

INTRADEPARTMENTAL CORRESPONDENCE

February 16, 2010
1.14

BPC No. 10-0090

TO: The Honorable Board of Police Commissioners

FROM: Chief of Police

SUBJECT: PROGRESS REPORT REGARDING THE SUPPLY PROCUREMENT AND DISBURSEMENT AUDIT, IAID #08-097, DECEMBER 3, 2009

RECOMMENDED ACTION

1. That the Board REVIEW and ACCEPT the Department's progress report and TRANSMIT this report to the City Council's Public Safety Committee.

DISCUSSION

At the Police Commission meeting of December 15, 2009, the Board of Police Commissioners (Board) instructed the Department to provide a status report on the implementation of the recommendations proposed in the Supply Procurement and Disbursement Audit (IAID No. 08-097) conducted by Internal Audits and Inspections Division (IAID).

The attached Fact Sheet provides an overview of the recommendations and a brief summary of actions taken to address the Board's concerns with documentation of the competitive bidding process, confirming receipt of products, obtaining approval of orders, the lack of clear policies and rules, and the overall supervision of the Supply Section.

The Board also instructed IAID to conduct either a follow up inspection or an audit to monitor the progress of these recommendations in six months, June 2010. Rather than wait six months, IAID performed two inspections to monitor the progressive steps taken by Supply Section and will present an in depth audit which will be presented to the Board in June 2010.

The first IAID inspection, which was conducted on January 6, 2010, found the following:

- A preliminary supply policies and procedures manual had been drafted and was being reviewed internally;
- The Administrative and Technical Services Bureau Notice, entitled "Employee's Responsibility – Acquiring Goods and Services", dated September 15, 2009, was issued, but could not be located on the Department's Local Area Network;
- An inspection of 13 purchase orders (PO's) from November 23 – December 24, 2009, found increased compliance;
 - Each (100%) of the 13 PO's had properly authorized Supply Order Form;

- Each (100%) of the 13 PO's had properly authorized Purchase Orders; and,
- One (8%) of the 13 PO's had documented confirmation of receipt.
- A list of purchase orders that required competitive quotes, lacked documentation that the bids had been obtained.

Internal Audits & Inspections Division's second follow up inspection was conducted on February 3, 2010, which was conducted to determine if purchases contained 1) receipt confirmations, and 2) competitive bids, when required. Internal Audits & Inspections Division reviewed 23 purchases from January 2010 for receipt confirmations, and one purchase for competitive bids.

- Eleven (48%) of the 23 purchases contained the required receipt confirmations. The remaining 12 (52%) did not have signed packing slips, although it did have UPS delivery confirmations. While the UPS delivery confirmations can tell when a delivery is made, it does not provide an itemized list of the goods delivered.
- The one purchase that required competitive bids was found to have the proper documentation indicating compliance.

While the IAID inspections found significant improvement from the initial December 3, 2009 audit: showing an increase from 8% to 48% as it relates to receipt confirmations, and 0% to 100% on competitive bids (one purchase order required a competitive bid), both IAID and Fiscal Operations Division are concerned about the impact the Early Retirement Incentive Program (ERIP) may have with compliance and progress. Fiscal Operations Division's current staff vacancies will increase to 28% by March 2010 as a result of ERIP. Additionally, mandatory work furloughs further delay completion of routine tasks and jeopardize timely entries of receipts and confirmations into current tracking systems.

If you have any questions, please contact Police Administrator Gerald L. Chaleff, Special Assistant for Constitutional Policing at (213) 486-8730.

Respectfully,



CHARLIE BECK
Chief of Police

Attachment

FACT SHEET
Supply Procurement and Disbursement Audit Progress Report
IAID No. 08-097
February 16, 2010

The purpose of this document is to provide an interim response to the concerns raised by the Board of Police Commissioners, and to provide a brief response to the recommendations listed in the Supply Procurement & Disbursement Audit (IAID No. 08-097), dated December 3, 2009.

AUDIT RECOMMENDATION NO.1

The Department develops a supply procurement and disbursement manual, which should minimally address the following areas:

- Requisition, ordering, change order, receipt confirmation, vendor payment procedures;
- Approval requirements;
- Competitive bidding requirements; and,
- Segregation of duties.

FINDINGS AND/OR MANAGEMENT'S RESPONSE

Fiscal Operations Division (FOD), Supply Section has completed the supply manual, including a Frequently Asked Questions "hot sheet," which is currently being reviewed by the Commanding Officer, Special Assistant for Constitutional Policing.

AUDIT RECOMMENDATION NO. 2

The Department re-evaluates the need to grant order placement authorities to Scientific Investigations Division (SID), Information Technology Division (ITD), Motor Transport Division (MTD), and Emergency Command Control Communications System Division (ECCCS) balancing sound internal controls with efficient procurement of needed goods/services.

