



WENDY GREUEL
CONTROLLER

May 7, 2010

The Honorable Antonio Villaraigosa
The Honorable Carmen Trutanich
Honorable Members of the City Council

Last year, the City's non-proprietary departments entered into \$203 million worth of contracts for services. With the City facing potential layoffs of hundreds of employees and furloughing those that remain, we must ensure that every contract that the City enters into is in the best financial interest of the taxpayers.

The City should enter into contracts when an outside entity can provide a necessary service that City employees can't provide and if it is more cost-effective to do so. We recently conducted an audit, which examined the City's use of service contracts, and whether they were the most efficient use of taxpayer funds.

In what has become a repetitive and disturbing finding in the audits I've released, the City is lacking the essential controls and oversight necessary to ensure that the hundreds of millions of dollars expended through contracts are really the most efficient and cost-effective use of taxpayer dollars.

City Charter Section 1022 requires the City Council, or the board of commissioners of the respective department, to conduct an analysis of contracts over \$25,000 to assess whether it is more feasible or more economically efficient to contract out the service. We found that that the City is primarily basing contracting decisions on feasibility, without consideration of cost effectiveness. In 33% of the contracts we reviewed, no review was done to determine whether outsourcing was the most cost effective and efficient option. This is not acceptable.

Some of the findings of the audit include:

- The City can't be assured that it is more cost-effective to contract for services than to use City staff.
 - The Bureau of Street Services didn't complete a 1022 review for a contract worth \$874,000 to outsource landscape services based on a CAO study done in 2000.

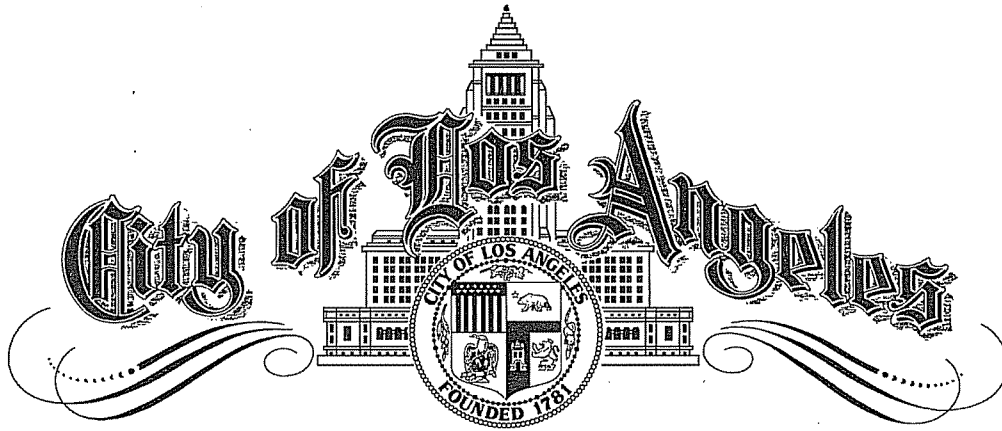
- The LAPD contracted with a firm to design and implement a risk management system. The original contract was not to exceed \$9.4 million, yet there have been six contract amendments, which bring the total contract to \$16.8 million.
- The City is lacking the internal controls to ensure that staff is following the City's contracting policies.
 - The City lacks a single, comprehensive manual that lays out the process for managing service contracts.
 - Our audit found that City departments are often not aware of, nor do they comply with, the policies that are on the books.
- The City needs to strengthen its contract oversight to ensure that contracted services meet the City's expectations.
 - The Board of Public Works' Office of Community Beautification could not demonstrate that it reviews reports submitted by a graffiti abatement contractor to see if the service is being provided.
 - The Department of Transportation claims that they assess performance based on whether customers complain. The Department needs to be proactive, rather than reactive in measuring delivery of service.

With more than \$200 million worth of contracts every year, the City must make sure the taxpayers are getting their money's worth. The hundreds of employees that could be laid off this coming year deserve nothing less.

Sincerely,



Wendy Greuel
City Controller



WENDY GREUEL
CONTROLLER

May 7, 2010

Charlie Beck, Chief of Police
Los Angeles Police Department

Randi Levin, General Manager
Information Technology Agency

Cynthia M. Ruiz, President
Board of Public Works

Rita L. Robinson, General Manager
Department of Transportation

Miguel A. Santana, City Administrative Officer
Office of the City Administrative Officer

Enclosed is a report entitled "Controller's Review of Citywide Use of Contracts for Services." A draft of this report was provided to your respective offices on January 5, 2010. Comments provided by your departments through February 10, 2010 were evaluated and considered prior to finalizing this report.

Please review the final report and advise the Controller's Office by June 7, 2010 on actions taken to implement the recommendations. If you have any questions, please contact me at (213) 978-7392.

Sincerely,

A handwritten signature in black ink, appearing to read 'Farid Saffar', written in a cursive style.

FARID SAFFAR, CPA
Director of Auditing

Cynthia M. Ruiz, President
Miguel A. Santana, City Administrative Officer
Charlie Beck, Chief of Police
Rita L. Robinson, General Manager
Randi Levin, General Manager
May 7, 2010
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Enclosure

cc: William A. Robertson, Director, Public Works, Bureau of Street Services
Reverend Jeff Carr, Chief of Staff, Office of the Mayor
Jimmy Blackman, Deputy Chief of Staff, Office of the Mayor
Ben Ceja, Deputy Mayor, Office of the Mayor
Eileen M. Decker, Deputy Mayor, Office of the Mayor
Larry Frank, Deputy Mayor, Office of the Mayor
Jaime de la Vega, Deputy Mayor, Office of the Mayor
John Mack, President, Board of Police Commissioners
George E. Moss, President, Board of Transportation Commissioners
June Lagmay, City Clerk
Gerry F. Miller, Chief Legislative Analyst
Independent City Auditors



City of Los Angeles Office of the Controller

Review of Citywide Use of Contracts for Services

May 7, 2010

Wendy Greuel
City Controller

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REVIEW OF CITYWIDE USE OF CONTRACTS FOR SERVICES

EXECUTIVE SUMMARY

The Controller's Office completed a performance audit of citywide use of service contracts. The overall objective of the audit was to determine whether departments' use of outside contractors was justified and in the City's best economic interests. Essentially, the audit reviewed contracts to ensure that contracting decisions were based on the necessity of providing services and overall cost effectiveness; where the estimated costs of providing services with City staff was compared to contracting costs for on-going services.

The audit was performed in accordance with Generally Accepted Government Auditing Standards and covered activities from July 2007 to June 2009. Fieldwork was conducted between July 2009 and October 2009.

BACKGROUND

The City of Los Angeles (City) augments its permanent workforce by outsourcing a range of professional and personal services. Our audit reviewed service contracts related to landscape maintenance; graffiti removal; installation and maintenance of an automated locator device for parking enforcement vehicles; design, implementation and maintenance of a technical information system; a charter bus program; disposal and recycling of waste from street repair and maintenance projects; court reporter services; installation, repair and maintenance of telephone systems and communication cables; and a program to hire and train youth for community beautification projects. Typically, these independent contractors are hired to provide unique or technical expertise on a temporary or occasional basis.

The City's FY 2009-10 adopted budget allocated \$203 million to contractual services for non-proprietary departments and offices. Using City funds to procure services requires vigilant oversight to ensure the contracted services are necessary and meet the City's needs in terms of quality and cost.

The City is currently in a fiscal crisis and departments, at the request of City Council, are scrutinizing their contracts to determine whether immediate cost savings can be achieved. Now is also an opportune time for the City to strengthen contracting practices to ensure all future contracts are in the City's best fiscal interests. For example, it is imperative that the City has adequate controls, such as formal guidance and oversight, to ensure effective and efficient contracting practices. In addition, the

City should have an adequate process to determine whether outsourcing a particular service is in the City's best economic interest.

