


CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: February 1, 2019

TO: David H. Wright, General Manager
Los Angeles Department of Water and Power

FROM: Bob Wingenroth, Audit Director
Office of the Controller 

SUBJECT: PAYROLL COMPLIANCE REVIEW

The Office of the Controller conducted a review of payroll at the Los Angeles Department of Water and Power (LADWP) to ensure that LADWP bases its payroll on approved time worked (including overtime), and that any supplemental pay (i.e., bonuses, mileage reimbursements, etc.) are authorized, reasonable, and properly supported.

While management of each City department is responsible for designing, implementing, and maintaining a system to provide reasonable assurance that payroll and mileage reimbursements 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 systems. These reviews compliment, but do not in any way replace, management's assurance responsibilities.

Our review identified a few opportunities where LADWP can enhance its internal controls to ensure payments to employees are authorized, supported, and comply with policies and regulations, as detailed in the attached report.

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

Attachment



**Los Angeles Department of Water & Power
Payroll Compliance Review
February 1, 2019**

Key Facts

Payroll is the largest cost incurred by the City of Los Angeles (City). Department management must ensure employee pay is accurate and supported by appropriate authorization, especially for overtime and other additions to pay, such as bonuses for professional certifications.

The Office of the City Controller conducts periodic payroll compliance reviews to assess how well departments are following through on their responsibilities. This is especially important at the Los Angeles Department of Water and Power (LADWP), which uniquely processes its own payroll. All other City departments (including the City's two other proprietary departments, i.e., Airport and Harbor) process their payroll through the Office of the City Controller.

Compliance Review Results

Based upon a small sample of employee overtime and additions to pay, the pay was supported by documentation. However, we learned that LADWP's Internal Audit Division has not audited overtime or additions to pay for more than 10 years. LADWP is a large organization with each division establishing its own policies and procedures to control overtime and additions to pay. These disparate controls warrant a review of their effectiveness by the LADWP Internal Audit Division.

Further, during our Review, we noted that LADWP's mainframe-based payroll system has limitations in providing ad-hoc monitoring reports, or details on the reasons for certain types of add-on bonuses. LADWP management indicated it is in the process of evaluating potential replacement payroll systems amongst other priority projects. We highly encourage LADWP to prioritize the replacement of this mainframe-based payroll system.

FACT #1

LADWP provides water and power utility services to more than 4 million residents across 470 square miles.

FACT #2

LADWP resources include 23 power generating plants, 160 distributing stations, 119 water tanks and reservoirs, 96 pump stations and 7,337 miles of pipes.

FACT #3

LADWP employs approximately 10,000 staff. For calendar year 2017, LADWP payroll totaled nearly \$1.3 billion, including \$190 million (15%) paid for overtime and \$130 million (10%) in other additions to pay. For fiscal year 2018, LADWP's payroll costs represent 16% of its \$8 billion budget.

FACT #4

For calendar year 2017, LADWP ranked 2nd in overtime payments among City departments, after the Fire Department but before the Police Department. Further, during calendar year 2017, 111 LADWP employees collected \$100,000 or more in overtime payments. Another 216 employees collected between \$75,000 and \$100,000 in overtime.





LADWP PAYROLL COMPLIANCE REVIEW					
OPPORTUNITIES FOR IMPROVEMENT					
#	ISSUE	RISK	RECOMMENDATION	P ¹	LADWP RESPONSE
1	<p>Costs for overtime and additions to pay represent 25% of LADWP’s FY 2017 \$1.3 billion payroll. Several years ago, LADWP decentralized to each subordinate division the responsibility for monitoring and ensuring employees are eligible for overtime and additions to pay. However, LADWP’s Internal Audit Division has not audited the accuracy, eligibility, or operational need of these payroll costs for more than 10 years.</p> <p>Further, in 2012, LADWP discontinued providing regular quarterly reports on employee overtime to its Board of Commissioners and more recently, LADWP agreed in its labor Memoranda of Understanding nos. 47, 50, and 51 to increase overtime pay to double time rates for nearly half of its employees.</p>	LADWP could incur costs for unnecessary or unsupported employee overtime or additions to pay.	1. LADWP Internal Audit Division should initiate and conduct regular risk-based audits of overtime and additions to pay.	A	Agree. LADWP’s Internal Audit Division will add regular risk-based audits of payroll, including overtime and additions to pay in their annual audit plan.
2	LADWP allows each Division to implement its own overtime control policies. As a result, the requirement to pre-approve overtime is inconsistently applied throughout LADWP and a significant amount of overtime is deemed critical, exempting the pre-approval requirement. Per ControlPanel LA, LADWP spent \$175 million in overtime during the first three quarters of calendar year 2018, with 3,059 (over 25%) of its employees receiving more than 30% in additional overtime pay above their base pay. Further, certain job classifications are incurring significantly higher levels of overtime pay. Therefore, centralized oversight of LADWP’s overtime control policies and procedures will help to ensure overtime policies are reasonable and consistent throughout the Department. Further, executive management should consider requiring higher levels of approval within LADWP management when certain established overtime hour thresholds are exceeded by certain employees or units.	Inefficient and ineffective use of resources.	<p>2A. LADWP’s Internal Audit Division should review overtime control policies Department-wide for consistency and appropriate exemptions from the pre-approval overtime requirement.</p> <p>2B. LADWP’s executive management should consider requiring higher levels of LADWP management approval when certain overtime hour thresholds are reached for employees or units.</p>	A	<p>Agree. LADWP’s Internal Audit Division will assess the overtime control policies for consistency and appropriate exemptions from the pre-approval overtime requirement when during their payroll audits.</p> <p>Agree. When LADWP Internal Audit completes its audits of overtime, an assessment can be made at that time whether high levels of LADWP management approval is warranted.</p>
3	LADWP MOU No. 41 (Administrative Unit), Footnote 4 requires revision to clarify that Certified Public Accountants (CPA) who renew their California license with “inactive” status do not qualify for a CPA addition to pay. Although LADWP’s oversight of the CPA addition to pay recently improved markedly, Footnote 4, requires revision to support these changes and to avoid disputes.	Improper CPA additions to pay can and have occurred.	3. LADWP should amend the language in MOU No. 41, Footnote 4, to indicate that CPA licensees in applicable job classifications must have “practice privileges” in California to receive the additional compensation.	B	Agree. LADWP management will notify Labor Relations to update the wording in MOU 41 to clarify the CPA language when it opens for amendments. In the meantime the additional oversight already shared with the Controller’s Office will continue to remedy this issue.

¹ **Priority A** recommendations warrant immediate management attention and corrective action.
Priority B recommendations should be implemented no later than six months after issuance of this report.
Priority C recommendations should be implemented based on a schedule developed at management’s discretion.