



City of Long Beach

Office of the City Auditor



Emergency Board-Up Services Contract Audit

April 2015

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Executive Summary

Emergency board-up service is initiated by a City officer to secure unsafe conditions, such as a building with broken windows due to vandalism, and is authorized by the Municipal Code as a requirement to enforce health and safety regulations. We performed an audit of the City's contract with Overland Pacific & Cutler, Inc. (OPC) based on a complaint received by the City Auditor's Fraud Hotline in April 2014 related to an emergency board-up service performed under this contract. At the time of the audit, the Asset Management Bureau (Bureau) was responsible for the oversight of the OPC contract. Subsequent to the audit, the Bureau was moved to the Department of Economic and Property Development (Department) who continues to be responsible for administration of the OPC contract.

In researching the hotline complaint, we identified several issues with the award of the contract and the use of subcontractors who perform the work. Although total costs for emergency board-up services averages less than \$100,000 annually, enough questions were raised during our initial analysis to warrant an audit of this contract. In addition, the costs of emergency board-up services are billed directly to the property owners, and it is important to verify that they are receiving fair pricing.

Our audit covered the emergency board-up services for the period of fiscal years 2012 through 2014. We reviewed the procurement process for awarding the services, use of subcontractors, and City oversight of the contract. Overall, we found that the City's oversight of this contract contributes to creating an environment that is susceptible to fraud.

Work Was Authorized Without an Executed Contract

Emergency board-up services is a small part of the larger contract awarded to OPC, which covers a variety of property management services. The original contract expired in November 2012, and the City released a Request for Proposal (RFP) for the same scope of work. However, the final RFP vendor responses were due after the contract was set to expire, and the City elected not to extend the original contract. Instead, the City continued to authorize almost \$150,000 of work to OPC until a new contract could be executed six months later, and OPC agreed to wait for payment. The new contract was then back-dated to coincide with the prior contract expiration, allowing OPC to be paid for the work they performed without a valid contract in place.

Subcontractors Are Not Vetted by the City

OPC subcontracted the emergency board-up portion of their contract to two different companies. Both of these companies are partially owned by a prior employee of OPC. The Bureau stated that they have no involvement in the subcontractor selection, leaving it solely to OPC. When reviewing subcontractor activity, we noted three main areas of concern:

1. The subcontractor rates, which are passed on to the property owners, were increased only two months after the contract was executed, even though the City's contract with OPC states that it cannot be changed for a year. However, the Bureau stated subcontractor pricing can be changed at any time and is not bound by the terms of the primary contract.
2. OPC provided a pricing survey of other potential subcontractors, but the information lacked

key information, such as criteria, addresses or phone numbers and was neither dated by OPC nor validated by the City. In addition, OPC claims to have only received pricing from two of the seven vendors they contacted. The survey was to support OPC's claim that no other viable vendor was within close distance to Long Beach. However, our research found otherwise.

3. We were unable to locate an active business location for the subcontractor performing the work since October 2013 even after the address provided was confirmed with the subcontractor.

There is a high potential for fraud when:

- The City is authorizing work without a valid contract.
- There is a known relationship between the primary contractor and subcontractors.
- The subcontractor pricing can be increased at any time and is not bound by the terms of the primary contract.
- The City has no involvement in the selection or monitoring of the subcontractor.

We urge the City to follow standard procurement policies that ensure active contracts are in place prior to authorizing work. In addition, subcontractors should be monitored to ensure they are viable, are offering competitive pricing, and are in compliance with terms of the contract.

We would like to thank the staff of the City Manager's Office's Asset Management Bureau and the Financial Management Department's Billing & Collections Section for their cooperation and assistance during this audit. We respectfully request that in six months, management provide status of the progress made in implementing the recommendations detailed in this report.

Background

City Municipal Code Section 18.20.290 requires the City to initiate emergency board-up services to secure private property when the situation is determined to be unsafe. The City has contracted with Overland, Pacific & Cutler, Inc. (OPC), a Long Beach-based firm, since 2010 to perform these services; however, OPC subcontracts the emergency board-up services to a third-party firm located in Santa Ana.