SCOPE AND METHODOLOGY

We reviewed nine contracts administered by the following four departments: Los Angeles Police Department, Department of Transportation, the Board of Public Works, and Information Technology Agency. The contracts were selected because they had a high dollar value, multiple amendments, or appeared to be a service that City staff could provide.

SUMMARY OF AUDIT RESULTS

The audit found that, in general, the City's current contracting processes do not provide assurance that outsourcing services, particularly those that fill an on-going need, is the best use of the City's limited resources. In addition, we found that the City lacks a single, authoritative manual to provide guidance to staff, and that departmental oversight could be improved. Consequently, we noted that departments did not consistently comply with City regulations or adequately monitor and evaluate contractor performance.

KEY FINDINGS

- ❑ **The City lacks adequate internal controls to ensure staff follow City contracting policies.**

No single, comprehensive manual exists that clearly outlines each critical piece of the service contracting process. As a result, departments do not have an authoritative resource to consult when they are uncertain about the City's contracting policies and procedures. Moreover, our audit found that not all City departments are aware of, nor do they consistently comply with, specific contracting policies and procedures.

We also found that the level in which departments comply with the City requirement to designate a Departmental Contract Coordinator(s) to ensure compliance with contracting policies varies. Without adequate department-level oversight and authoritative guidance, there is limited assurance that staff will follow City policies and procedures.

- ❑ **The City cannot be assured that it is more cost-effective to contract for services than use City staff.**

City Charter Section 1022 states the Council or a board of commissioners for departments having control of their own revenues and funds are not prevented "from entering into contracts for the performance of work when it is determined by the Council or the board of commissioners that the work can be performed more economically or feasibly by independent contractors than by City employees." While current City practices do not require departments to conduct a cost analysis when outsourcing can be justified based on feasibility, such as insufficient staff, it is a prudent business practice to analyze the cost of any

potential decision. We noted four contracts that have provided services for years and these services will be necessary on a long-term basis, however, the departments have never analyzed whether it would be more cost-effective to bring these in-house. For example, we noted the following:

- The Department of Public Works Bureau of Street Services did not complete the required 1022 Determination process for its \$874,000 contract with TruGreen LandCare, and instead justified outsourcing landscape maintenance services for the East Valley based on a CAO study completed in 2000. That study recommended City crews maintain the median islands and that contract crews assist the Bureau on an on-call basis during temporary workload peaks and/or staffing shortages. Nine years later, the Bureau continues to rely heavily on contractors to maintain landscaped medians.
- The Board of Public Works Office of Community Beautification's (OCB) contract with Pacoima Graffiti Busters included \$80,000 to provide 62 one-hour presentations to local elementary schools, or \$1,290 per presentation. OCB did not perform the required 1022 analysis prior to executing this contract. Consequently, neither OCB, Personnel nor the CAO determined whether it would be more cost-effective for existing staff to conduct the presentations. OCB staff indicated the contractor did more than just present information, but the contract did not describe any other activities to be provided along with the school visits.
- From the inception of the contract with Sierra Systems in 2003 for design and implementation of TEAMS II, City staff were expected to assume maintenance responsibilities once the system was complete. However, ITA and LAPD did not have enough staff with the requisite skills to assume system maintenance responsibilities. As a result, six contract amendments totaling \$7.4 million have been executed over four years to provide system maintenance. This is \$7.4 million more than the original not-to-exceed amount of \$9.4 million.

□ Contracted program may not be the best use of limited City funds.

The City spends more than \$3 million of Proposition A Local Return funds (Prop A) annually on the City's Charter Bus Program, which provides free or subsidized charter bus transportation services to various community groups for recreational, employment/training and educational purposes. Past destinations have included Disneyland, beaches, Cabazon Outlet Mall, Raging Waters, Hollywood Park, etc. The Charter Bus Program is a special public service; however, now may be an appropriate time to re-examine free or subsidized chartered bus trips to entertainment and recreational destinations given the City's current fiscal crisis. Moreover, the City should ensure that the use of \$3 million in Prop A funds for this program does not result in underfunding for other critical public transportation projects or programs.

❑ **A contracted program administrator was not selected through an open competitive process.**

From the inception of the Clean and Green program in the 1980s, Los Angeles Conservation Corps (LACC) was named as the City's contract provider, and in some ways was considered an extension of the City. In the FY 08-09 budget for General City Purpose Funds, \$1.2 million was allocated to LACC to administer the Clean and Green program. Because LACC has been named specifically as the administrator of the Clean and Green Program since its inception, no RFP was issued to select a service provider. As such, no other organizations have ever been given the opportunity to compete to provide the service. Without open competition, there is no assurance that the program is operated by the most qualified organization at the most cost-effective price. Given the City's current fiscal situation, City leaders should re-consider the model in which LACC was selected, and perhaps even the necessity of the contract itself, in order to provide greater assurance that taxpayer dollars are maximized.

❑ **Contract monitoring procedures are not always sufficient to ensure contracted services meet the City's expectations.**

We found that the departments could strengthen their processes for monitoring contractor performance for three of the nine contracts reviewed. Specifically, we noted:

- OCB could strengthen its process for monitoring and evaluating its Pacoima Graffiti Busters contract. The contractor submits monthly standard workload indicators (e.g. square feet of graffiti removed, number of litter cleanups performed); however, OCB staff could not demonstrate that it reviews the reports to obtain reasonable assurance that the information is accurate. Consequently, it is difficult for OCB to know whether certain contractors are more or less efficient than others, which is useful when selecting contractors through subsequent RFPs.

In addition, the Pacoima Graffiti Busters contract allocates \$722,000 and \$239,000, respectively, for services provided in the Northeast San Fernando Valley and in Council District 14. However, the contractor's invoices combine expenses related to both regions, and OCB cannot distinguish expenses for each of the two service regions. Consequently, OCB does not determine if the contractor is dividing its work between the two regions in accordance with the contract.

- OCB's contract with LACC does not adequately define the scope of work and lacks a detailed description of deliverables, expectations, and allowable expenses. In addition, OCB staff does not adequately monitor LACC's performance. OCB also does not perform a detailed review of financial documentation submitted by LACC to support quarterly advance

payments of \$380,000. We noted receipts for restaurant meals, staff cell phone bills, and a DJ, which OCB staff agreed was questionable.

- LADOT could do a better job of actively obtaining and routinely monitoring customer feedback on charter bus transportation services to assess contractor performance and quality of services received. Contractor performance is not regularly monitored throughout the contract term. LADOT management indicated they assess performance based on whether customers actively complain. If there are no customer complaints, service quality is presumed to be adequate.

REVIEW OF REPORT

On January 5, 2010, a draft report was provided to management of the Department of Public Works (DPW), Department of Transportation (DOT), Information Technology Agency (ITA), Los Angeles Police Department (LAPD) and the Office of the City Administrative Officer (CAO). We held an exit conference with ITA management on January 20, 2010, and with DPW management on February 10, 2010 to discuss the contents of this report. While we did not have exit conferences with LAPD or the CAO, we did receive written responses. DOT had no comments and did not request an exit conference. Although DPW and CAO agreed with the factual content of the report, both departments expressed differences in how the issues should be mitigated. The comments from DPW and the CAO are summarized below.

DPW's Comments

DPW stated that the sample of contracts selected for review does not reflect Department-wide contract management practices, and represent only .02% of the DPW's service contracts' total dollar average per year. According to DPW management, the majority of its personal service contracts are managed by the Bureaus of Engineering (BOE) and Sanitation, which utilize best practices in contract management and regularly report to the Board of Public Works. The contracts selected for review during this performance audit were not managed by either of these Bureaus.

