

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

**DATE:** January 17, 2018

**TO:** Tony Royster, General Manager  
General Services Department

**FROM:** Georgia Mattera, Chief Deputy Controller  
Office of the Controller



**SUBJECT: RESULTS OF LIMITED SCOPE FISCAL AUDIT AT THE GENERAL SERVICES DEPARTMENT**

The Controller's Office conducted a limited scope fiscal audit of the General Services Department (GSD) focused on external bank accounts, petty cash, and payroll. We performed surprise cash counts at three locations and evaluated related petty cash internal controls. We also completed a limited payroll review, which entailed verification of hours worked, overtime and bonuses paid during a two-week pay period, to ensure payments to sampled employees were properly supported.

Overall Results

Regarding authorized petty cash funds, we found all of the funds were accounted for; however, we have identified opportunities to improve the oversight of the funds. Our review of payroll also found that controls could be enhanced to ensure overtime and bonus pay is appropriately reviewed and approved.

While GSD has established oversight procedures and processes over the external bank accounts, clarification is needed regarding the allowable expenditures and reimbursements for the building management funds, which are paid through a City contractor. In addition, as Fig Plaza and the Public Works Building are now expected to be occupied exclusively by City tenants, there may be an opportunity to reduce the costs for property management services. Specifically, GSD should re-evaluate if the contracts for property management services, which necessitates the external bank accounts, remains appropriate for the City-owned buildings that are exclusively occupied by City tenants.

These issues are further described in the Observations Section.

### Review of Report

We provided a draft report to your Department on December 6, 2017, and the Department was in general agreement with the findings and recommendations. The Action Plan submitted by your Department for implementing the audit recommendations is included as Appendix I of this report. Based on the Department's Action Plan received on December 22, 2017, we now consider six recommendations (#1.1, #1.3, #1.4, #2.1, #4.1 and #4.2) to be Implemented and two recommendations (#3.1 and #5.1) to be In Progress. Your Department disagrees with Recommendation #1.2 to reduce the Construction Forces' Petty Cash Fund because doing so would negatively impact the Construction Forces Division. Our recommendation was based on past activities which may have changed in more recent months and the fund is for a fairly nominal amount, \$2,500. Therefore, we accept your response and will consider this recommendation to be Not Applicable.

### Background

The General Services Department provides support services to City departments. The Department's key operating programs include the following: Building Maintenance, Construction Forces, Custodial Services, Emergency Management and Special Services, Fleet Services, Fuel and Environmental Compliance, General Administration and Support, Mail Services, Parking Services, Real Estate Services, Standards and Testing Services (Standards), and Supply Management. In FY 2016-17, the Department was authorized for 1,261 full-time equivalent (FTE) positions, with \$114.6 million budgeted for salaries, including \$2.9 million for overtime.

### Bank Accounts Not Under the Control of the Treasurer

GSD maintains four bank accounts that are outside of the control of the Treasurer. Two of the accounts are used exclusively for property management activities performed by a contractor, CB Richard Ellis (CBRE) at two locations – the Public Works Building at 1149 S. Broadway Street and Fig Plaza located at 201 and 221 N. Figueroa Street. CBRE's contract was assigned to the City from the prior buildings' owner upon the City's purchase of the Public Works Building in April 2004 and Fig Plaza in August 2007. As stipulated in the contracts, the City established two bank accounts for CBRE to use to pay property management related expenses for the buildings. These bank accounts are reimbursed through GSD's contractual services budget allocation from the General Fund.

In addition, due to the December 2014 "Da Vinci" fire, the Fig Plaza buildings required restoration. Two additional bank accounts were opened for fire-related restoration and "betterment"/life cycle investment related costs. The first account is used for non-building related costs funded by the fire restoration

insurance claim, while the second account is for "betterment"/life cycle investments-related costs not funded through the fire restoration claim, but through GSD's contractual services budget allocation from the General Fund.

CBRE processes vendor payments through the applicable bank account, subject to review and approval by GSD. Invoices are uploaded into CBRE's "RCashPay" system for processing. The 1<sup>st</sup> and 2<sup>nd</sup> level approval is done electronically by CBRE administrative staff. CBRE account staff groups the invoices into batches for check creation, and generates the hard copy checks, which are submitted to GSD Real Estate Services staff who perform the final level of review and approval of the supporting documents related to the issuance of a check to the vendors.