Contract Assignment

At the time of the audit, the Asset Management Bureau (Bureau), in the City Manager's Office, oversaw the contract dealing with emergency board-up services.¹ Emergency board-up services is

¹ The Asset Management Bureau was located in the Department of Public Works during the audit period of FY 2012 through 2014. The Bureau was moved to the City Manager's Office beginning FY 2015. Subsequent to the audit, the Bureau was moved to the Department of Economic and Property Development who continues to oversee the OPC contract.

part of a larger contract covering a variety of property management services including acquisition, property management and other related services. The most recent contract for property management services was executed in May 2013 and covers the period of December 2012 through November 2015. The emergency board-up service that is part of this contract is subcontracted to third-party firms as allowed by contract terms and conditions. In addition, OPC operates a call center to coordinate service requests on a 24/7 basis.

OPC bills the City for the cost of material and labor, which varies by time-of-day and is higher after normal business hours, on weekends, and holidays. Also, OPC charges a coordination fee in addition to the subcontractor's cost.

Board-up Service Expenditures and Revenue

The City paid an average of over \$86,000 per year for board-up service expense, or more than \$260,000 in the last three fiscal years from 2012 through 2014, as shown in Table 1. These expenditures represent work requested by the Police and Fire departments for privately owned property, both commercial and residential.



Table 1 also shows board-up service revenue recorded during the same period. At just over \$210,000, these revenues represent payments made by property owners to reimburse the City for board-up service costs. Municipal Code Section 18.20.290 obligates a property owner to pay for all costs incurred by the City to abate a hazard on their property, even when the property owner was not given prior notice.

Table 1. Board-up Service Expenditures and Revenue

Expenditures	FY 2012	FY 2013	FY 2014	3-Year Total	3-Year Average
Fire	\$ 14,269	\$ 8,039	\$ 21,977	\$ 44,285	\$ 14,762
Police*	82,576	64,557	68,698	215,831	71,944
Total	96,845	72,596	90,675	260,116	86,705
Revenue					
Fire	-	12,784	12,498	25,282	8,427
Police	83,945	44,555	56,405	184,905	61,635
Total	\$ 83,945	\$ 57,340	\$ 68,903	\$ 210,187	\$ 70,062

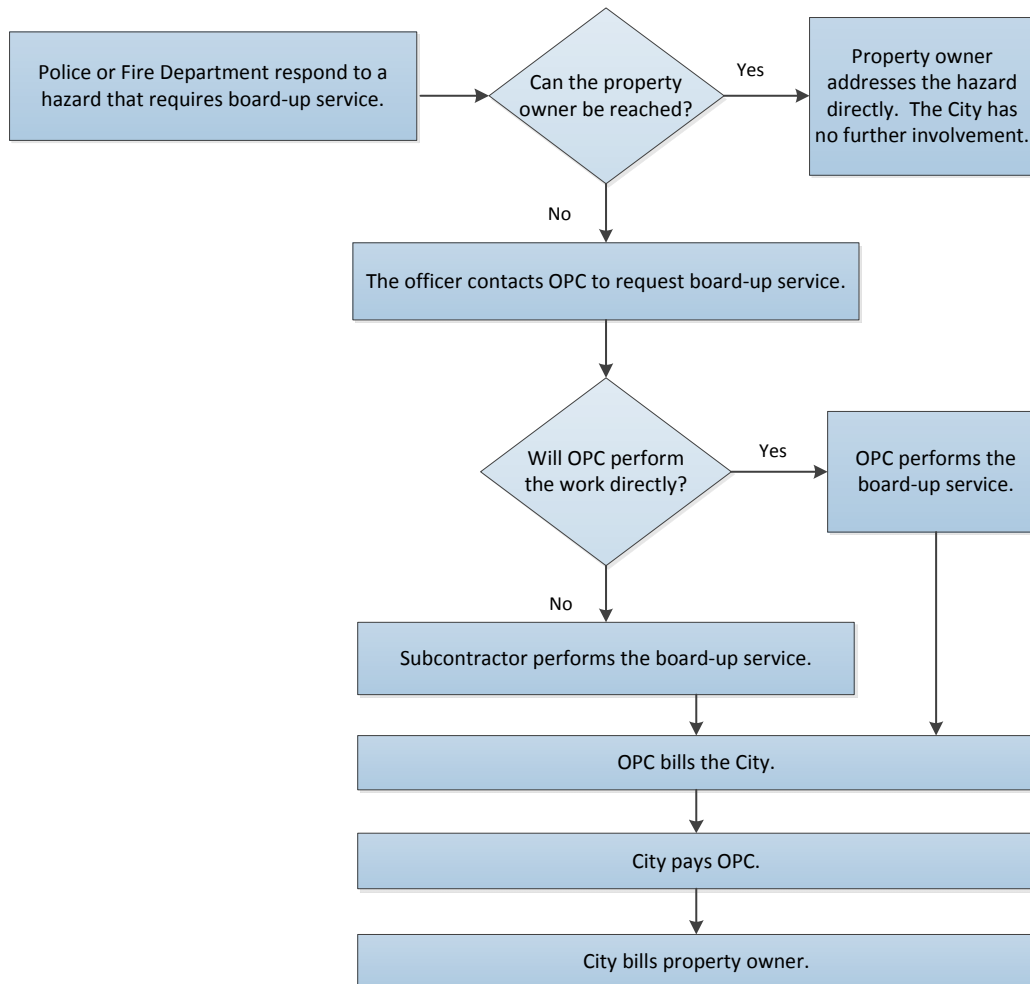
*According to the Asset Management Bureau, expenditures include some non-board-up service costs charged to the Department.