The Controller's Audit Division did not intend to take a representative sample of DPW's personal service contracts. Instead, audit testwork was based on a small sample of contracts that either had multiple amendments, or appeared to be a service that City staff could provide and were funded by the general fund. BOE's and Sanitation's personal service contracts were excluded because they mainly relate to capital improvement projects that are funded by sources other than the general fund. In addition, the percentage of the general funded personal service contracts was small in comparison with total salaries.

The DPW agrees with the audit finding that a cost-benefit analysis should have been performed for its TruGreen LandCare and Pacoima Graffiti Busters contracts, though it is their position that an analysis would have shown that contracting for these services was in the City's best fiscal interests. DPW management stated that a CAO study in

2000 was intended to replace the 1022 Determination for the TruGreen Landcare contract.

The Controller's Audit Division maintains that departments cannot provide City leaders with accurate and complete information regarding the cost effectiveness of contracting for services without conducting a thorough cost analysis.

DPW management also stated that the capacity of City forces must also be considered as well as cost. DPW management stated that limited staffing in its Office of Community Beautification would have made it impossible for City staff to conduct the school presentations provided by Pacoima Graffiti Busters. The Controller's Audit Division maintains that a cost analysis should be performed when a potential contract fills a long-term service need to determine whether the department should request additional staff.

CAO's Comments

CAO management agrees that a centralized contract repository makes sense; however, they are concerned that they are not capable of implementing the recommendation given the current fiscal challenges. CAO management also indicated that the nature of the work should be considered before a department is required to conduct a cost analysis. For example, the CAO stated that the work for court reporters is intermittent and the City should not create a permanent capacity for intermittent work. The CAO disagrees that departments should conduct a cost analysis for this type of work.

The Controller's Audit Division maintains that departments should conduct a cost analysis for services that fill a long-term need and for which there is heavy use, even if the work is technically considered to be intermittent, such as court reporters. This cost analysis will enable departments to determine whether there may be a cost savings to bring some, if not all, of the services in-house.

We considered all comments before finalizing the report. We appreciate the cooperation and assistance extended to us during the audit by the departments' management and staff.

CONTROLLER’S ACCOUNTABILITY PLAN

RECOMMENDATION	Page	Mayor Action Req'd	Council Action Req'd	Department Action Required
SECTION I. GUIDANCE AND OVERSIGHT				
The Mayor should direct the City Administrative Officer to:				
1. Develop one authoritative and comprehensive manual describing the City’s policies and procedures relative to contracting for services, and make the information available to City staff on the City’s intranet website.	17	X		CAO
2. Strengthen oversight to provide consistent, expert guidance and training to help ensure contracting policies are followed.	17	X		CAO
The Mayor should instruct General Managers to:				
3. Ensure Departmental Contract Coordinators are actively ensuring compliance with the City’s contracting process.	18	X		All City Departments
4. Require Departmental Contract Coordinators to review all requests for proposals and contracts prior to execution to ensure that the scope of work, deliverables, expectations and billing requirements, such as allowable expenses, are sufficiently defined.	19	X		All City Departments
SECTION II. JUSTIFICATION FOR CONTRACTING				
The Mayor should require General Managers, with the assistance of the CAO and Personnel, to:				
5. Conduct a cost analysis for all contracts where services will be needed on an on-going basis.	21	X		All City Departments and CAO

RECOMMENDATION	Page	Mayor Action Req'd	Council Action Req'd	Department Action Required
<p>6. Submit the cost analysis for contracts that fill an on-going need, along with a request for additional staff, to City leaders with sufficient lead time to consider before the existing contract expires.</p>	21	X		All City Departments and CAO
<p>7. ITA and LAPD, working with CAO and Personnel, should identify the necessary steps to assume system maintenance responsibilities from the TEAMS II contractor, including identification of all associated costs such as staffing and training. Based on this analysis, determine whether it makes economic and operational sense to continue contracting out or maintain the system using permanent City staff.</p>	23			ITA, LAPD, CAO, and Personnel
<p>8. If it is determined that using City staff is the most cost-effective and beneficial option, the CAO and Personnel should assist ITA and LAPD in developing a strategy and timeline for transitioning system maintenance from contract workers to City staff. This strategy should address, but not be limited to, finalizing and approving a new job classification, with competitive salaries, to attract the most qualified individuals, and providing on-going professional training to ensure staffs technological skills stay current.</p>	24			ITA, LAPD, CAO, and Personnel
<p>9. The CAO and Personnel should develop a process for departments to follow in notifying City leaders of budgetary implications when considering contract costs and requests for staff positions, and in developing a strategy to transition services from contracted workers to City staff when that is determined to be the most cost-effective option.</p>	24			CAO and Personnel
<p>10. The Mayor and City Council should re-examine the use of \$3 million of Prop A funds for the Charter Bus Program to ensure that other high priority transportation projects/programs are not underfunded.</p>	25	X	X	

RECOMMENDATION	Page	Mayor Action Req'd	Council Action Req'd	Department Action Required
<p>11. The Mayor and City Council should re-evaluate the model in which LACC was selected to provide the Clean and Green program and, in the future, consider selecting the contractor through an open and fair competitive bid process.</p>	25	X	X	
SECTION III. CONTRACT MONITORING				
<p>12. The Mayor should instruct General Managers to ensure staff are adequately monitoring contractor performance.</p>	28	X		All City Departments
<p>13. The Board of Public Works should direct the Director of the Office of Community Beautification to improve monitoring of the contracts for graffiti abatement and the Clean and Green program. Specifically, OCB should:</p> <ul style="list-style-type: none"> a. Review workload indicators submitted by graffiti abatement contractors to obtain a reliable understanding of how much work is being performed. b. Require that contractors' billing statements distinguish between work performed in separate service regions and detail the total amount associated with direct costs. c. Improve the level of detail and comprehensiveness of the scope of work, including specific expectations and performance measures, and allowable expenses for all future contracts for the Clean and Green program. d. Require that the Clean and Green contractor submit a proposed budget with their request for advanced payment. 	28			Board of Public Works, Office of Community Beautification

<p>e. Improve monitoring of contractor performance of the Clean and Green program.</p>				
<p>14.LADOT management should ensure contractor evaluation forms are revised to obtain customer feedback for each trip. LADOT management should also review the feedback regularly to assess contractor performance and promptly correct problems.</p>	<p>29</p>			<p>LADOT</p>

INTRODUCTION AND BACKGROUND

The City's FY 09-10 budget for non-proprietary departments and offices allocates approximately \$203 million, or 7% of the total budget, for contractual services. The City outsources a wide range of services to fill gaps in specific expertise, cover staffing shortages or provide intermittent services. Typically, consultants and independent contractors are hired to provide unique or technical expertise on a temporary or occasional basis.

City's Contract Justification Process

Per Section 1022 of the Los Angeles City Charter, City departments are authorized to enter into contracts when it is determined that the work can be performed more economically or feasibly by independent contractors than City employees. To prevent City departments from circumventing a hiring freeze, the City Council adopted a policy in 2004 requiring that all departments obtain a Charter 1022 Determination (1022 Determination) prior to entering into any new contracts that have a labor component of \$25,000 or more, or contract amendments that add a new labor component or increase an existing labor component¹. A 1022 Determination is not required when a contractor is necessary to maintain warranties; the labor component cannot reasonably be separated from other contract elements; or when contracts are awarded on the basis of urgent necessity.

The 1022 Determination process involves multiple steps and coordination between the contracting department, the Department of Personnel (Personnel), and the Office of the City Administrative Officer (CAO). First, departments must submit a "1022 Information Form" to Personnel, which asks whether a) there is sufficient staff to perform the work, b) if the department can hire the required number of staff within the required timeframe, and c) whether City employees in the department currently perform this work. Personnel completes a "Contract Review Report" to determine whether existing classifications can perform the work and the departments that employ those classifications. If City employees do not have the expertise, then the review process is complete and the department has authority to contract.

