with unusual knowledge or skill to have their headquarters designated by management as one of the five BCA headquarters locations that is closest to their home, rather than their place of assignment.² Under this exception, such employees who are permanently assigned to inspect ongoing work at defined sites (e.g., the airport, wastewater treatment plants, sixth street bridge, etc.)

¹ While this example is specific to 4 employees, the remaining 11 employees who received mileage for our sample, and many others at BCA, could have received similar payments.

² LAAC Section 4.233.f(2) states "Should the work assignment of an employee be of a special nature, requiring unusual knowledge or skill, and if location of this job assignment is significantly more distant from his home than his normal work assignment; a headquarters which is the normal distance from the employee's home may be designated by the administrative head during the period of special assignment."

would be reimbursed for the mileage incurred for driving to their daily place of assignment.³

The BCA's adoption of this revised policy (developed during negotiations with labor representatives) undermines the intent of the LAAC and prudent fiscal responsibility of management and it does not include a requirement for BCA to document its rationale for granting this special status to a mileage employee (i.e., the employee's unusual knowledge or skill and the significant distance from the employee's home versus his/her normal work assignment). Even if the revised policy may technically comply with the provisions of LAAC, it results in unnecessarily high mileage reimbursements being provided to employees of the BCA.

It is our position that the LAAC is intended to allow for mileage reimbursement to an employee for the use of their own vehicle *in the performance of their duties*; not to reimburse them for transport to that place *where they perform those duties*, as that would be considered normal commuting miles.

BCA Management should:

1.1 Reassess the revised mileage reimbursement policy described in this review, and continue efforts to develop and implement a fiscally responsible mileage policy that complies with the intent of the LAAC.

Observation No 2: BCA continues to process incomplete Mileage Statement Forms, limiting the ability to review details for accuracy or reasonableness.

While reviewing support for mileage reimbursements to sampled employees for a two-week period, we noted the following concerns:

- Over half of the Mileage Statement Forms were missing the number of stops or stop addresses, which is required;

³ BCA's revised policy states "If an employee reports to a work assignment that is a Special Assignment, and if [the] location of the assignment is significantly more distance from his or her home than the normal work assignment, then the Bureau Headquarter location which is the *normal* distance from the employees home may be used during the period that the employee is assigned to that project location...The Bureau shall define *normal* as the Bureau Headquarter that is closest to the employee's home.

- All were missing the associated arrival times at each stop, which is supposed to be recorded; and
- All included only the last three digits of the odometer reading.

Incomplete information limits supervisory review, and hindered our ability to confirm the accuracy of mileage reimbursements paid to BCA employees. The Controller's 2012 Audit of Citywide Mileage Reimbursements identified similar concerns with the completeness of BCA processed Mileage Statement Forms, preventing auditors from validating claimed miles.

In addition, due to staffing and software limitations, BCA Payroll Section staff indicated they do not perform any type of verification or analysis of claimed mileage, instead relying on the construction inspector supervisors to review all Mileage Statement Forms.

While the City continues to work towards automating the mileage reporting process with sufficient controls to ensure accuracy and supervisory review and monitoring, we offer recommendations to address the current process.

Recommendations

BCA Management should:

- 2.1 Require employees to fully complete the Mileage Statement Forms.**
- 2.2 Ensure supervisors closely monitor employee requests for mileage reimbursements, to ensure the validity and accuracy.**
- 2.3 Perform periodic inspections of Supervisor-approved Mileage Statement Forms for completeness and to ensure overall reasonableness, including compliance with LAAC and designation of employees' Headquarters.**

OBSERVATION: PAYMENTS FOR OVERTIME WORKED

Observation No. 3: BCA lacked documentation to support pre-authorization of overtime, or overtime worked.

BCA's FY 2016-17 budget included \$1.2 million for overtime payments.

Generally, overtime should be worked only when necessary to meet public service demands. Documenting the pre-approval of employee overtime is a control procedure designed to demonstrate that management has considered the need and related additional costs for employees to work additional hours, i.e., above what is routine and allowed under the Fair Labor Standards Act, which is compensated at a premium rate.

While the BCA requires pre-approval of planned overtime by a supervisor, the pre-approval is not required to be documented. After the overtime is worked, employees are supposed to document the overtime on Form General 68, Time Off/Compensation Request.

Nine of the 20 sampled employees received paid overtime during the two-week period reviewed. However, none of the pre-approvals were documented, and only four had documented their overtime on the required Form.

BCA should enhance controls to ensure all pre-authorizations of overtime and overtime worked are properly documented and based upon organizational need. This is a best practice and an expectation of all City Departments, which increases accountability for staff, supervisors and management.

Recommendation

BCA Management should:

- 3.1 Require the documentation of pre-approved overtime and the completion of Form General 68, Time Off/Compensation Request for all overtime worked.**

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The Honorable Ron Galperin
City Controller
Attention: Alfred Rodas, Director of Auditing
Room 300, City Hall East
200 N. Main Street
Los Angeles, CA 90012

August 25, 2017

Dear Mr. Galperin:

RESPONSE TO LIMITED SCOPE FISCAL AUDIT

Thank you for the opportunity to respond to the limited scope fiscal audit which focused on the Bureau of Contract Administration's (BCA's) cash handling and payroll. BCA appreciates your comments as we strive to ensure proper administration of employee compensation for allowable costs in the performance of their duties. BCA has submitted responses to the audit findings in the attachment to this letter.

