

**CITY OF LOS ANGELES  
INTER-DEPARTMENTAL CORRESPONDENCE**

**DATE:** June 5, 2019

**TO:** Rushmore D. Cervantes, General Manager  
Housing and Community Investment Department Los Angeles

**FROM:** Bob Wingenroth, Director of Auditing  
Office of the Controller – Audit Services Division 

**SUBJECT:** **IT COMMODITY PROCUREMENT REVIEW**

The Office of the Controller conducted a review of Information Technology (IT) commodity procurement at the Housing and Community Investment Department Los Angeles (HCIDLA) to ensure its IT commodity purchases are authorized, reasonable, and properly supported.

While management of each City department is responsible for designing, implementing, and maintaining its internal controls to provide reasonable assurance all IT commodity purchases are authorized, supported, and comply with established policies and regulations, the Office of the Controller assists management by performing periodic reviews of the effectiveness of these departmental internal controls. These reviews compliment, but do not in any way replace, management's assurance responsibilities.

Our review identified a few opportunities where HCIDLA can enhance its internal controls related to IT commodity purchases, as detailed in the attached report.

We thank your management and staff for their cooperation and assistance during this review.

Attachment



**Housing + Community Investment Department  
Los Angeles (HCIDLA)  
IT Commodity Procurement Review  
June 5, 2019**

**Key Facts**

An effective and efficient information technology (IT) procurement process is critical for the City of Los Angeles (City) to leverage technology to better serve Angelenos. City departments must have appropriate and effective fiscal controls to assure we are getting the best prices and commodity contracts are used only for intended purposes.

The Office of the Controller conducts periodic IT commodity procurement reviews at City departments to assess whether IT commodity purchases are authorized, reasonable, and properly supported.

**Compliance Review Results**

While HCIDLA has an impressive system to order and approve commodity purchases, based upon a sample of IT commodity purchases, certain control enhancements are necessary. Specifically:

**Greater Separation of Duties** – HCIDLA should enhance its written procurement procedures to provide guidance on obtaining quotes, ordering, approving, and receiving commodity purchases. We identified IT commodity purchases in which staff from HCIDLA's Systems Division obtained quotes, ordered the commodities, and received the commodities. These duties need to be separated and HCIDLA's Administrative Services Division staff should be involved to ensure these specific activities are not exclusively concentrated within HCIDLA's Systems Division.

**Items Purchased Before Needed** – HCIDLA should ensure IT commodity purchases are made when operationally necessary. We identified certain IT commodity purchases occurring long before the items were needed.

**Budget Transparency and Proper Approval for Reallocated Budgeted Funds** – We identified that HCIDLA used its professional services budget line item to purchase IT commodities after its Office and Administrative budget line item had been exhausted. However, given the threshold of the dollar amounts involved (e.g., over \$280,000), HCIDLA should have requested authority to transfer this amount to the appropriate line item through a Financial Status Report, which requires approval by the City Administrative Officer, the Mayor, and the City's Budget and Finance Committee.

**FACT #1**

HCIDLA's Fiscal Year 2019 adopted budget is just over \$88 million, with \$12.5 million (14%) funded by the City's General Fund and \$75.5 million (86%) funded by Special Funds, which includes federal and State grant funding.

**FACT #2**

HCIDLA has over 700 employees who facilitate the financing and development of housing projects, oversee social services and housing programs to assist low-income populations and special needs, and responds to City and State housing code complaints by conducting inspections and investigations.

**FACT #3**

The City's Purchasing Agent (General Services Department) has established 39 IT commodity contracts for City departments to purchase IT commodities (software and hardware). Between July 2017 and February 2019, HCIDLA used six of these IT commodity contracts to purchase over \$2 million in IT equipment.





**HICDLA - IT COMMODITY PROCUREMENT REVIEW**

**OPPORTUNITIES FOR IMPROVEMENT**

#	ISSUE	RISK	RECOMMENDATION	HICDLA RESPONSE
1	The City requires departments to establish policies and procedures to purchase commodities. Based upon our review of HICDLA's procurement policies and procedures, enhancements are necessary to ensure IT commodity procurement practices are standardized for obtaining quotes, ordering, approving, and receiving commodity purchases. We reviewed 15 IT commodity purchases totaling \$1.5 million between July 2017 through February 2019 and the majority of purchases (e.g., obtaining quotes, ordering, and receiving) had been made by HICDLA System Division. These duties need to be separated and HICDLA's Administrative Services Division staff should be involved to ensure these specific activities are not exclusively concentrated within HICDLA's Systems Division. Normally, the Administrative Services Division receives commodities, but we found certain IT commodities being received by the Systems Division.	Inadequate separation of duties may result in fraud, waste or abuse	1. HICDLA's Administrative Services Division should enhance its written procurement procedures to provide guidance on obtaining quotes, ordering, approving, and receiving commodity purchases. These procedures should also ensure there is greater separation of duties amongst these four functions.	HICDLA's Management Services Unit staff receive the purchased orders and Systems staff verifies the orders and signs off on the packing slip. HICDLA will enhance its written procedures to document this separation of duties and continue its annual training on obtaining quotes, approving and receiving purchases. These procedures will include training on HICDLA's Electronic Expenditure Authorization Request (EAR) System.
2	While analyzing our expenditures, we identified two IT commodity purchases that occurred long before (at least a year) the items were needed. Specifically, in May 2018, HICDLA purchased 350 Microsoft Office (2016) Professional Plus licenses totaling \$116,000; however, as of May 2019 (a year later), HICDLA has only installed 54 of the licenses. Further, in May 2018, HICDLA also purchased three servers, totaling \$179,000; however, as of May 2019, these servers were still in their original boxes.	Waste, inefficient and ineffective use of City resources.	2. HICDLA's Administrative Services Division should ensure IT commodity purchases (including software) are needed and operationally necessary before ordering items.	Effective immediately, HICDLA will prioritize its IT purchases based on current operational needs. As part of the justification in the department's EAR system, HICDLA will include a project timeline for installation.  NOTE: HICDLA purchased Microsoft Office 2016 as part of its Windows 10 deployment. To avoid compatibility issues, HICDLA performs thorough testing and quality control before the deployment of a major upgrade department-wide, thus the delay in installation. As for the three servers, HICDLA received the servers during the annual billing season (November-March). System staff was not able to install the servers during this time to avoid potential system disruption.



3	<p>We identified that HCIDLA used its professional services budget line item to purchase \$283,000 in IT commodities after its Office and Administrative budget line item had been exhausted. Specifically, HCIDLA used its professional services budget line item to purchase a network disk storage, totaling \$137,000, and a software license, totaling \$145,000.</p> <p>HCIDLA did not request authority, through a Financial Status Report, to transfer these amounts to the appropriate line item. Given the amounts involved, approval from the City Administrative Officer, the Mayor, and City Council are required.</p>	<p>Unauthorized use of approved budget</p>	<p>3. HCIDLA Administrative Services Division should ensure IT commodity purchases are made through appropriate budgeted line items and any deviations are appropriately authorized by City management.</p>	<p><b>Beginning Fiscal Year 2020, HCIDLA will budget, procure, and purchase all IT commodities through proper accounts approved by CAO, Mayo, and Council.</b></p>
---	---	--	---	--