If Personnel identifies that relevant City staff are employed by other departments, the requesting department is expected to contact those departments to determine whether the employees can provide the service. If the other department(s) indicates that it does not have sufficient staff or that the work cannot be completed in the required time, the requesting department must submit a "Request for 1022 Determination" to the CAO.

In its request for a 1022 Determination, the department specifies whether the CAO should conduct its analysis based on the "feasibility" of using City staff or the "cost-effectiveness" of outsourcing the service. It appears that departments generally cite

¹ Council File # 03-1673.

that it is more feasible to use a contractor than City employees based on: insufficient staff, the impracticality of hiring and training additional staff in a timely manner, or the intermittent and/or limited duration of the project.

If the department requests that the CAO's 1022 Determination be based on an economic finding, they are required to submit a Cost Analysis form that compares the cost associated with using City staff, including benefits, versus retaining a contractor. Based on its analysis, the CAO notifies the requesting department whether it found outsourcing more economical or feasible, or if contracting is not warranted because City employees can perform the service.

OBJECTIVES, SCOPE AND METHODOLOGY

The overall objective of the audit was to determine whether departments' use of outside contractors was justified and a good use of City resources.

Our audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) and covered the period from July 1, 2007 through June 30, 2009. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Fieldwork was conducted between July 2009 and October 2009.

To obtain a Citywide perspective, we selected a variety of service contracts based on the 10 departments that had a high value of contractual services allocated in the FY 09-10 Budget, or a contractual services allocation that represented a high percentage of the total salaries budget. For each of the 10 departments, we obtained the list of all personal/professional service active contracts from the City's financial management system, FMIS, for FYs 07-08 and 08-09 – a total of 590 contracts. Personal services related to capital improvement projects, including construction management and engineering contracts, were excluded from our sample selection because funding for the services is generally from sources other than the general fund.

We conducted a preliminary analysis of 194 contracts, which we selected through a combination of random and judgmental (high dollar value) sampling, and reviewed information and documents available in the Council File Management System. Based on this preliminary review, we narrowed our sample to 83 contracts that either had multiple amendments, or appeared to be a service that City staff could provide. In addition, we categorized each contract by type, i.e. landscape maintenance, recycling, technology projects, graffiti removal. Within each service type, we selected contracts with the highest value and/or number of amendments.

We then selected nine contracts from four departments for detailed review, which represented 4% (\$19.9 million) of the total value (\$443.5 million) of the initial 590 contracts identified. The contracts related to landscape maintenance; graffiti removal; installation and maintenance of an automated locator device for parking enforcement vehicles; design, implementation and maintenance of a technical information system; a charter bus program; disposal and recycling of waste from street repair and

maintenance projects; court reporter services; installation, repair and maintenance of telephone systems and communication cables; and a program to hire and train youth for community beautification projects. A description of each is presented below.

In conducting our testwork, we reviewed the contracts and amendments, as well as all documents related to the justification for contracting out and monitoring performance. We also reviewed Citywide and departmental guidance on contracts and interviewed departmental staff to obtain an understanding of the reasons for outsourcing and how they monitor the contractor's performance.

DESCRIPTION OF CONTRACTS

Public Works – Bureau of Street Services (BSS)

TruGreen LandCare provides landscape maintenance for 2.9 million square feet of roadway median islands in the East Valley for the Bureau of Street Services. The original contract was valued at \$522,068 and called for a one-year term (from May 2005 through 2006) with two one-year renewal options, which were both exercised. Seven Change Orders totaling \$352,020 were also executed, extending the original contract term by an additional year to June 12, 2009.

Community Recycling & Resource recycles and/or disposes inert materials, mixed debris, waste debris, white goods, and bulky items generated by Bureau of Street Services' Citywide operations. The contract has a three-year term (from August 2007 through 2010), with three one-year renewal options for a total of six years. Public Works contracts with eight firms for these services. Annual expenditures for all contracts are approximately \$12 million.

Public Works – Office of Community Beautification (OCB)

Los Angeles Conservation Corps (LACC) operates the Clean and Green Program to annually train and employ over 1,100 at-risk junior and senior high school students to perform community beautification projects. Throughout the 15 Council Districts, students are hired to remove graffiti, paint murals, clean up litter in streets and alleys, plant community gardens and trees, and educate the public about recycling. Cleanup projects are recommended by Council Offices, community groups, and Los Angeles Conservation Corps staff. The contract is funded through General City Purpose funds. In the FY 08-09 City budget, \$1.2 million was specifically allocated to LACC to administer the Program.

Pacoima Graffiti Busters provides graffiti abatement, litter cleanup and youth education/outreach services in the Northeast San Fernando Valley and Council District 14. Contractors are expected to remove graffiti within 24 to 48 hours in high-visibility areas. The Office of Community Beautification spends about \$7 million annually for 13 contractors (eleven of which are non-profit) to provide Citywide graffiti abatement services. The total value of the Pacoima Graffiti Busters contract, including four amendments, was \$2.3 million over two years (an average annual amount of \$1.17 million).

Information Technology Agency (ITA)

L-Tech Network Services, Inc. provides installation, repair, and maintenance of telephone systems and communication cables. The City has contracted for these services since 1985. ITA currently maintains contracts with two vendors (Verizon California, Inc. and L-Tech Network Services, Inc.) for this service. The L-Tech contract has a five-year term from October 2006 through 2011 and a not-to-exceed amount of \$4 million per year and \$20 million over the five-year term.

Los Angeles Police Department (LAPD)

Lynden J. & Associates provides court reporter and transcription services for administrative disciplinary proceedings, meetings of the Police Commission, and criminal and administrative investigations. To ensure adequate coverage, three contractors provide court reporter services for LAPD. These three contracts cumulatively have a not-to-exceed limit of \$1.1 million per year. The Lynden J. & Associates contract is used more frequently with total payments exceeding \$800,000 for each of the past two fiscal years.

Sierra Systems Group, Inc. was contracted to develop and maintain LAPD's Training, Evaluation, and Management System (TEAMS II) in order to comply with a Federal Consent Decree. The centerpiece of the TEAMS II Development Program is the Risk Management Information System (RMIS). The RMIS is intended to allow users to request and review information on specific employees, supervisors, managers, individual LAPD units, divisions, and the Department as a whole to identify and modify potential at-risk behaviors. The total current value of the contract is \$19.4 million, including 14 change orders and amendments, which were largely implemented to extend system maintenance services for four years beyond the original contract end term date.

Department of Transportation (LADOT)

Laidlaw Transit provides services in conjunction with the City's Charter Bus Program, which offers free or subsidized bus transportation. The Charter Bus Program is designed to provide transit services for community groups, especially youth, disabled, or elderly groups for various recreational, employment/training and educational purposes. Destinations include the beach, amusement parks, mountains, museums, theaters, and sporting events. The charter bus service is offered through each City Council Office and the Department of Recreation and Parks; however, the Department of Transportation (LADOT) manages the contracts with the private bus companies. Trips are also authorized through the Mayor's Office, Hbusing Authority, and other agencies (e.g., L.A.'s Best, Santa Monica Mountains Conservancy, Activities for Retarded Children (ARC), and disabled groups). Funding for this program is provided through the ½ cent sales tax revenue from the City's Proposition A Local Transit Assistance (PALTA) fund. Approximately \$3.6 million was approved in the City's FY 08-09 PALTA Budget. LADOT maintains contracts with multiple bus companies to ensure an adequate supply of appropriate vehicles, i.e. wheelchair accessible, and flexibility in selecting the operator to provide the most cost-effective service for a particular trip.

Integrated Systems Research developed, installed and maintained an automated vehicle locator system for parking enforcement vehicles as a result of the Department's Joint Labor Management negotiations to improve Traffic Officer safety. The original contract was valued at \$1,570,480 and called for a five-year term (from May 31, 2001 through May 30, 2006). Six contract amendments totaling \$2,012,799 were executed under this contract and extended the original contract term to June 30, 2009.