Coordination of Service

When an open building or structure in the City poses an unsafe condition, such as threat to life or public health, a City Department or officer who is charged with responsibility for enforcement of health and safety regulations, must ensure the building or structure is secured, closed, barricaded or

demolished.² A common method of addressing this kind of hazardous condition is to board-up the danger, which is often a damaged door, broken window or an open roof and is likely caused by vandalism or a fire. As such, the majority of board-up service is associated with an incident with a response from the Police or Fire Department. Figure 1 shows the process for initiating board-up service, coordination of the work with a contractor or subcontractor, and billing the property owner.

Figure 1. Board-up Service Process



When a situation arises that requires board-up service, an officer must ensure a valid emergency exists and should make diligent attempts to contact the property owner to provide an opportunity to secure the property directly.³ A property owner has the option of doing the work or obtaining board-up service from a number of entities, such as construction or window repair companies or a property

² City Municipal Code Section 18.20.290, *Emergency Hazard Abatement* sets out the City's responsibility for enforcement of health and safety regulations.

³ Administrative Regulation 8-3, *Emergency Abatement of Hazards/Procedures*

management firm. If the property owner cannot be reached, an officer will commence with abating the hazard by requesting the work through a process established by the Bureau.

Invoice Processing and Billing Property Owners

Upon receipt of OPC's invoice for board-up service, Bureau staff review, approve and pay the bill, and then bill the property owner to recoup the incurred expense. The Bureau forwards the information to Financial Management Department's Billing & Collections (B&C) section who sends the bill to the property owner and records the payment upon receipt. When payment is made, the City is reimbursed for the board-up service expense it incurred on behalf of the property owner.

Objective & Methodology

The objective of this audit was to determine whether the City's contract for board-up service is reasonable, competitive, and oversight is sufficient. This audit was performed based on a complaint received by the City Auditor's Fraud Hotline in April 2014. The scope of the audit was fiscal years 2012 through 2014. To perform the audit work, we:

- Reviewed a complaint received by the City Auditor's Fraud Hotline and performed a preliminary analysis as a follow-up to the complaint.
- Reviewed City contracts with Overland, Pacific & Cutler, Inc., #31511 and #33043, including amendments and Council reports to identify key terms and conditions. We also reviewed the City's request for proposal #PW13-009 and the proposals submitted by the firms awarded the bid, where available.
- Reviewed City Municipal Code Section 18.20.290, *Emergency Hazard Abatement*, Administrative Regulations (AR) 8-3, *Emergency Abatement of Hazards/Procedures*, AR 8-4, *Selecting Professional Consultants*, and AR 8-5, *Establishment of a Centralized Real Estate Services Operation*, and the City's procurement policy and purchasing guidelines. We also reviewed Government Auditing Standards issued by the United States Government Accountability Office.
- Reviewed board-up service expenditures and revenue associated with the OPC contracts, along with OPC and subcontractor invoices and supporting records. The review included a random sample of board-up service invoices related to Police and Fire calls to privately owned property, both commercial and residential.
- Interviewed staff in the Asset Management Bureau of the City Manager's Office and the Billing & Collections section of the Financial Management Department to understand the process of procuring, assigning and coordinating board-up service, as well as the procedures for processing contractor invoices and billing property owners.
- Compared contract pricing to subsequent pricing schedules.
- Surveyed cities surrounding Long Beach and local insurance companies, and performed independent research to benchmark the offerings of board-up service companies and their rates.