### Petty Cash

The Department reported 27 petty cash locations totaling \$18,979.

## **OBSERVATIONS & RECOMMENDATIONS**

### **CASH COUNT OBSERVATIONS**

We performed surprise cash counts at four GSD locations: the Standards Division, automotive repair facilities at Lopez Canyon and North Hollywood and the Construction Forces Division.

**Observation #1: One petty cash fund should be eliminated and another should be reduced; funds were used for non-urgent needs, and physical security over a petty cash fund was not adequate.**

We noted:

- One petty cash fund of \$700 at the Lopez Canyon Auto Shop Facility had not been used since 2010, and a second fund authorized at \$2,500 for Construction Forces had been operating at a vastly reduced amount from its authorized allocation.

The petty cash custodian/shopkeeper at the Lopez Canyon Auto Shop indicated that auto parts are available when needed from the Department's current vendors. Subsequent to our cash count, the fund was used; however, since there were many years when it was not used, GSD should monitor the fund to ensure that the fund is needed and if the authorized amount is appropriate.

The Construction Forces' petty cash fund was operating with significantly less than its authorized amount. Our review noted uncashed petty cash replenishment checks ranging from \$425 to \$650 for four previous months' of expenditures. Operating without the need for timely replenishment indicates that a lesser amount is needed for on-going petty cash purchases.

- Petty cash was used for non-urgent needs.

The Standards Division reimbursed an employee for parking incurred as part of a trip to inspect a newly purchased drill rig. The purchase agreement stipulated the vendor would pay for the travel-related expenses for the City employee to inspect and test the equipment. However, the parking expense was not submitted to the vendor.

The Construction Forces' petty cash was used to purchase custodial items, including duct tape and cleaning supplies by staff working at various locations throughout the City. The Department indicated that it was more cost-effective for staff to purchase these items out in the field, rather than driving back to their headquarters at Piper Tech Center to re-stock. However, since these stock items should be maintained by GSD, staff should ensure they have the supplies/tools needed to complete their work before they leave for the work site, and petty cash should only be used for unexpected emergencies.

- The physical security of the Construction Forces' petty cash box should be strengthened. The petty cash box did not have a lock and was stored in a safe with other materials. Staff other than the petty cash custodian has access to the safe and other materials in the safe. To improve controls over petty cash, the cash box should be in a locked drawer, or a lock should be placed on the cash box and stored in the safe.

## **Recommendations**

### **GSD management should:**

- 1.1 Monitor the Lopez Canyon Auto Shop Facility petty cash fund to ensure it continues to be needed or reduced to a lesser amount.**
- 1.2 Reduce the Construction Forces Petty Cash Fund to an amount that is needed for on-going petty cash purchases.**
- 1.3 Ensure all petty cash reimbursements are within the authorized allowable thresholds established by GSD policies, related contracts, the Controller's Manual, and the Los Angeles Administrative Code.**

**1.4 Enhance the physical security controls over the Construction Forces' petty cash fund.**

**PAYROLL OBSERVATIONS**

We analyzed payroll bonuses and other supplemental payments including temporary bonuses and mileage reimbursements to employees in the Standards Division for a sample of employees during a given pay period.

**Observation #2: Materials Testing Technician staff were erroneously paid a bonus.**

According to the current MOU 21, staff that conduct an ultrasonic weld test and remain on the construction site for at least 50% of a work day are eligible for a \$15 bonus, per day that they are assigned to conduct the test. We found two employees that were paid the bonus erroneously during the two-week pay period.

Based on reports documenting the tests and time sheets, staff conducted the tests in 1 or 2 hours, which was less than 50% of a full-time work day. Therefore, they were not eligible for the testing bonuses for those days. GSD concurred with this finding and agreed that the employees were not eligible for the bonus paid for 15 days totaling \$225 during the pay period.

Employee #1: 7 incorrect days x \$15 = \$105
Employee #2: 8 incorrect days x \$15 = \$120
Total= \$225

GSD indicated that they are reviewing previous pay periods to ensure eligibility, and communicate any necessary adjustments to Payroll.

