


CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: December 14, 2016

TO: Nazario Saucedo, Director
Bureau of Street Services

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

SUBJECT: STATUS OF PRIOR RECOMMENDATIONS – AUDIT OF BSS’ STREET RESURFACING PROGRAM

In connection with the Controller’s audit report entitled “L.A. Streets: The Road to the Future”, issued on July 14, 2014, the Audit Division has assessed the Bureau of Street Services’ (BSS) progress towards implementing the most critical recommendations.

Based on a review of publicly available documentation and the general information provided through discussion with BSS management, we have determined that BSS has taken steps to partially implement most of the audit’s 25 recommendations. The Bureau did not concur with some of the findings in the July 2014 audit, indicating that certain issues were not within the Bureau’s control. BSS management proposed alternatives to some recommendations that addressed operational practices.

For this assessment, we have considered the significant issues noted in the audit and the City’s progress towards meeting the intent of the recommendations.

The 2014 audit issues and related recommendations are broadly categorized below:

- I. Effective Management of Resources for Street Preservation**
 - a. Establish goals and monitoring of direct labor costs and metrics.
 - b. Effect a Strategic Partnership to Replace City’s Asphalt Plant.
 - c. Utilize all funds timely, including pursuing contracting out activities.
 - d. Revise and update SDRFs based on full-cost recovery model.

- II. Systems & Technology to Support Effectiveness**
 - a. Improve cost accounting systems to facilitate activity based unit costs and monitoring for effectiveness.
 - b. Expand capabilities and/or consider alternatives to the Pavement Management System (MicroPAVER).
 - c. Proactively seek new technology to improve operations.

- III. Efficient Processes and Outcomes**
 - a. Prioritize resurfacing activities for streets with higher traffic and loads.
 - b. Improve supervisory oversight and documentation to ensure quality.

- c. Analyze actual performance and costs in comparison to specific goals.

IV. Effective Monitoring of Pavement Preservation Activities

- a. Identify distinct goals for resurfacing vs. reconstruction work.
- b. Ensure accuracy of unit costs for estimating deferred maintenance.
- c. Improve processes to confirm reported data is accurate (pothole repair)
- d. Conduct in-person coordination meetings to better align resurfacing priorities with work by developers and utilities.

The following sections provide our assessment of the progress that the Bureau has made related to these broad categories.

Section I. Effective Use of Resources

According to the 2015 State of the Streets Report, the average Pavement Condition Index (PCI) score for the Los Angeles road network was 62 of 100, while 46% of City streets had a PCI of at least 71 of 100. Based on these figures, BSS has prevented the road network from further deteriorating below the 62 PCI level noted in our 2014 audit.

For fiscal year 2015-16, the City budgeted \$156.9 million for pavement preservation, an increase of 19% from fiscal year 2013-14. During the 2014 audit, BSS did not concur with our recommendation that contracting out services could help the Bureau retain funds that are identified for reversion because the competitive bid process takes an extended period of time to complete and would not finish before funds need to be reverted to other City funds.

Since the July 2014 audit, BSS Management has indicated that it has initiated a cost analysis of labor, materials, and trucking costs for resurfacing activities, with the intent to develop unit labor cost metrics to support management oversight and monitoring.

Asphalt Plant

As presented in a City Administrative Officer (CAO) report to City Council on April 2016 (**CF: 14-1576-S1**), the Department of Public Works accepted bids and was in the process of selecting a contractor to construct the new asphalt plant. The plant will have the capacity to produce up to 700,000 tons of asphalt annually which is a significant increase over the 135,000 tons per year that were previously produced. Overall, the new plant has the potential to increase the City's production of asphalt up to 418%.

The report also indicated the plant design will help the City reduce its consumption of raw materials and will use 50 percent recycled asphalt pavement materials in its final product. It is expected that this technology will reduce the City's dependence on outside vendors for new asphalt mix. The project is expected to be completed in

2018 and will be financed with MICLA bonds and will cost \$60.2 million over 20 years.

Street Damage Restoration Fees (SDRF)

On May 16, 2016, the Department of Public Works executed a contract amendment with a consultant to recommend a new SDRF and to update its pavement management system.¹ The contractor, Shahin and Associates, is currently working with the BSS to select an appropriate street sample to perform pavement testing and update the SDRF accordingly.

Section II. Systems & Technology to Support Effectiveness

BSS has taken steps to incorporate new technologies by successfully testing cool pavement materials, deploying tablets to field staff, and working with a consultant to enhance its pavement management system. While the BSS does have a cost accounting system, BSS indicated that it does not use its accounting system to produce actual costs by key program activity such as cost/mile for resurfacing; slurry-seal; crack-seal, etc., as had been recommended by the audit.