- Researched public information and records related to business, contractor, and broker licenses; and business locations, principals, and associates.

During the course of this audit, we gathered and assessed information to identify risks of fraud that are significant within the scope of the audit objectives or that could affect the findings and conclusions. This was done through discussion with Bureau staff and other means to determine the susceptibility of the program to fraud, the status of internal controls the City has established to prevent and detect fraud, or the risk that officials of the City could override internal controls. Conditions such as the following might indicate a heightened risk of fraud: the nature of the entity's operations provide opportunities to engage in fraud; management is willing to accept unusually high levels of risk in making significant decisions; operating policies and procedures have not been developed, are outdated or not being followed; key documentation is lacking or does not exist; improper payments; and unusual patterns and trends in contracting, procurement, acquisition, and other activities of the program.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), which 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results & Recommendations

Our Office initiated an audit of the contract covering emergency board-up services due to the potential fraud risk identified in our initial analysis of an April 2014 Fraud Hotline call. During an incident involving the Hotline caller, City safety personnel requested emergency board-up services to secure property as required by the Municipal Code. At the time of the request, the property owner was not available and when the contractor arrived at the property, the owner refused the board-up service. The owner was later billed \$289 for the subcontractor's travel time to and from the property, which is standard procedure. However, the time billed for travel appeared to be high because the primary contractor, Overland, Pacific & Cutler, Inc. (OPC), a Long Beach-based firm, subcontracted the emergency board-up service to a company based in Santa Ana, over 20 miles from Long Beach. The location of the subcontractor resulted in the higher travel time costs to the property owner.

As noted previously, the annual City expenditures for emergency board-up services are under \$100,000 annually, which from a financial risk perspective would be considered low. However, during our preliminary analysis of the hotline call we had concerns with the timing of the contract award, which was overseen by the Asset Management Bureau (Bureau), and the activity surrounding the use of subcontractors.

Our audit found four material issues concerning the OPC contract:

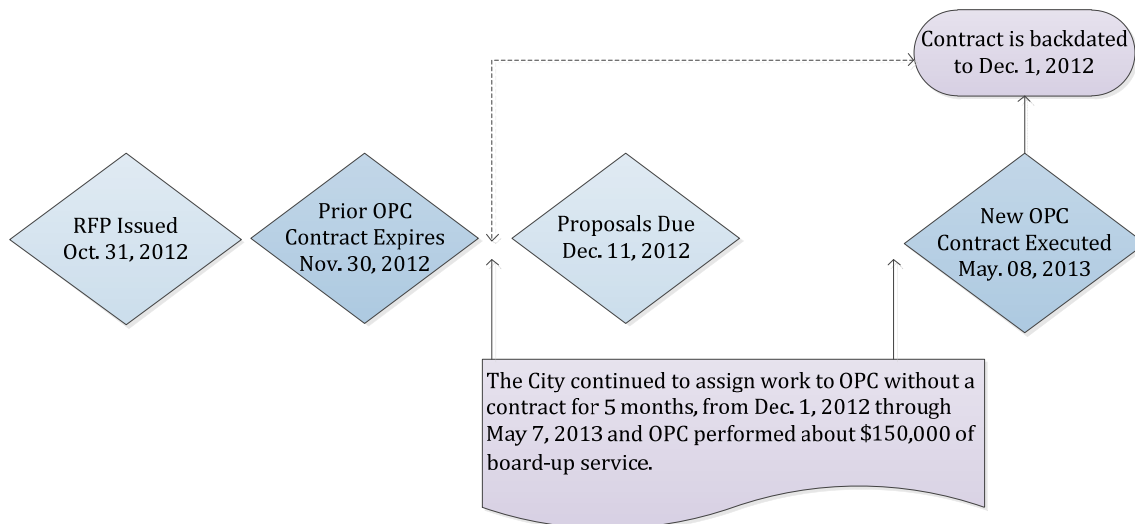
1. OPC was authorized to perform work without an executed contract.

2. The City did not properly vet the subcontractor used by OPC to ensure rates were reasonable, proper insurance was in place, and that the subcontractor was able to adequately perform the service.
3. Rates for emergency board-up service were allowed to increase only two months after the contract was executed even though the contract states rates cannot be increased during the first year.
4. The billing cycle from date of service to invoicing the property owner averages 218 days.