FINDINGS AND/OR MANAGEMENT'S RESPONSE

City policies require separation of purchasing and receiving functions to reduce the risk of fraud. Scientific Investigations Division, ITD, MTD, and ECCCS each have the authorization to order and receive specialized goods and services, contrary to City policies.

On January 28, 2010, Special Assistant for Constitutional Policing met with procurement supervisors from the Supply Section, SID, ITD, MTD, and ECCCS, to discuss the process and determine if this procurement authority was necessary. Each division explained their need for specific and/or specialized materials necessary such as chemicals and equipment for forensic serology/DNA testing (SID), parts and supplies for the maintenance and repairs of Department vehicles (MTD), and technology related equipment, software, and services for maintenance of the City's emergency 9-1-1 system (ITD and ECCCS). Ordering through the Supply Section would cause unnecessary delays and further burden their overwhelmed commands.

The meeting further revealed that procurement requests from SID, ITD, MTD and ECCCS are made with established contracted vendors who have gone through the competitive bidding process with the City of Los Angeles, thus it was determined that these divisions should maintain their current procurement authorities.

As it relates to the approval process, FOD will ensure that different individuals will perform Supply Management System (SMS) purchasing and receiving functions within SID and MTD, eliminating the need for additional personnel. Due to the fact that ITD and ECCCS only have one Accounting Clerk to perform both SMS functions, an exception will be provided to these divisions but they will be subject to inspections to ensure accuracy.

All other supplies (i.e., office supplies, diagnostic tools, services, manuals, etc), require divisions to purchase items by completing the Department's Supply Order Form 15.11, as mandated in the Department's Supply Manual. Items not under contract, or exceed \$1,000 must be processed by FOD and coordinated through General Services Division. It should be noted that approximately 9% of the Department's orders for supplies are filled through the GSD warehouse. The most common items include items such as flares, plastic handcuffs, gloves, storage boxes, property bags, etc. Motor Transportation Division (MTD) on the other hand, places orders for auto parts through GSD approximately 90% of the time.

AUDIT RECOMMENDATION NO. 3

Supply Section enforce procurement procedures and develop a reporting mechanism to report violations up the chain of command.

FINDINGS AND/OR MANAGEMENT'S RESPONSE

The Department has distributed an Administrative and Technical Services Bureau (ATSB) Notice, dated September 15, 2009, entitled "Employee's Responsibility – Acquiring Goods and Services." Although the notice was initially distributed in 2009, it was not posted on the Local Area Network (LAN) until January 26, 2010. The ATSB Notice can now be found in two locations on the LAN:

1. Reference Library → Notices → Office of Support Services for 2009
2. Divisions and Sections → Fiscal Operations Division

At this time, Supply Section has e-mailed Planning and Research Division and requested that they work with Training Division to post the aforementioned ATSB Notice, on E-Learning for all Department employees to read and acknowledge with an electronic signature. Fiscal Operations Division has also been advised to enforce procurement policies by re-training all Supply Section employees in obtaining an Acknowledgment Receipt, and providing remedial training if necessary. The commanding officer will be responsible for monitoring compliance with the policies and procedures outlined in the manual as well as any corrective actions deemed necessary.

As a result of the Audit findings, procurement supervisors Department-wide were specifically instructed to ensure that individuals who place procurement orders not be the individual acknowledging receipt of orders into SMS. The only exception to this requirement will be ITD and ECCCS as previously mentioned. As of February 1, 2010 users who previously had both roles of purchaser and receiver, the receiver role has been eliminated from their user rights.

AUDIT RECOMMENDATION NO. 4

Supply Section provide Supply Management System (SMS) receiving access to all division, Area, and bureau personnel responsible for confirming receipt of ordered products.

FINDINGS AND/OR MANAGEMENT'S RESPONSE

Supply Section provides receiving access to all Department end-users however this process has not been maintained due to lack of personnel. Supply Section has established a new e-mail address (SUPPLY@lapd.lacity.org) to improve communications. A designated person reviews and responds to all e-mails on a daily basis in order to assist end-users with the procurement process and/or questions.

AUDIT RECOMMENDATION NO. 5

The Department review SMS system capabilities and considered the feasibility of implementing relevant functional applications to improve efficiency and control over the procurement process.

