



RON GALPERIN
CONTROLLER

December 22, 2015

Eugene D. Seroka, Executive Director
The Port of Los Angeles
425 S. Palos Verdes Street
San Pedro, CA 90733-0151

**SUBJECT: EVALUATION OF ACTION PLAN – “CITYWIDE CHANGE ORDER
MANAGEMENT PROCESS”**

Thank you for the recent correspondence and Action Plan related to the recommendations made to the Port of Los Angeles (POLA) in our “Audit of the City’s Change Order Management Process” issued on September 17, 2015. Two issues addressed a citywide function (6.1 and 9.1) and the related recommendations are not specifically under POLA’s control. While we consider these as Not Yet Implemented, we encourage POLA’s participation in a citywide committee, once established.

You indicated that six additional recommendations (2.1; 3.1; 4.1; 5.1; 7.2; and 9.2) have been Implemented, as procedures are required by POLA’s current policies, while four recommendation (1.2; 6.2; 8.1; and 10.1) are Partially Implemented, as new procedures are in the process of being implemented, to be finalized by June 2016.

Our evaluation was solely based on assertions made in the correspondence; our evaluation may have been different if we had applied more extensive procedures, such as detailed audit tests. As part of our Office’s follow-up program, we may request future status reports to ensure that the outstanding recommendations continue to be addressed. If you have any questions, please contact Farid Saffar, Director of Auditing at farid.saffar@lacity.org or (213) 978-7392.

Sincerely,

Claire Bartels
Chief Deputy Controller



RON GALPERIN
CONTROLLER

November 18, 2015

Marcie Edwards, General Manager
Department of Water and Power
111. N. Hope Street, Room 1550
Los Angeles, CA 90012-2607

**SUBJECT: EVALUATION OF ACTION PLAN "CITYWIDE CHANGE ORDER
MANAGEMENT PROCESS"**

Thank you for the recent correspondence and Action Plans related to the 12 recommendations made to the Department of Water and Power in the "Audit of the City's Change Order Management Process" issued on September 17, 2015. Since the Department's Water and Power systems each employ their own construction management processes and maintain separate policies and procedures, the Audit's recommendations (and related Action Plans) were provided separately for each system. Our evaluation of the current status of those recommendations, by each system as applicable, are summarized below.

Water Engineering and Technical Services (WETS)

You indicated that five recommendations (1.2; 2.1; 3.1; 1; and 8.2) have now been Implemented, by WET's completing updated and revised procedures. We also consider five recommendations (4.1; 6.2; 7.2; 9.2; and 10.1) as In Progress. Two issues addressed a citywide function (Finding 6 and 9), and the related recommendations were not specifically under DWP's control; however, you indicate that WETS supports participating in a citywide committee. Therefore, we consider recommendation 6.1 and 9.1 as Not Yet Implemented.

Power System Engineering System (Power)

You indicated that all twelve recommendations are currently In Progress; however, based on our evaluation, we consider the two (6.1 and 9.1) related to citywide issues as Not Yet Implemented, noting that Power supports participating in a citywide committee. We consider the remaining ten recommendations as In Progress (1.2; 2.1; 3.1; 4.1; 5.1; 6.2; 7.1; 8.2; 9.2; and 10.1).

Marcie Edwards
November 18, 2015
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Our evaluation was solely based on assertions made in the correspondence; our evaluation may have been different if we had applied more extensive procedures, such as detailed audit tests. As part of our Office's follow-up program, we may request future status reports to ensure that the outstanding recommendations continue to be addressed. If you have any questions, please contact Farid Saffar, Director of Auditing at farid.saffar@lacity.org or (213) 978-7392.

Sincerely,

A handwritten signature in cursive script that reads "Claire Bartels".

Claire Bartels
Chief Deputy Controller

cc: Farid Saffar, Director of Auditing, Office of the Controller
Jeffrey Peltola, Chief Financial Officer, LADWP



RON GALPERIN
CONTROLLER

November 17 2015

Deborah Flint, Executive Director
Los Angeles World Airports
1 World Way
Los Angeles, CA 90045-5803

**SUBJECT: EVALUATION OF ACTION PLAN – “CITYWIDE CHANGE ORDER
MANAGEMENT PROCESS”**

Thank you for your response and Action Plan related to the 11 recommendations made to the Los Angeles World Airports in the “Audit of the City’s Change Order Management Process” issued on September 17, 2015. You indicated that six recommendations (1.1; 2.1; 3.1; 4.1; 7.1; and 8.2) have now been Implemented, by LAWA’s completion of updated and revised procedures, while 10.1 is In Progress, as a new procedure to formalize estimating contingencies is in process of being drafted.

Two issues addressed a citywide function (Finding 6 and 9) and the related recommendations were not specifically under LAWA’s control. However, you indicate that LAWA supports participating in a citywide committee. In addition, LAWA will address standardization of change order management reporting (currently tracked through LAWA’s Prolog system) and participate in knowledge sharing of lessons learned, risks and best practices, through that committee/working group. Therefore, we consider recommendation 6.2 as In Progress, while the remainder (6.1; 9.1 and 9.2) are Not Yet Implemented.