**Recommendation**

**GSD management should:**

**2.1 Periodically monitor the list of employees receiving bonuses against time sheets to ensure eligibility.**

**Observation #3: Overtime was not approved in a timely manner.**

GSD's FY 2016-17 budget included \$2.9 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.

GSD supervisors submit overtime requests to their respective Division director/manager. We reviewed 12 overtime requests for a sample of 19 employees who received paid overtime during the two-week pay period. Five of the overtime requests were dated after the overtime was worked. GSD explained the five overtime requests for LAX projects were verbally approved and the offsite location did not allow for timely written approvals.

GSD's policy requires overtime to be pre-approved unless it is an emergency. None of the requests prepared after the overtime was worked indicated it was an emergency. GSD should require Division directors/managers to note on the request when verbal approval was given and by whom, as well as stating the overtime was necessary due to an emergency.

### **Recommendation**

**GSD management should:**

**3.1 Require Division directors/managers to certify who verbally approved the overtime and when, and that the overtime was necessary due to an emergency.**

### **PROPERTY MANAGEMENT BANK ACCOUNTS OBSERVATIONS**

In FY 2012-13, the Controller's Office audited the GSD bank accounts related to CBRE, and recommended executing new contract(s) for managing the buildings that specified the method and components of the City's payment for property management services provided by CBRE. The prior audit also recommended that once a new contract was executed, GSD should ensure appropriate oversight and monitoring of the contract. The contract has remained the same with funding provided annually.

#### **Bank Account Review and Approval Process**

As the contracted property manager, CBRE has the authority to purchase goods and services related to the operation and maintenance of Fig Plaza and the Public Works Building. At Fig Plaza, CBRE is also responsible for paying the parking services operator. Parking revenue is deposited into GSD's Parking Account which is "swept" into the City's General Collection account.

**Observation #4: Allowable expenditures and reimbursements to the contracted property manager are not clearly defined, and therefore could be questioned.**

We noted expenses and reimbursements made to employees of the property management company for items not typically allowed by the City as petty cash expenditures, such as coffee, coffee maker, cell phone bills and holiday decorations. While CBRE's contract indicates the City will pay or reimburse the property manager for telecommunications, it is not clear if this includes cell phone expenses, and how to determine the phone is used for City-related business purposes only. It also does not contain provisions regarding the other types of expenses noted and whether they are reimbursable.

Invoices for Fig Plaza's parking operations also included "miscellaneous" expenses that were not further defined. GSD staff indicated the expenses were for painting and repair work done in the parking garage, and prior months' billings for parking operations. However, no supporting documentation was submitted or made available to GSD. To ensure allowability and to better monitor for reasonableness, GSD should provide clear directions to the property manager on how detailed an invoice should be, or when service contractors should provide explanations/support for any miscellaneous expenses.

#### Vendors not on the Approved Vendor List

Since CBRE is the primary contractor for the two City-owned buildings, they sub-contract with several vendors to perform a variety of tasks ranging from elevator repair, security services, information technology support and construction services.

Specific vendors are listed in a Pre-approved Vendor List, which is included in CBRE's contract with GSD. Per the contract terms, these are the only vendors CBRE should use for the purchase of goods or services related to City-owned buildings. However, we noted that CBRE procured goods and/or services from 12 vendors that were not on the Pre-approved Vendor List.

GSD staff indicated that seven of the vendors were used for the emergency tasks related to the Da Vinci fire and were paid by the insurance proceeds. GSD staff did acknowledge that four of the vendors should have been pre-approved, and they were subsequently added to the As-needed list.

#### **Recommendations:**

##### **GSD management should:**

- 4.1 Define expenditures that are allowable petty cash purchases/reimbursements from the bank accounts used by CBRE as the Fig Plaza property manager. Included in the instructions should be a statement on how GSD will determine that cell phone expenses are for conducting City business.**

**4.2 Ensure CBRE only utilizes vendors on the approved lists associated with their contracts to ensure compliance with the City's procurement process.**

**Observation #5: GSD should re-evaluate the need for contracted property management services.**

When the City purchased Fig Plaza, non-City tenants occupied much of the office space. Professional property management services were necessary to maintain the "Class A" property, to attract and retain private tenants. However, over time, City departments have been relocated to Fig Plaza and in the near future, all occupants of the property will be City departments. In other City-owned buildings, except for the Public Works Building, GSD directly provides building and custodial maintenance, and handles utility and service issues. GSD should evaluate the need for contracted property management services at Fig Plaza and the Public Services Building. By having GSD as the "property manager", separately maintained bank accounts for building expenses will no longer be necessary.