Finding 1. Work authorized without an executed contract

The City had a contract with OPC (#31511) that included emergency board-up services, which expired on November 30, 2012. As shown in Figure 2 below, a request for proposal (RFP) covering the same scope of work as the prior contract was issued on October 31, 2012, before the contract was set to expire. However, the responses to the RFP were still being accepted 11 days after the contract had expired.⁴

Figure 2. Timeline of Board-up Service Procurement and Lapsed Contract



Although it was known that a new contract would not be awarded before the existing contract expired, the Bureau elected not to extend the contract. The Bureau reasoned that the process for requesting an extension from City Council would take too long. However, the new contract for these services was not executed until May 8, 2013, six months after the RFP was issued. When the contract

⁴ According to the City, the original RFP was issued in July 2012, but was terminated due to technical problems with the bid system. It was re-released in August 2012, but was terminated again due to insufficient contract language. The final RFP was reissued in October 2012.

was executed in May 2013, the City backdated the contract five months to December 1, 2012 to coincide with the expiration of the prior contract.

Even though there was no extension of the contract, the Bureau continued to assign property management work, including emergency board-up services, to OPC during the period of December 1, 2012 through May 7, 2013. Approximately \$150,000 of work was performed by OPC while the new contract awaited execution. According to the Bureau, OPC was willing to continue performing the work, understanding that their payments would be delayed pending approval of a new contract.

On March 11, 2015, the City's evaluation of the RFP was complete and OPC was selected as one of the vendors to perform the property services work. In April 2013 (before the new contract was finalized), the Bureau decided to pay OPC for a portion of the outstanding work authorized after the expiration of the prior contract, totaling almost \$38,500. According to the Bureau, because there was money left on the prior contract's purchase order, the Procurement Manager in the Financial Management Department authorized the purchase order to be re-opened on April 17, 2013 to allow payment by resetting the purchase order expiration date to April 30, 2013.

City procurement guidelines state that extending a term of a contract or purchase order is an "exception to policy" and requires the City Manager's approval to process. However, we could not find evidence that the approval was obtained. Without this approval, the Bureau violated City policy by having OPC perform work between the contract expiration date, November 30, 2012, and the contract approval date, May 8, 2013. Backdating the new contract to coincide with the prior contract's expiration date does not validate the situation, as the Bureau supposedly had no knowledge that OPC would eventually be selected as the winning vendor.

Recommendation 1:

When issuing an RFP, the City should allow for ample time to complete the procurement process. If this is not possible, the prior contract should be extended or an exception to policy should be approved to allow City services to continue uninterrupted. No work should be awarded or paid without proper authorization and in accordance with the City's procurement policies.

Finding 2. Subcontractors are not vetted by the City

According to the City's purchasing guidelines and purchase order general conditions, professional service contracts require among others, a competitive selection process, certain terms and conditions, and in some cases the submittal of a professional services background information sheet. These procedures are an important part of the City's duty to vet contractors who perform work for the City. However, we found that board-up service subcontractors are not vetted by the City, even when they perform 100% of the work directly.

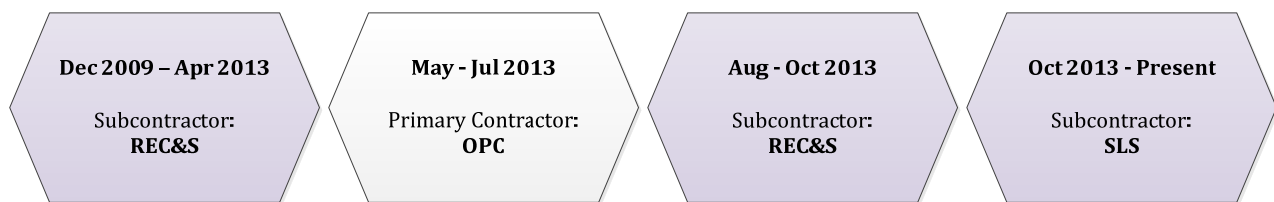
OPC submitted their proposal in response to the RFP issued in October 2012 and indicated that 100% of the emergency board-up service would be subcontracted to a third-party, Real Estate Consulting & Services, Inc. (REC&S), the same subcontractor performing the emergency board-up service under OPC's prior contract. When we questioned what qualifications the Bureau reviewed to determine

REC&S was qualified to perform the services, the Bureau indicated it has no fiduciary responsibility to vet third-party firms, such as verifying their business or contractor's license or insurance, and that the selection of subcontractors is left entirely to OPC.