Your correspondence also includes general comments addressing the cover letter and body of the final report. We offer the following response and clarifications pertaining to:
a) LAWA’s policies that were in development during audit fieldwork, and b) LAWA’s

disagreement with Auditors' presentation of the original construction contract amounts for Bradley West projects.

Policies and Procedures

While LAWA indicates it has always had procedures in place to ensure consistent processing of change orders, these were not sufficiently documented or detailed to ensure adherence to desired controls and best practices. As noted throughout the report, we acknowledged that the Department was updating and formalizing its policies during the audit process, and some policies in development were further refined based on the audit's recommendations. These included the use of independent estimates, documenting records of negotiation, and sources used to evaluate labor pricing, and practices for "emergency change orders". We also noted that Prolog had not been uniformly used for all projects during our audit period, so a uniform report could not be generated for our audit purposes.

Exceptions noted during auditors' tests of completeness of change order documentation indicated a need to develop and adhere to specific protocols for negotiating and documenting approved change orders. The additional information and summary comparative spreadsheet provided by LAWA during the exit conference referenced issues related only to Records of Negotiation, all of which were incorporated by the auditors, and confirmed back with LAWA. The revised table in Exhibit 7 reflects the corrections as discussed; however, there remained other weaknesses, as noted

Original Contract Amounts for Bradley West Construction

The report includes "original value" of construction projects related to Bradley West as the value of the original contracts executed between LAWA and their contractors for Bradley West as provided by LAWA. The full scope, costs and schedule were finalized at a later date, after the original contracts were executed. Since scope, cost and schedule were not defined in the original contract, those amounts were not included as "original" in the report.

The delivery method chosen for the Bradley West projects (Construction Manager At Risk --CMAR) was adopted to enable an accelerated schedule; however, as noted by a previous audit issued by the Controller's Office, auditors found that despite involving the CMAR in the design process for approximately one year during the pre-construction phase, a majority of change orders resulted from design changes, owner betterment requests and/or scope expansion and plan errors. In addition, the previous audit found that LAWA had not effectively overseen the CMAR change order management function to fully ensure that unnecessary costs were avoided. We recognize that the Bradley West project is an anomaly compared to other City projects, both in terms of cost and delivery methodology. This report underscored that anomaly, and had even excluded those projects for an alternative comparative analysis (Exhibits 2 and 3).

Our evaluation was solely based on assertions made in the correspondence; our evaluation may have been different if we had applied more extensive procedures, such as detailed audit tests. As part of our Office's follow-up program, we may request future status reports to ensure that the outstanding recommendation continues to be addressed. If you have any questions, please contact Farid Saffar, Director of Auditing at farid.saffar@lacity.org or (213) 978-7392.

Sincerely,

A handwritten signature in cursive script that reads "Claire Bartels".

Claire Bartels
Chief Deputy Controller

cc: Farid Saffar, Director of Auditing, Office of the Controller
Board of Airport Commissioners, LAWA
Roger Johnson, LAWA
Samson Mengistu, LAWA
Mike Doucette, LAWA
Amanda Dyson, LAWA



RON GALPERIN
CONTROLLER

November 13, 2015

Gary Lee Moore, City Engineer
Department of Public Works – Bureau of Engineering
1149 S. Broadway, Suite 700
Los Angeles, CA 90015-2213

Thank you for your Action Plan related to the ten recommendations addressed to the Bureau of Engineering (BOE) in the “Audit of the City’s Change Order Management Process” issued on September 17, 2015. You indicated that five recommendations (1.2; 3.1; 6.1; 6.2; and 7.2) have now been Implemented, by BOE’s updating its electronic document control system and related protocols. However, you indicated “N/A” for 9.1, that the City should establish a formal committee on lessons learned and knowledge sharing of best practices between City departments. While you are correct that this is a citywide issue, BOE is uniquely positioned to lead a collaborative effort to benefit the City as a whole. We suggest that BOE establish a working group to facilitate inter-departmental communications. The remaining four recommendations are In Progress.

Our evaluation was solely based on assertions made in the correspondence; our evaluation may have been different if we had applied more extensive procedures, such as detailed audit tests. As part of our Office’s follow-up program, we may request future status reports to ensure that the outstanding recommendation continues to be addressed. If you have any questions, please contact Farid Saffar, Director of Auditing at farid.saffar@lacity.org or (213) 978-7392.

Sincerely,

Claire Bartels
Chief Deputy Controller

cc: Farid Saffar, Director of Auditing, Office of the Controller
Kenneth R. Redd, Deputy City Engineer, BOE
Ana Guerrero, Chief of Staff, Office of the Mayor
Sharon Tso, Chief Legislative Analyst
Holly Wolcott, City Clerk, Office of the City Clerk
Kevin James, President, Board of Public Works
Joel F. Jacinto, Commissioner, Board of Public Works
Independent City Auditors

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