The following sections of this report detail our findings, comments, and recommendations.

SECTION I: GUIDANCE AND OVERSIGHT

Finding #1: The City lacks comprehensive, centralized guidance on contracting.

City contracting requirements and guidance are available through several, separate sources, including GSD, CAO, City Charter, City Administrative Code, and the Mayor's Office. City departments may also have developed their own specific guidelines. However, there is no single, comprehensive manual that clearly outlines each critical piece of the process for service contracts. As a result, departments do not have an authoritative resource to consult when they are uncertain about any of the City's contracting policies and procedures. In addition, our audit found that not all City departments are aware of, nor do they consistently comply with, specific contracting policies and procedures. For example, we found that Public Works did not perform the required 1022 Determination process for three of the four contracts reviewed.

The FY 09-10 adopted budget allocates a significant amount of funding - \$203 million - for service contracts. Given the level of resources directed and the risks involved with outsourcing, it is imperative that the City implement sufficient controls to ensure established policies and procedures are followed. In addition, it appears that departmental employees who are responsible for contracting procedures change frequently. Moreover, the City's recent and proposed initiatives to address budget deficits, i.e., Early Retirement Program, staff transfers to non-general funded positions, and layoffs, will likely result in staff with little to no contract management experience assuming that responsibility. It will be extremely difficult for new staff to know every required step of the City's contracting process without comprehensive, step-by-step guidelines.

At a minimum, the City needs one, all-inclusive resource that provides guidance on the entire contracting process. Further, the City needs to strengthen oversight of the contracting process. A June 12, 2006 letter from the Controller to the Mayor and City Council recommended that the City establish a Centralized Oversight Unit to provide expert guidance, support, and training to departments. The combination of authoritative guidance and improved oversight will help ensure consistency among departments' contracting practices, as well as compliance with the City's policies and procedures. The City should make the guidelines and contact information easily accessible on the City's intranet to ensure all staff are aware of the resources available to them. This is consistent with a suggestion by the Mayor's General Manager Working Group on Contracts².

² In 2008, the Mayor requested that several General Managers form a working group to develop recommendations to improve the efficiency and effectiveness of the City's contracting process. The group developed numerous suggestions, which is outlined in an October 2008 report to the Mayor.

Recommendations

The Mayor should direct the City Administrative Officer to:

- 1. Develop one authoritative and comprehensive manual describing the City's policies and procedures relative to contracting for services, and make the information available to City staff on the City's intranet website.**
- 2. Strengthen oversight to provide consistent, expert guidance and training to help ensure contracting policies are followed.**

Finding #2: Departments have not consistently established adequate internal control procedures to ensure staff follow City contracting policies.

City policy requires that each department designate one or more staff as a Departmental Contract Coordinator(s) to ensure compliance with the City's contracting process; however, their specific responsibilities and expectations are not defined. We also found the level to which departments comply with this oversight requirement varies. Without adequate department-level oversight, there is limited assurance that staff follow City policies and procedures.

We found that LADOT and ITA effectively oversaw and monitored the administrative contracting process for the contracts we reviewed. Oversight was provided for all stages up through contract award, and included: (1) reviewing and approving RFPs, contracts, and contract amendments; (2) providing guidance and assistance on City contracting requirements; (3) coordinating with and serving as the direct liaison to City decision-makers and responsible officials (i.e., Mayor, CAO, City Council, Personnel and Labor Union representatives); and (4) receiving and reviewing end-term contractor performance evaluations. However, we found that administrative oversight could be improved in Public Works' and LAPD's contracting practices.

Public Works

Public Works has written guidelines, as well as resources on its website, to assist staff in following the City's required contracting steps. Despite these resources, we noted a lack of consistency within the Department's Bureaus and Divisions in complying with Citywide contracting policies and procedures. In addition, although the Department has developed a Personal Services Contracting Process Checklist to ensure staff follow all contracting steps, it does not appear that this checklist is consistently used or submitted to the Board of Public Works (Board), as required.

We noted that each Bureau/Division verifies compliance with administrative requirements for its respective contracts. There is no centralized expertise to ensure compliance with all aspects of the contracting administrative requirements, or to review draft contracts for clarity and comprehensiveness. Consequently, we found that the Department did not complete the required 1022 Determination process for three of the four contracts we reviewed. In addition, we noted that the Board's Office of Community Beautification contract with Los Angeles Conservation Corps did not adequately define the scope of work and lacked a detailed description of deliverables

and expectations, as well as allowable expenses. Without adequate definitions or specificity regarding services and expenditures, it is difficult for contract monitors to confirm satisfactory contractor performance and ensure funds are used appropriately.

LAPD

LAPD Contract & Grants (C&G) Section was established in 2006 to provide centralized support for RFP and contract development, as well as grant research and administration. Based on our interviews during fieldwork, LAPD had not formalized the authority of the C&G Section, nor had it allocated adequate resources to provide contracting support Department-wide. During our fieldwork, LAPD had approximately 70 active contracts, yet only one of the eight C&G analysts was assigned to provide direct support for contracts. The remaining staff were dedicated to grant administration and fiscal reporting.

The C&G Section provides support to Divisions and Bureaus on contracting when requested; however, during our fieldwork, we found that they did not review all contracts to ensure compliance with the City's policies. While the Council's and Mayor's 2004 directive does not explicitly define the roles and responsibilities of the departmental coordinators, it does not appear that the LAPD adequately met the intent to ensure compliance with the City's contracting process.

We also noted that C&G could strengthen its oversight of the required contractor evaluation process. Through discussions with LAPD's Internal Affairs Group, we learned that they intended to coordinate the end-term evaluation for a contract related to court reporting services and planned to obtain input from only one of the six divisions that use the contract. If C&G were more active in overseeing this process, they could ensure that the evaluation included all user divisions to better meet the intent of the Administrative Code requirement that contractor evaluations be performed.

According to LAPD management, the role of the C&G Section has been strengthened since our audit fieldwork was completed. Specifically, LAPD management stated that all RFPs and draft contracts are now required to be reviewed by the C&G Section. LAPD management also stated that it has augmented its contract analysts; two staff members now provide direct support to contract processing.

Departmental Contract Coordinators should provide oversight of the contracting process to ensure departments comply with City policies. Oversight responsibilities should include procedures to review draft contracts to ensure the scope of work adequately defines expectations and deliverables, to facilitate departments' objective monitoring of contractor performance and enforcement of contract terms.

Recommendations

The Mayor should instruct General Managers to:

- 3. Ensure Departmental Contract Coordinators are actively ensuring compliance with the City's contracting process.**

- 4. Require Departmental Contract Coordinators to review all requests for proposals and contracts prior to execution to ensure that the scope of work, deliverables, expectations and billing requirements, such as allowable expenses, are sufficiently defined.**

SECTION II: JUSTIFICATION FOR CONTRACTING

Finding #3: An effective mechanism does not exist to ensure outsourcing services is in the City's best economic interests.

The Los Angeles City Charter authorizes departments to outsource for services when it is determined that “the work can be performed more economically or feasibly by independent contractors than by City employees.” The City Council adopted a policy in 2004 requiring that departments perform a 1022 Determination analysis for all contracts and amendments with a labor component of at least \$25,000 to assess whether it is more economical or feasible to outsource the service. An exception to the 1022 requirement is if the service is for an emergency situation.

The language of the City Charter has been interpreted to provide flexibility to departments to justify their need for a service contract based on either “feasibility” or “cost.” Since most justifications have been based on a qualitative assessment of “feasibility,” the City cannot be assured that contracting for services that fill a long-term need is the most cost-effective option. For example, we noted four contracts that provide services that will be necessary on an on-going basis: graffiti abatement, landscaping, system maintenance, and telephone installation. Departments have outsourced these services for years without any analysis on whether it would be more cost effective to bring the services in-house.