Primary Contractor and Subcontractor have a Prior Relationship

In the first year of OPC's new contract, we saw multiple changes in the subcontractors assigned to board-up work, as depicted in Figure 3.

Figure 3. OPC Subcontractors Assigned to Emergency Board-up Work



According to the Bureau, REC&S abruptly quit in April 2013 because they were not getting paid timely. OPC was not paying REC&S as they were waiting on the new contract to be executed in order to receive payment from the City. In response to REC&S quitting, OPC performed the board-up work directly for approximately three months – May through July 2013. During this time, OPC informed the Bureau they lacked sufficient insurance to perform this type of work and that the cost of the insurance was prohibitive. It is unclear why a large firm such as OPC could not obtain needed coverage when supposedly a smaller firm such as REC&S could. Because the Bureau does not vet subcontractors, they did not verify insurance of REC&S.

Lacking insurance, OPC again subcontracted to REC&S starting in August 2013, but it only lasted a few months. In October 2013, OPC began subcontracting to SLS Property Solutions, Inc. (SLS). When questioned why these changes occurred, we were told by the Bureau that OPC preferred working with one of the owners of REC&S, and when that person disassociated himself from REC&S in September 2013, OPC stopped assigning the work to REC&S and hired SLS. We were able to determine that person is also a partial owner of SLS and is a former employee of OPC.

Due to the change in vendors and prior relationship between the prime and the subcontractor, we attempted to verify the business locations of REC&S and SLS.

We found an active business for REC&S at the address listed on their invoices. When we went to the business address confirmed by the owner of SLS, which is around the corner from REC&S, we found a dual-purpose building with a residence upstairs and retail downstairs. The address provided by the owner of SLS was for the retail storefront; however, there did not appear to be an active business at this site as there was no signage and paper was covering the glass door, as shown in Picture 1. We could not locate any trucks, materials or equipment to support the operations and were unable to determine where they may be located.

Picture 1: Business Location of SLS Property Solutions, Inc.



Insufficient Survey of Competitive Subcontractors

Around the time when OPC stated they did not have the proper insurance to perform board-up services, OPC performed a survey of a small number of potential board-up companies for the purpose of identifying a reliable subcontractor. We obtained and reviewed OPC's survey and found it did not demonstrate that a thorough effort was made to find a third-party contractor in or around the City of Long Beach (which would reduce travel costs billed to property owners). Specifically:

- The survey was not dated, signed, or validated in anyway
- There was no criteria as to what was required for the vendor to be qualified.
- Of the seven vendors listed on the survey, OPC stated they were only able to obtain information from two of them,
- For the vendors listed, there was no information concerning business phone numbers, a physical address, or website.

The Bureau states that it is difficult to find a Long Beach-based company that can provide emergency board-up service on a 24/7 basis. We performed a survey of surrounding cities and local insurance companies to determine which companies were being used. We also performed independent research to identify other sources. We were able to find and obtain rate and service information for seven board-up companies within Long Beach or in the vicinity that perform board-up work and offer 24/7 service. OPC's survey included three of the vendors from our list, but OPC stated they were unable to obtain any information from these vendors.

Of the seven vendors on our list, three of them were already performing board-up services for surrounding cities. Any travel time costs charged by these companies would be less due to their proximity to Long Beach. The City of Los Angeles (LA) has successfully contracted with a firm in

Compton, California that performs emergency board-up service directly. The contract is narrowly scoped and provides board-up service and debris clean up only.

The contract includes a minimum flat rate of \$200 plus the cost of material. Based on a review of sample OPC invoices, we found that board-up service calls took an average of three hours. As shown in Table 2, at contract rates per shift, charges would range from a minimum of \$211 to \$421 plus materials, compared to the flat rate of \$200 plus materials charged by the company contracted by the City of LA.