For any further information please contact Angelica H. Samayoa, Administrative Services Division, at (213) 847-2466.

Sincerely,

JOHN L. REAMER, JR., Director
Bureau of Contract Administration

JLR:AHS:bes
20170828 response to ltd scope fiscal audit

Attachment

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

Limited Scope Fiscal Audit at the Bureau of Contract Administration
 Bureau of Contract Administration (BCA)
 25-Aug-17

Finding Number	Summary Description of Finding	Rec. No.	Recommendation	DEPARTMENT REPORTED INFORMATION			
				Current Status	Basis for Status	% of Implementation	Target Date for Implementation
			Bureau of Contract Administration should:				
1	BCA's mileage policies result in some employees being reimbursed for normal "commuting" miles.	1.1	Reassess the revised mileage reimbursement policy described in this review, and continue efforts to develop and implement a fiscally responsible mileage policy that complies with the intent of the LAAC.	I	The Mileage Reimbursement Policy (Mileage Policy), implemented on June 20, 2017, complies with the Los Angeles Administrative Code (LAAC) provisions that are applicable to reimbursement of mileage employees. BCA consulted with subject matter experts to resolve the issues that were raised by an employee organization through a Meet and Confer process. This included the City Administrative Officer's Employee Relations Division, Personnel Department and the City Attorney. On May 18, 2017, a hearing officer ruled that BCA's proposed Mileage Policy should be implemented. The final Mileage Policy, and a companion memo dated June 20, 2017 entitled "Bureau Headquarters and Special Assignments," was the result of the conclusion of the Meet and Confer process and an impasse hearing.	100%	Completed
2	BCA continues to process incomplete Mileage Statement Forms, limiting the ability to review details for accuracy or reasonableness.	2.1	Require employees to fully complete the Mileage Statement Forms.	PI	The employee is responsible for the accuracy of mileage he/she reports, including any changes affecting the "home mileage deductor." The new Mileage Policy includes a list of the specific actions that must be taken by employees and supervisors to ensure that Mileage Statements are completed with correct information. To the extent that employees and supervisors complete and approve the mileage forms manually, and this information is then entered into the Payroll System by BCA Timekeeping staff, there is room for improvement. As such, BCA will continue to explore options and funding to automate entry and recording of mileage information for over 230 mileage employees.	75%	September 2021
		2.2	Ensure supervisors closely monitor employee requests for mileage reimbursements, to ensure the validity and accuracy.	I	The Supervisors must review and approve the mileage statements before they are processed. The new Mileage Policy includes a section noting Supervisor's monitoring responsibilities. In summary, Supervisors must: a) know the assignments of each Inspector; b) verify daily stops on the Mileage Statement to ensure that they coincide with the Inspector's assignments; c) ensure that all Mileage Statements submitted are complete with no missing information, and that all information is correct; d) at each Safety Meeting determine whether any employee has reported to the same first stop for 30 calendar days or more, and also query staff about any changes of residence; and e) provide evidence to executive management that the above was complied with. For change of mileage deductor information, "supervisors shall review and, if acceptable, initial the Form with attachment and forward to his/her Division Manager as soon as possible, retaining a copy in a secure file. Division Managers shall review the Form with attachment and, if acceptable, sign it and forward to the Timekeeper."	100%	Completed

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

Limited Scope Fiscal Audit at the Bureau of Contract Administration
 Bureau of Contract Administration (BCA)
 25-Aug-17

Finding Number	Summary Description of Finding	Rec. No.	Recommendation	DEPARTMENT REPORTED INFORMATION			
				Current Status	Basis for Status	% of Implementation	Target Date for Implementation
		2.3	Perform periodic inspections of Supervisor-approved Mileage Statement Forms for completeness and to ensure overall reasonableness, including compliance with LAAC and designation of employees' Headquarters.	I	The Mileage Policy includes a section noting Division Manager's monitoring responsibilities. Division Managers must: a) on a quarterly basis, randomly select two Mileage Statements per District for general audit; b) provide evidence to the BCA Executive Management that supervisors have monitored personnel on mileage by forwarding copies of the two audited mileage statements with initials indicating concurrence. See BCA Response No. 2.2.	100%	Completed
3	BCA lacked documentation to support pre-authorization of overtime, or overtime worked.	3.1	Require the documentation of pre-approved overtime and the completion of Form General 68, Time Off/Compensation Request for all overtime worked.	PI	BCA manages overtime electronically. Approval of overtime is granted in person, over the phone and/or through emails. After-the-fact, overtime use reports are generated by division managers and submitted to the General Manager for discussion at bi-weekly ConAd STAT meetings. These reports identify employees, with number of overtime hours worked and a description of work performed. BCA is undergoing a review of internal manuals to ensure that policies align with the current paperless practice.	80%	December 2017

I - Implemented
 PI - Partially Implemented or In Progress
 NYI - Not Yet Implemented
 D - Disagree