When outsourcing can be justified based on feasibility, such as insufficient staff, the City Charter does not require departments to conduct a cost analysis. However, it is a prudent business practice to analyze the cost of any potential decision. According to the CAO, departments generally contract out services because the need is for short-term, intermittent projects and it is impractical to hire additional full-time staff. In these instances, a cost analysis would support the need for a contract. However, when departments outsource a service for which there is an obvious long-term need, contract justification should go beyond stating there is inadequate staffing. Departments should analyze whether, over the long-term, it is more cost-effective to hire the requisite number of staff.

Transitioning existing contracts takes time since new staff must be hired and adequately trained before they can assume the responsibilities. As such, departments should consider this analysis and present it, along with a request for additional staff, to City leaders long before the existing contract expires. Departments should be forward-thinking and analyze whether it is in the City's best economic interests to continue to contract out for services indefinitely or hire the appropriate level of staff and bring the service in-house.

Recommendations

The Mayor should require General Managers, with the assistance of the CAO and Personnel, to:

- 5. Conduct a cost analysis for all contracts where services will be needed on an on-going basis.**
- 6. Submit the cost analysis for contracts that fill an on-going need, along with a request for additional staff, to City leaders with sufficient lead time to consider before the existing contract expires.**

Finding #4: Without a detailed cost analysis, it is impossible for the City to know whether providing services through contractors or City staff is the most cost effective option.

We identified four contracts in which it was not obvious whether outsourcing was the most effective and efficient option. In three instances, the required 1022 Determination process was not performed; however, as discussed in Finding #3, the City Charter does not require departments to analyze the cost-effectiveness of outsourcing compared to using City staff. As such, even if the 1022 Determination were completed, there is no assurance that the departments would have analyzed the cost-effectiveness of outsourcing the service.

TruGreen LandCare

The Department of Public Works Bureau of Street Services did not complete the required 1022 Determination process for its contract with TruGreen LandCare. As such, our review found insufficient documentation to support the Bureau's decision to outsource median island landscape maintenance. In addition, no recent analysis was completed to assess whether contracting out for landscape maintenance services was more cost-effective. Management indicated that recommendations cited in an August 2000 CAO study on whether contractors or City staff should maintain the median islands provided sufficient justification for outsourcing.

The CAO's report did not identify substantial differences in either quality or cost between City and contract crews. As a result, the CAO recommended that City crews maintain the median islands but that contract crews may assist the Bureau on an on-call basis during temporary workload peaks and/or staffing shortages. Nine years later, the Bureau continues to rely heavily on contractors to maintain landscaped medians.

In the absence of a current cost and feasibility study, the City may not be spending its resources in an efficient manner. Using a basic, high-level cost analysis of City classifications compared to contracted workers to perform landscape maintenance and assuming an equivalent workload, we found that there may be some cost savings if the work was performed by City staff – provided that the City has sufficient staff to meet workload demands. Without detailed analysis prepared by the Department, it is

impossible for them to know whether contracting for services is cost-effective, and, if not, successfully justify the need for additional staff to City leaders.

Bureau management also stated they did not inquire or coordinate with other City departments to determine the existence or availability of City personnel that could potentially perform the work. Multiple City departments require landscape maintenance services. Per the City's current payroll records, there are 645 Gardener Caretaker and 162 Senior Gardener classifications available citywide (these employees are assigned to the L.A. Zoo, Recreation and Parks, Public Works, LAPD, Harbor, and the Airport). 51 of the 645 Gardener Caretakers and 10 of the 162 Senior Gardeners are within Public Works. Decentralization of landscape maintenance may not be the most effective or efficient option. The City's landscape maintenance needs may be more effectively met by consolidating this service within one department, which would have responsibility for deploying staff to meet citywide needs.

Pacoima Graffiti Busters

We noted that a portion of the contract with Pacoima Graffiti Busters allocated \$80,000 to provide 62 one-hour presentations to local elementary schools, or \$1,290 per presentation. OCB did not perform the required 1022 analysis prior to executing this contract. Consequently, neither OCB, Personnel nor the CAO determined whether it would have been more cost effective for existing staff to conduct the presentations. OCB staff indicated that in addition to giving the presentation, the contractor coordinated and followed-up with the schools and occasionally led school-based clean-ups during the weekends. However, these tasks were not explicitly described in the contract. Management indicated that current graffiti abatement contracts only allocate \$374 per presentation.

Sierra Systems

On behalf of the LAPD, the Mayor's Office and Chief Legislative Analyst's Office contracted with Sierra Systems in 2003 for the design and implementation of a risk management system in order to comply with a Department of Justice Consent Decree. From the inception of the contract, City staff were expected to assume maintenance responsibilities of TEAMS II once the system was complete. However, ITA and LAPD did not have enough staff with the requisite skills to assume system maintenance responsibilities. As a result, the first of several contract amendments with Sierra Systems for maintenance services was initiated in 2005. As of Summer 2009, LAPD and ITA still were not in a position to assume maintenance responsibilities. Consequently, a total of six contract amendments to provide system maintenance have been executed over four years, totaling \$7.4 million (additional amount over the original not-to-exceed amount of \$9.4 million). The most recent contract amendment with Sierra Systems is for 750 hours of work each month, for a monthly cost of \$100,000.

LAPD attempted to hire permanent staff for the TEAMS II project several times since the contract was initiated in 2003 with limited success. According to the ITA and LAPD, they had difficulty hiring staff with the requisite skills because the existing job classifications were not well matched to the specific needs. In addition, they assert they have lost well-qualified staff to proprietary departments, where salaries are

higher. However, seven positions were filled during FY 2008 and FY 2009. In 2008, the LAPD and ITA were instructed by City Council to begin working with Personnel and the Civil Service Commission to create a new job classification designed to attract candidates with more specialized skills. Also, while the Commanding Officer of LAPD's Management, Analysis and Planning Bureau, submitted a request to LAPD management for the inclusion of 10 additional staff in the official FY 09-10 budget request, these positions were not included.

Departmental budgets are impacted whether it funds contract costs or staffing costs. Yet individual contracts and department personnel budgets are routinely decided independently of one another. Unless there is a direct correlation made between requested staff positions and contract costs, decision-makers may not be aware of the consequences of denying staffing requests. Because of these long-term cost implications, staffing decisions may require more detailed analysis and discussion with City leaders. LAPD and ITA staff should have provided management and City leaders with a cost analysis of contracting system maintenance versus hiring staff in their request for additional authorities during the budget process.

It would be expected that some overlap may occur in which the City would have been paying for both in-house staff and contractors to maintain the system until the contractor could be phased-out. Even if the requisite staff were brought on today, there is the possibility that the contractor would not be phased-out until late 2010 or even 2011. This would amount to at least five unanticipated years of maintenance service. It is critical that ITA and LAPD work together with Personnel and City leaders to ensure funding and authority to fill the appropriate number and mix of staff positions. Otherwise, the City faces the risk of contracting out this function indefinitely and spending millions in the process.

Lynden J. & Associates

Prior to executing a contract for hearing reporter services, LAPD conducted the 1022 Determination analysis based on feasibility rather than cost. In particular, the justification was based on the Department's intermittent need for court reporter services. This may very well be a rational justification for contracting out the service. However, this is a service for which LAPD has an on-going need, but they did not conduct a detailed cost analysis to ensure contracting out is the most effective and efficient long term option. While not required by current City policy, a better approach would have been if LAPD examined the total hours and costs billed by the contractor to determine whether a cost savings might be achieved if some, if not all, of the \$800,000³ contract was conducted by City employees.