**Recommendation:**

**GSD management should:**

**5.1 Evaluate the benefit of providing property management services for Fig Plaza and the Public Works Building, thereby eliminating the need for a contracted provider and the related external bank accounts for building expenses.**



CITY OF LOS ANGELES  
CALIFORNIA

Appendix I

TONY M. ROYSTER  
GENERAL MANAGER  
AND  
CITY PURCHASING AGENT



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December 21, 2017

Honorable Ron Galperin  
City Controller  
City of Los Angeles  
Room 300, City Hall East

Attention: Georgia Mattera, Chief Deputy Controller

**RESULTS OF LIMITED SCOPE FISCAL AUDIT AT THE  
GENERAL SERVICES DEPARTMENT**

Please see the attached status of recommendations for the Results of Limited Scope Fiscal Audit at the General Services Department.

Should you have any questions, please contact Victor Yee, Chief Management Analyst at 213.928.9588

  
fw Tony M. Royster  
General Manager



**LIST OF AUDIT RECOMMENDATIONS**

Report Title: Results of Limited Scope Fiscal Audit at the General Services Department  
 Report Issuance Date: TBD  
 Department responsible for Implementation: General Services Department  
 Reported Status Date:

			DEPARTMENT REPORTED INFORMATION				
Finding Number	Summary Description of Finding	Rec. No.	Recommendation	Current Status	Basis for Status	% of Implementation	Target Date for Implementation
1	One petty cash fund should be eliminated and another should be reduced; funds were used for non-urgent needs, and physical security over a petty cash fund was not adequate.	1.1	GSD management should: Monitor the Lopez Canyon Auto Shop Facility petty cash fund to ensure it continues to be needed or reduced to a lesser amount.	I	Will continue to conduct regular audits.	100%	11/16/2017
			1.2	Reduce the Construction Forces' Petty Cash Fund to an amount that is needed for on-going petty cash purchases.	D	Will impact the operations of Construction Forces Division. The Division is in compliance with Petty Cash Policies. A reduction would cause operations to miss construction deadlines and increase project costs because petty cash could become unavailable.	NA
		1.3	Ensure all petty cash reimbursements are within the authorized allowable thresholds established by GSD policies, related contracts, the Controller's Manual, and the Los Angeles Administrative Code.	I	Will continue to conduct regular audits.	100%	11/16/2017
		1.4	Enhance the physical security controls over the Construction Forces' petty cash fund.	I	Petty Cash Box was replaced with a Petty Cash Box secured with a lock.	100%	11/15/2017
2	Materials Testing Technician staff were erroneously paid a bonus.	2.1	Periodically monitor the list of employees receiving bonuses against time sheets to ensure eligibility.	I	Will continue to conduct regular audits.	100%	11/16/2017
3	Overtime was not approved in a timely manner.	3.1	Require Division directors/managers to certify who verbally approved the overtime and when, and that the overtime was necessary due to an emergency.	PI	Department will advise Directors/Managers accordingly and will monitor overtime policy compliance.	75%	2018/19
4	Allowable expenditures and reimbursements to the contracted property manager are not clearly defined, and therefore could be questioned.	4.1	Define expenditures that are allowable petty cash purchase/reimbursements from the bank accounts used by CBRE as the Fig Plaza property manager. Included in the instructions should be how GSD will determine that cell phone expenses are for conducting City business.	I	Policies and procedures for petty cash purchases/reimbursements and cell phone usage for CBRE staff follow GSD and Controller Guidelines.	90%	2017/18
5	GSD should re-evaluate the need for contracted property management services.	4.2	Ensure CBRE only utilizes vendors on the approved lists associated with their contracts to ensure compliance with the City's procurement process.	I	CBRE staff are in compliance with GSD and City procurement guidelines.	100%	2016/17
		5.1	Evaluate the benefit of providing property management services for Fig Plaza and the Public Works Building, thereby eliminating the need for a contracted provider and the related external bank accounts for building expenses.	PI	A 1022 request started in November 2017. Contract Benefit Analysis will be done by CAO to address this issue	N/A	

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