New Technologies

As part of Mayor Garcetti's Innovation Fund, BSS leveraged technology to further increase efficiency in delivering quality street services. By deploying tablets to key personnel, BSS reports that it has successfully reduced the time-to-inspection for pothole service requests to less than one day, and the turnaround time average is just over two days. According to BSS, in late 2013, it adopted a new performance metric (turnaround time to inspect and repair potholes) to monitor its services and no longer considers the number of pothole repairs completed to be an appropriate measurement of its effectiveness.

In July 2015, BSS installed cool pavement coating on the parking lot of the Balboa Park recreation center. A year later, BSS tweeted an image of the parking lot to show that it withstood vehicle distress and reportedly produced an "average temperature 10 degrees lower."

Pavement Management System

In May 2016, the Department of Public Works executed a contract to update BSS' pavement management system, MicroPAVER. The consultant will update MicroPAVER to the latest version, customize user fields, and provide technical assistance as needed by BSS.

¹ Contract #C-125984-1.

BSS has used MicroPAVER since 1998 to provide a systematic method for rating the physical pavement conditions of City streets.

III. Efficient Processes and Outcomes

Since 2013-14, BSS has increased its budgeted service levels by 10% (200 lane miles). The Bureau reported completing 2,400 lane miles in fiscal year 2015-16, consisting of 855 miles for resurfacing/reconstruction and 1,545 lane miles for slurry seal. This also included the repair of a reported 350,000 potholes.² Our prior audit recommended that BSS prioritize streets with high traffic loads when selecting two streets with the same PCI rating. It is our understanding that BSS management now intends to re-evaluate how to prioritize streets with the same PCI rating.

The 2014 audit also included recommendations to improve BSS' oversight of field crews. BSS agreed to periodically review job completion reports submitted by field crews to ensure work complied with expected standards. In addition, while BSS indicated it was working to broaden the flexibility of its cost accounting system, it did not plan to develop new work order coding that would facilitate management oversight by tracking actual costs by activity.

IV. Effective Monitoring of Pavement Preservation Activities

BSS indicated that its pothole repair data will be enhanced by the Bureau's deployment of tablets to repair crews. BSS also took steps to identify the appropriate unit costs in its pavement management system in order to address deferred maintenance. Finally, BSS indicated they conduct in-person coordination meetings with utilities on an as needed basis.

Reconstruction Goals and Accuracy of Unit Costs

The Department of Public Works contracted with a consultant to provide a 10-year strategic plan to eliminate near failed or failed streets and improve the overall condition of City streets to an 'A' or 'B' status.³ The consultant will also identify the funding amounts necessary to implement the strategic plan. The City's ongoing upgrade of asphalt plant #1 will eventually increase the existing capacity to produce asphalt and support BSS efforts to pave more streets according to the proposed strategic plan, provided that the necessary operational resources are made available.

The information in this memo is summary as of December 2016 of the progress made by BSS management in addressing the findings and recommendations in the July 2014 audit. This assessment was limited to a review of publically available information and general discussion with BSS managers. The results of our

² CAO 2016-17 proposed budget, pavement preservation program.

³ Contract #C-125984-1.

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assessment may have been different if we had applied more extensive procedures, such as walk-throughs of current processes or systems, or detailed audit tests.

If you have any questions or comments, please contact me at (213) 978-7392 or at alfred.rodas@lacity.org



RON GALPERIN
CONTROLLER

March 13, 2015

Nazario Saucedo, Director
Bureau of Street Services
1149 S Broadway 4th Floor
Los Angeles, CA 90015

Dear Mr. Saucedo:

SUBJECT: EVALUATION OF BSS' ACTION PLAN RE: L.A. STREETS: THE ROAD TO THE FUTURE

In connection with our report entitled "L.A. Streets: The Road to the Future", we are pleased that Mayor Garcetti has cited the audit for detailing ways the City can improve and become more "street smart" with our paving, and that the Bureau is taking steps to implement the audit's recommendations.

We have evaluated the Bureau of Street Services' (BSS) updated action plan, dated February 19, 2015, related to the 25 recommendations directed to BSS¹ whereby you reported 1 item as Implemented, 20 items as In Progress, 1 as Not Implemented, and 3 as Disagree. However, based on our evaluation of the narrative comments provided, we consider 16 recommendations as In Progress/Partially Implemented and 5 recommendations as Not Yet Implemented.

Based on our evaluation, the Table below notes the specific recommendation numbers and the current status. We are also providing clarifying comments for some issues, based on your correspondence.

¹ It should be noted that two recommendations (#1.1 and #11.1) were directed to the City Council, Mayor and Board of Public Works; and an additional two recommendations (#9.2 and #20.1) were directed to the Board of Public Works.

Reco #	Implemented	In Progress or Partially Implemented	Not Yet Implemented	Disagree
	132	2.1; 2.2; 3.1	8.1; 8.2;	4.1; 4.2; 4.3
		5.1; 5.2; 6.1; 7.1	11.1; 14.1	
		9.1; 10.1; 12.1; 12.2; 13.1	17.1	
		15.1, 16.1; 18.1; 19.1		

Clarification on Items Considered In Progress or Partially Implemented

Recommendations #2.1 and #2.2

These recommendations addressed the issue that BSS had no target or expected direct labor utilization rate, a common metric used to assess performance efficiency.