Recommendations

7. ITA and LAPD, working with CAO and Personnel, should identify the necessary steps to assume system maintenance responsibilities from the TEAMS II contractor, including identification of all associated costs such as

³ Lynden J. & Associates only represents one of the court reporter firms with which LAPD contracts. Contracts with all court reporter firms have a cumulative not-to-exceed limit of \$1.1 million.

staffing and training. Based on this analysis, determine whether it makes economic and operational sense to continue contracting out or maintain the system using permanent City staff.

- 8. If it is determined that using City staff is the most cost-effective and beneficial option, the CAO and Personnel should assist ITA and LAPD in developing a strategy and timeline for transitioning system maintenance from contract workers to City staff. This strategy should address, but not be limited to, finalizing and approving a new job classification, with competitive salaries, to attract the most qualified individuals, and providing on-going professional training to ensure staff's technological skills stay current.**
- 9. The CAO and Personnel should develop a process for departments to follow in notifying City leaders of budgetary implications when considering contract costs and requests for staff positions, and in developing a strategy to transition services from contracted workers to City staff when that is determined to be the most cost-effective option.**

Finding #5: Contracted program may not be the best use of limited City funds.

The City spends more than \$3 million of Proposition A Local Return funds (Prop A) annually on the City's Charter Bus Program, which provides free or subsidized charter bus transportation services to community groups for recreational, employment/training and educational purposes. Past destinations have included Disneyland, beaches, Cabazon Outlet Mall, Raging Waters, Hollywood Park, etc. Prop A funds may be used for recreational transit services that are made available to the general public.

The Charter Bus Program is a public service that is utilized by residents and community groups; however, now may be an appropriate time to re-examine free or subsidized chartered bus trips to entertainment and recreational destinations, such as Disneyland, given the City's current fiscal crisis. Moreover, the City should ensure that the use of \$3 million in Prop A funds for this program does not result in underfunding for other critical public transportation projects or programs, which could result in the inability to sustain and improve the quality and safety of and/or access to public transit services. For example, LADOT has identified a projected \$259 million shortfall in Prop A funds over the next 10 years, including a \$23 million shortfall in FY 2010-2011, which could significantly impact DASH routes.

Though the City has offered the charter bus service since the 1970s, the current fiscal crisis calls for governmental agencies to re-examine all programs to ensure limited funds are directed at the City's most critical needs and priorities. According to LADOT management, they are currently in the process of conducting a comprehensive analysis of its public transit services, including the Charter Bus Program. They intend to forward recommendations to the City Council in the next few months.

Recommendation

10. Mayor and City Council should re-examine the use of \$3 million of Prop A funds for the Charter Bus Program to ensure that other high priority transportation projects/programs are not underfunded.

Finding #6: A contracted program administrator was not selected through an open competitive process.

The Clean and Green Program was established by the City in the 1980s to train and hire youth for community beautification projects. From the inception of the program, LACC was named as the administrator and was, in some ways, considered an extension of the City. LACC is a non-profit organization that provides at-risk youth with opportunities for success through job skills training, education and work experience with a focus on conservation and service projects that benefit the community. For FY 08-09, \$1.2 million of General City Purpose funds was specifically allocated to LACC to administer the program. OCB assumed contract administration responsibilities from its Board in 2004; prior to that the contract was administered by the City Clerk.

Because LACC has been named specifically as the administrator of the Clean and Green Program since its inception, no RFP was issued to select a service provider. As such, LACC was not selected through an open competitive process, and no other organizations were given the opportunity to compete to provide the service.

Section 372 of the Los Angeles City Charter states that competitive proposals or bids should be obtained as far as reasonably practicable and compatible with the City's interests. Without open competition, there is no assurance that the program is operated by the most qualified organization at the most cost-effective price. Given the City's current fiscal situation, City leaders should re-consider the model in which LACC was selected to provide greater assurance that taxpayer dollars are maximized.

Recommendation

11. The Mayor and City Council should re-evaluate the model in which LACC was selected to provide the Clean and Green program and, in the future, consider selecting the contractor through an open and fair competitive bid process.

SECTION III: CONTRACT MONITORING

Finding No. 7: Monitoring procedures are not always sufficient to ensure contracted services meet the City's expectations.

We found that the departments could strengthen their processes for monitoring contractor performance for three of the nine contracts reviewed. The City's Administrative Code⁴ and best practices direct departments to clearly define expectations for contractor performance in the contract and evaluate actual performance. As such, each department should have a mechanism in place to routinely monitor, evaluate and report the quality of services received from contractors. This helps ensure problems are corrected promptly and that contractor performance is considered in making future vendor selections through RFPs. In addition, routine monitoring and evaluation of contractor performance helps ensure taxpayer dollars are being spent responsibly.

Pacoima Graffiti Busters

OCB routinely inspects major corridors and hotspots, and "grades" the contractor based on the quantity of graffiti present and the quality of work. OCB management also indicated that contractors are periodically monitored using the Department's Anti-Graffiti Request System, whereby staff may confirm the contractor's reported work completed. For example, staff may note that a specific area noted as cleaned by the contractor may or may not agree with the physical size of the location. If the staff believe there is a discrepancy, the contractor will be contacted for further follow-up. This process and the results are not documented. Further, OCB does not conduct an end-term evaluation. Although contractors are not paid based on the amount of graffiti removed, OCB should be able to sufficiently demonstrate that the work reported by the contractors can be relied on as accurate and provide assurance that the contract costs and services are in line with one another.

OCB also has not formalized the list of major corridors and hot spots, areas in which contractors are expected to remove graffiti within 24 hours of occurrence. Rather, these areas are verbally communicated to contractors. OCB states that an informal hot spot tracking method is used because the locations are too numerous to list in a contract and are subject to change, and that OCB program monitors are aware of the hot spots in their respective service regions. However, it is difficult for OCB to objectively monitor contractor performance when expectations are not clearly defined in the contract. In addition, verbally communicated expectations may be more difficult to enforce, and are at greater risk for misunderstanding.

The Pacoima Graffiti Busters contract allocates \$722,000 and \$239,000, respectively, for services provided in the Northeast San Fernando Valley and in Council District 14. However, the contractor's invoices combine expenses related to both regions, and

⁴ LAAC Section 10.39.2

OCB cannot distinguish expenses for each of the two regions. Consequently, OCB does not determine if the contractor is dividing its work between the two regions in accordance with the contract.

The contract also stipulates that at least 80% of the contract will be expended on direct costs applicable to the work performed. To the extent that this amount is not expended on direct costs, the amount of the contract will be reduced. OCB indicated that they do not verify that 80% of contract dollars are spent on direct costs.

OCB should strengthen its process for monitoring and evaluating contractor performance and billing documents to ensure cost and services are in line with the contract. In addition, if OCB does not have a good understanding of how much work the contractor performs for the contract amount, it will be impossible to perform an analysis to determine whether the service could be provided more cost-effectively by City staff or another contractor.

Los Angeles Conservation Corps

OCB's contract with LACC does not adequately define the scope of work and lacks a detailed description of deliverables, expectations, and allowable expenses. In addition, OCB staff does not adequately monitor LACC's performance. LACC provides quarterly self-monitoring performance reports to OCB, which includes only summary level information about services delivered. However, OCB does not conduct any reviews to obtain reasonable assurance that the reported information is accurate.

OCB also does not perform a detailed review of financial documentation submitted by LACC to support quarterly advance payments of \$380,000. We noted receipts for restaurant meals, staff cell phone bills, and a Disc Jockey. When auditors brought these items to their attention, OCB staff agreed that they were questionable. Because the LACC contract does not define allowable expenses, OCB has no guidelines for determining what expenses can be funded by the advance payment, nor can it easily disallow or deny certain expenses.

In addition, although the contract requires LACC to submit a proposed budget, including a description of the services to be performed and expenses to be incurred with their advanced payment requests, OCB approves the payments without obtaining a budget document from LACC.