Table 2. Emergency Board-up Service Rates Compared, OPC vs. City of LA Contract

		Mon - Fri 0700-1530	Mon - Fri 1530-1930	Mon - Mon 1930-0700
OPC's Subcontractor Rates	Hourly Rate**	\$65.50	\$98.25	\$131.00
-Labor rate, port-to-port*	Est. Total*	\$211	\$316	\$421
City of Los Angeles Contract Rates				
-Minimum \$200 plus material, labor included	Minimum**	\$200	\$200	\$200
* Based on OPC's average time billed.				
** Does not include the cost of material.				

In addition, the City of LA's contract language regarding the use of subcontractors is more specific, providing for a more transparent assignment. For example, the contract states that when a subcontractor is used, the primary contractor is required to submit subcontractor information such as business tax registration and contractor license number, and the City may require the primary to submit proof that the subcontractor's work is performed at competitive prices based on the lowest of at least three competitive bids.

The potential for fraud increases when the Bureau does not vet subcontractors, leaving the primary contractor to make the sole selection. In this case, OPC has a prior relationship with the subcontractor. The Bureau acknowledges that none of the firms included in OPC's survey were selected, and the company that was selected, SLS, was not included in the survey. Moreover, benchmarking shows there are other businesses closer to Long Beach than Santa Ana that appear viable to perform board-up work.

Recommendation 2:

The Bureau should determine if SLS is actually performing the board-up work or subcontracting to another party. In addition, the Bureau needs to establish a process to vet critical components associated with the use of a subcontractor to ensure the subcontractor is viable and competitive, which will improve transparency and reduce the potential of fraud. In addition, the Bureau should verify the subcontractor has proper insurance to reduce the potential for liability.

Finding 3. Contractor rates increased only two months after the contract was executed

According to OPC's contract terms and conditions, contract rates would be increased by five percent annually beginning one year after the date of execution or in May 2014. However, we found that rates for the board-up services were increased in July 2013, only two months after the contract was executed. As shown in Table 3, the rates for labor and material had already increased 5 percent and up 10 percent, respectively, with the new contract. The rate change two months after the new contract was executed resulted in labor rates going up another 5.7 percent and material by as much as 65 percent.

Table 3. Executed Contract Rates and Subsequent Rate Change

	Prior Contract Rates, thru Nov 2012	Executed Contract Rates, Eff. May 2013	% Change	Unauthorized Rate Change, Jul 2013	% Change
Labor, hourly, port-to-port					
Monday - Friday, 0700-1530	\$ 59.50	\$ 62.48	5.0%	\$ 65.50	4.8%
Monday - Friday, 1530-1930	88.50	92.93	5.0%	98.25	5.7%
Friday - Saturday, 1930-0700	119.00	124.95	5.0%	131.00	4.8%
OPC Emergency Coordination					
Minimum 1.0 hour	120.00	120.00	0.0%	120.00	0.0%
Minimum 0.5 hour for cancelled calls	0.00	60.00	-	60.00	0.0%
Materials*					
1/2" 4'x8' OSB Plywood, per sheets used	12.00	13.20	10.0%	18.00	36.4%
2'X4'X10' Douglas Fir, per stick used	4.00	4.40	10.0%	6.50	47.7%
Hasp for Pad Lock	7.00	7.46	6.6%	9.25	24.0%
#12 - 1 1/2" Self Tapping Hex Head Screw, per pound	7.50	8.18	9.1%	12.00	46.7%
#12 - 2" Self Tapping Hex Head Screw, per pound	7.50	8.18	9.1%	12.00	46.7%
3" Self Tapping Screw, per pound	0.00	8.50	-	14.00	64.7%
*Partial list					

According to the Bureau, this contract rate stipulation only applies to the primary contractor and not its subcontractors, and a subcontractor can change their rates at any time with approval by the City. Staff indicated that when a primary contractor desires to subcontract a job, they submit to the Bureau multiple cost proposals from potential firms. The Bureau then reviews the proposals and selects a subcontractor to do the work. However, this scenario would not apply to emergency board-up services as only one subcontractor is awarded 100 percent of the work. Competitive pricing is never obtained. The subcontractor's rates were included in the RFP response by OPC, but the Bureau elected to increase the rates and could not provide a reason why the increase was warranted.

The increase in subcontractor rates coincided with the return of REC&S to perform the emergency board-up services in August 2013. The arbitrary increase of rates, timing of the increase, the Bureau's lack of involvement in selection of the subcontractor, and the known past relationship between the

primary contractor and subcontractor creates a high risk of fraud and, if fraud were occurring, would likely go undetected in this situation.