FINDINGS AND/OR MANAGEMENT'S RESPONSE

In reviewing the City's SMS system capabilities with General Services Division (GSD), the Director of SMS Systems Support, and Information Technology Agency's (ITA) SMS Director and Manager concluded that the SMS system does not have the required capabilities (intermediary approval process, nor SMS stand-alone program) that would assist the LAPD to improve efficiencies and control of their procurement process. After performing a cursory review on the feasibility of adding another approval level to the SMS procurement process, ITA determined that the modifications to SMS would be significant due to SMS's current design of performing citywide procurement processing. The feasibility of an upgrade or purchase of a dedicated computer (stand-alone) for the SMS system is further impacted due to the current economic state of the City.

In a brief meeting with staff from the Los Angeles World Airports (LAWA), Director of Financial Management Systems, Office of the Special Assistant (OSA), it was revealed that LAWA uses System Application Program (SAP) as their financial management and procurement system. This system was installed in 2001 with an initial cost of \$12 million. The SAP manages accounts payable, accounts receivable, human resources, and materials management. This system has clearly defined roles and is capable of creating varied work flows which may give LAPD the option to create an intermediary approval process. Airport Department has recently upgraded the SAP with the "bare minimum" at the cost of \$5 to \$6 million. The Department will conduct additional meetings to determine compatibility, the fiscal impact of this system and the possibility of using LAWAs SAP.

Staff from the office of the Special Assistant for Constitutional Policing also reached out to Harbor Department and Department of Water and Power in order to ascertain the procurement system utilized by these proprietary Departments but had not received a response at the time of this report.

RELATED CONCERNS

Competitive Bidding

City policy requires three (3) oral or written quotations be obtained and documented for Blanket Purchase Orders between \$500 and \$1000. An internal "Chronological Supply Order Record" form has been created for use by Supply Section. This form will document verbal and written quotes. The form requires supervisory reviews and approval, ensuring that a minimum of three bids are obtained and documented prior to approval and processing. Chronological Supply Order Record forms missing signatures will not be approved.

Confirming receipt via e-mail

Confirming receipt of goods via e-mail is not acceptable. E-mails cannot confirm signature upon delivery, nor complete itemization of goods received. If a packing slip is not available or included, Supply Section will forward a copy of the initial invoice to the entity (end-user) for verification of items received. This invoice copy shall be returned to Supply Section with the name and serial number of person receiving goods, date received Purchase Order number, and Commanding Officer's signature of approval.

Vendor payment

The Department has 30 days from "packing slips to payables." Upon physical receipt of products ordered, the division (end-user) must provide the packing slip with an approval signature to Supply Section within 72 hours. Upon receipt of approved packing slip, Supply Section will then input this information into SMS enabling GSD, Accounts Payable to process payment to the vendor. The Department has found that delays in payments to the vendors beyond the normal 30-day cycle, sometime result in the loss of discounts, incur late fees/penalties, and may also hinder the Department's ability to make future purchases from these vendors.

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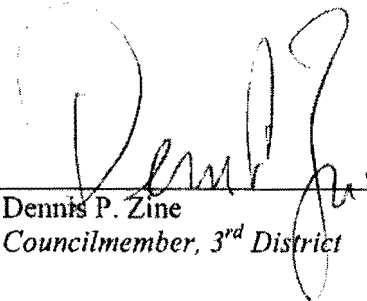
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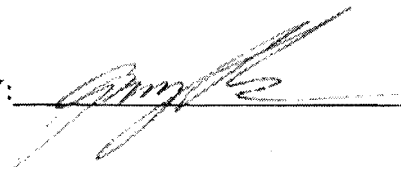
The Los Angeles Police Department (LAPD), in an internal audit, found financial oversight of its procurement processes to be severely lacking. As a result, many of the purchases and contracts totaling more than \$60 million in Fiscal Year 2007-2008 were not properly tracked or approved according to procedure. Departmental financial policies are in place to protect taxpayer dollars and must be respected at all times. Any violation of procurement procedures, whether intentional or not, must be fully investigated.

In response to the audit, LAPD administrators have indicated that further training will be provided to officers to clarify existing procedures regarding hiring vendors, soliciting bids, and documenting purchases. While additional training is certainly warranted, a larger review of the Department's procurement policies is also necessary.

The Los Angeles Police Commission is scheduled to discuss the audit findings during its regular meeting this morning. The City Council should also be fully briefed on the details of these accounting and procurement errors and the measures put in place to prevent such mismanagement in the future.

I THEREFORE MOVE that the Los Angeles Police Department report to the City Council with a detailed explanation of its internal audit that found evidence of improper financial tracking and other violations of procurement policies related to the purchase of over \$60 million in goods and services in Fiscal Year 2007-2008, including a report on what changes have been made to the Department's personnel, training, tracking, and other procedures to correct this breach of oversight and to prevent any future occurrences.

PRESENTED BY: 
Dennis P. Zine
Councilmember, 3rd District

SECONDED BY: 

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