Your action plan states that the Bureau is piloting a unit cost analysis for labor, materials, and trucking for resurfaced streets. It is unclear whether this pilot program will also include maintenance activities as recommended by the audit. The Bureau should ensure all related activities (resurfacing, crack seal, slurry seal, etc.) are also included in this unit cost analysis, to align with the goals for the Bureau.

Recommendation #15.1

The audit recommended that BSS periodically analyze performance and associated costs for each component of the pavement preservation plan (i.e., key program activities). Although BSS reported this recommendation as “Partially Implemented”, the Bureau disagreed with the audit finding that it was facing challenges meeting pavement preservation plan goals and that unit costs for associated activities had been increasing, indicating that unit cost increases were related to inflation and not performance issues.

The audit noted the Bureau could not attest to whether unit cost increases resulted from performance deficiencies because it did not track direct labor utilization or costs at a program activity level. By implementing and monitoring actual unit costs for each activity against program goals, improvements and efficiencies may be achieved.

Clarification on Items Considered Not Yet Implemented

Recommendations #8.1 and #8.2

These recommendations addressed the issue that BSS’ cost accounting system did not track costs at a program activity level aligned with the Bureau’s performance goals, making it difficult to manage costs and analyze resource utilization related to achieving those goals. Your action plan makes reference to the implementation status of recommendations #2.1 and #2.2, which address unit costs for labor, materials, and trucking for resurfacing segments; however, it is not clear if maintenance activities, such as crack seal and slurry seal would be included.

In order to fully address this recommendation, the Bureau needs to code each activity type in its accounting system to ensure costs can easily be summarized and tracked for managerial review and development of unit costs. We consider these recommendations as “Not Yet Implemented.”

Recommendation #14.1

This recommendation was for BSS to proactively work with policymakers to reconsider an excavation moratorium for recently slurry sealed streets. The Bureau indicated this recommendation was “Partially Implemented” because in 2004 the City Council had considered an excavation moratorium on recently slurry sealed streets. Further, your response indicates that BSS will take action on this recommendation upon City Council direction.

The Bureau previously recommended to Council that no slurry seal moratorium be established because “a second moratorium would only make the street work in general more difficult to schedule, manage and coordinate.” Instead the Bureau recommended that the City Council establish a Slurry Seal Damage Restoration Fee (SSDRF). The audit identified that the resulting SSDRF had only resulted in approximately \$84,000 a year in fees charged to excavators, far less than the \$14 to \$20 million spent on slurry sealing streets.

We agree that the City Council makes the final decision as to a slurry seal moratorium. However, policymakers require correct and complete information regarding slurry seal activities to make informed decisions. As the lead agency for maintaining the City’s public roadways, BSS should direct the effort and provide information to Council to reconsider a slurry seal moratorium based on the information provided in the audit.

Recommendation #17.1

As stated in the audit report, the unit costs in MicroPAVER were outdated and we recommended that BSS ensure deferred maintenance funding needs are based on accurate unit costs. Going forward, the cost of addressing the City’s deferred maintenance backlog should use actual unit costs for internal work (which the Bureau has identified it has begun to track, by addressing recommendations #2.1 and #2.2).

Clarification on Items that BSS Disagreed with Audit Recommendation

Recommendations #4.1, #4.2, and #4.3

The audit recommended that BSS work with the CAO to contract out pavement preservation activities that cannot be performed by City staff; work with Bureau of Contract Administration to establish appropriate controls over contracted work and

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change orders; and consider the added value of using design plans to manage costs of street work. The Bureau disagrees with these recommendations and indicated that the reason why the funds were returned was because the City allocated the funds for non-BSS costs.

The audit recommended pursuing contracting of work to provide the Bureau with additional flexibility to maximize paving results. In order to provide increased flexibility and maximize future allocated funding for pavement preservation, we encourage the Bureau to reconsider using both City forces and contractors for street repair work.

Our evaluation was based solely on the assertions made by the Bureau. The results of our evaluation may have been different if we had applied more extensive procedures, such as detailed audit tests.

Subsequent to receiving the requested information noted throughout this letter, as part of my Office's follow-up program, we may request a status report in approximately six months. The objective of the follow-up program is to ensure that the audit recommendations have been properly addressed.

If you have any questions or comments, please contact Farid Saffar, Director of Auditing, at (213) 978-7392 or farid.saffar@lacity.org.

Sincerely,



RON GALPERIN
City Controller

cc: Ana Guerrero, Chief of Staff, Office of the Mayor
Nury Martinez, Councilmember CD6
Miguel A. Santana, City Administrative Officer
Sharon Tso, Chief Legislative Analyst
Holly L. Wolcott, City Clerk
Kevin James, President, Board of Public Works
Monique Earl, Administrative Deputy Controller