Without specifically defining performance expectations and reporting requirements, OCB cannot adequately monitor contractor performance or ensure expenses are related to the City's Clean and Green program.

Laidlaw Transit

LADOT could do a better job of actively obtaining and routinely monitoring customer feedback. Although the Department completes the required Contractor Performance Evaluation Form towards the end of the contract term to assess contractor performance, it is not regularly monitored throughout the contract term. LADOT management indicated they assess performance based on whether customers

actively complain. If there are no customer complaints, service quality is presumed to be adequate.

At the end of each scheduled trip, customers are required to sign-off on the Contractor's Trip Sheets and may provide their feedback on this form. However, the existing format of each bus company's Trip Sheet varies; some forms do not accommodate a customer's comments/feedback, signature (to properly acknowledge services were rendered), or assessment rating of the quality of services rendered by the contractor.

LADOT management indicated they generally have a sense of which contractors are performing satisfactorily and have not received many complaints recently. Annual evaluations of contractor performance are based on staff's recollection of contractor performance, which could be incomplete, and possibly erroneous. Because departments should consider contractor evaluations when selecting vendors through a RFP, LADOT may be considering inaccurate performance information when evaluating and selecting their Charter Bus contractors through future RFPs.

To obtain better feedback on the quality of services provided, LADOT Bureau of Transit Services is currently in the process of developing a formal Trip Sheet to standardize reporting necessary trip information and customer evaluations to obtain better feedback on the quality of services provided. However, management indicated that staffing shortages make it difficult to actively monitor vendor performance.

Recommendations:

12. The Mayor should instruct General Managers to ensure staff are adequately monitoring contractor performance.


13. The Board of Public Works should direct the Director of the Office of Community Beautification to improve monitoring of the contracts for graffiti abatement and the Clean and Green program. Specifically, OCB should:

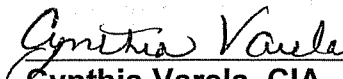
- a. Review workload indicators submitted by graffiti abatement contractors to obtain a reliable understanding of how much work is being performed.**
- b. Require that contractors' billing statements distinguish between work performed in separate service regions and detail the total amount associated with direct costs.**
- c. Improve the level of detail and comprehensiveness of the scope of work, including specific expectations and performance measures, and allowable expenses for all future contracts for the Clean and Green program.**
- d. Require that the Clean and Green contractor submit a proposed budget with their request for advanced payment.**

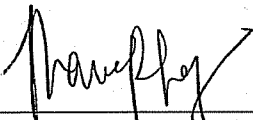
- e. Improve monitoring of contractor performance of the Clean and Green program.

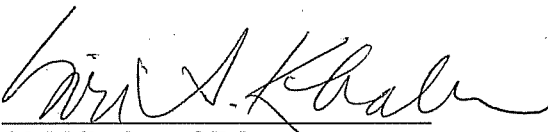
14. LADOT management should ensure contractor evaluation forms are revised to obtain customer feedback for each trip. LADOT management should also review the feedback regularly to assess contractor performance and promptly correct problems.


Respectfully submitted,



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October 14, 2009

**APPENDIX A
OFFICE OF THE CONTROLLER**

**REVIEW OF CITYWIDE USE OF
PERSONAL/PROFESSIONAL SERVICE CONTRACTS**

Ranking of Recommendations

Finding Number	Description of Finding	Ranking Code	Recommendations
Section I – Guidance and Oversight			
1	The City lacks comprehensive, centralized guidance on contracting.	<p align="center">U</p> <p align="center">U</p>	<p>The Mayor should direct the City Administrative Officer to:</p> <ol style="list-style-type: none"> 1. Develop one authoritative and comprehensive manual describing the City's policies and procedures relative to contracting for services, and make the information available to City staff on the City's intranet website. 2. Strengthen oversight to provide consistent, expert guidance and training to help ensure contracting policies are followed.
2	Departments have not consistently established adequate internal control procedures to ensure staff follow City contracting policies.	<p align="center">U</p> <p align="center">U</p>	<p>The Mayor should instruct General Managers to:</p> <ol style="list-style-type: none"> 3. Ensure Departmental Contract Coordinators are actively ensuring compliance with the City's contracting process. 4. Require Departmental Contract Coordinators to review all requests for proposals and contracts prior to execution to ensure that the scope of work, deliverables, expectations and billing requirements, such as allowable expenses, are sufficiently defined.

Section II – Justification for Contracting		
3	An effective mechanism does not exist to ensure outsourcing services is in the City's best economic interests.	<p>The Mayor should require General Managers, with the assistance of the CAO and Personnel, to:</p> <p>U</p> <p>5. Conduct a cost analysis for all contracts where services will be needed on an on-going basis.</p> <p>U</p> <p>6. Submit the cost analysis for contracts that fill an on-going need, along with a request for additional staff, to City leaders with sufficient lead time to consider before the existing contract expires.</p>
4	Without a detailed cost analysis, it is impossible for the City to know whether providing services through contractors or City staff is the most cost effective option.	<p>U</p> <p>7. ITA and LAPD, working with CAO and Personnel, should identify the necessary steps to assume system maintenance responsibilities from the TEAMS II contractor, including identification of all associated costs such as staffing and training. Based on this analysis, determine whether it makes economic and operational sense to continue contracting out or maintain the system using permanent City staff.</p> <p>U</p> <p>8. If it is determined that using City staff is the most cost-effective and beneficial option, the CAO and Personnel should assist ITA and LAPD in developing a strategy and timeline for transitioning system maintenance from contract workers to City staff. This strategy should address, but not be limited to, finalizing and approving a new job classification, with competitive salaries, to attract the most qualified individuals, and providing on-going professional training to ensure staff's technological skills stay current.</p>

		U	9. The CAO and Personnel should develop a process for departments to follow in notifying City leaders of budgetary implications when considering contract costs and requests for staff positions, and in developing a strategy to transition services from contracted workers to City staff when that is determined to be the most cost-effective option.
5	Contracted program may not be the best use of limited City funds.	D	10. The Mayor and City Council should re-examine the use of \$3 million of Prop A funds for the Charter Bus Program to ensure that other high priority transportation projects/ programs are not underfunded.
6	A contracted program administrator was not selected through an open competitive process.	D	11. The Mayor and City Council should re-evaluate the model in which LACC was selected to provide the Clean and Green program and, in the future, consider selecting the contractor through an open and fair competitive bid process.
Section III – Contract Monitoring			
7	Monitoring procedures are not always sufficient to ensure contracted services meet the City's expectations.	U U	12. The Mayor should instruct General Managers to ensure staff are adequately monitoring contractor performance. 13. The Board of Public Works should direct the Director of the Office of Community Beautification to improve monitoring of the contracts for graffiti abatement and the Clean and Green program. Specifically, OCB should: <ul style="list-style-type: none"> a. Review workload indicators submitted by graffiti abatement contractors to obtain a reliable understanding of how much work is being performed. b. Require that contractors' billing statements distinguish between work performed in separate service regions and detail the total amount associated with direct costs.

		N	<ul style="list-style-type: none"> c. Improve the level of detail and comprehensiveness of the scope of work, including specific expectations and performance measures, and allowable expenses for all future contracts for the Clean and Green program. d. Require that the Clean and Green contractor submit a proposed budget with their request for advanced payment. e. Improve monitoring of contractor performance of the Clean and Green program. <p>14. LADOT management should ensure contractor evaluation forms are revised to obtain customer feedback for each trip. LADOT management should also review the feedback regularly to assess contractor performance and promptly correct problems.</p>
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Description of Recommendation Ranking Codes

U- Urgent-The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

N- Necessary- The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. The recommendation should be implemented within six months.

D- Desirable- The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management’s discretion.

N/A- Not Applicable