Recommendation 3:

When it is known that a primary contractor intends to subcontract 100 percent of a project or on-going service, the RFP response should include subcontractor pricing and be subject to the same terms as the primary contractor.

Finding 4. Billing cycle averages 218 days

As stated previously, the City incurs an average expense of about \$86,000 annually on behalf of property owners for board-up service. Therefore, timely and accurate processing of vendor invoices and property owner billings are necessary to improve the rate of reimbursement the City receives from property owners. We evaluated the billing cycle for board-up service, which includes four steps as shown in Table 5 below. The cycle starts when the job is initiated. The subcontractor bills OPC who invoices the City. The Bureau reviews the invoice, submits payment to OPC, and processes an invoice to the property owner. We found the full cycle averages 218 days, as shown in Table 4.

Table 4. Board-up Service Billing Cycle

Billing Cycle Steps		Average # of Days
1	Subcontractor to Bill OPC	11
2	OPC to Bill the City	59
3	City Pays OPC	66
4	City Bills the Property Owner	82
Total		218

Based on the invoices we reviewed, it takes OPC over two months to send a bill to the City, including the time for the subcontractor to bill for the work. Per the Bureau, emergency board-up service for private property is a small part of the contractor's scope of work and may be the reason for the delayed invoices.

Once it receives the invoice, the City, on average, takes almost five months to bill the property owner. According to the Bureau, this task is a low priority in the Bureau's day-to-day responsibilities. In addition, it takes time to determine and verify property owner information through public documents, the Police or Fire incident reports, and GIS mapping.

Even with this extended billing cycle, the collection rate for emergency board-up service costs was 78% for the invoices we reviewed. This high rate of reimbursement is likely due to insurance companies often covering the cost of board-up service. However, we found that the Bureau does not receive status reports from the Billing & Collections section of Financial Management on outstanding or unpaid board-up accounts. Therefore, it is unclear how unpaid accounts are resolved.

Recommendation 4:

Reduce the billing cycle time by establishing contract language that requires invoicing from the contractor to the City within 45 days of service. Staff should set a guideline of another 45 days from receipt of invoice to billing the property owner. Lastly, Billing & Collections should send accounts receivable reports at least quarterly to the Asset Management Bureau with information on collection efforts and outstanding accounts.

Management Response

Management's response begins on the following page.



CITY OF LONG BEACH

DEPARTMENT OF ECONOMIC AND PROPERTY DEVELOPMENT

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April 9, 2015

To the Office of the City Auditor:

The Department of Economic and Property Development (Department) welcomes the oversight of the Office of the City Auditor (Auditor). As a result of the Emergency Board-Up Services Contract Audit (Audit), the Auditor issued 4 recommendations. The Department appreciates this opportunity to offer perspective and comment.

As background, emergency board-up services is a function assigned to the Department of Public Works as required under the Municipal Code. As part of significant budget and staffing reductions during the Great Recession, board-up services was outsourced as a budget reduction measure. Since there was no opportunity to conduct a competitive bidding process specifically for board up services, the function was assigned to an existing property management vendor, Overland Pacific and Cutler (OPC), who agreed to be the contract agent for this work. OPC agreed to minimal compensation (\$120 for administrative oversight of a board-up service or \$60 for administrative services related to a canceled call) for being the contract agent and identified a sub-contractor to directly handle the service. Without this cooperation, the City would have been unable to provide uninterrupted as-needed emergency board up services.

The Department, as time permits, intends to issue an RFP for emergency board-up services to ensure competitive rates, reliable and quality services and eliminate contract agent oversight costs.

Finding 1. Work authorized without an executed contract

Recommendation 1:

When issuing an RFP the City should allow for ample time to complete the procurement process. If this is not possible, the prior contract should be extended or an exception to policy should be approved to allow City services to continue uninterrupted. No work should be awarded or paid without proper authorization and in accordance with the City's procurement policies.

The Department acknowledges that work was authorized under an expired contract. Mitigating circumstances, as mentioned in footnote 4 of the Audit, involve mandated changes to RFP language that required modification to the 1st RFP, which was issued on June 7, 2012 well in advance of the contract expiration date. This RFP was then re-issued August 29, 2012. Similarly, this 2nd RFP was also required to be modified and was re-issued October 30, 2012, critically near the expiration date of the contract. When the new contract was brought to City Council for approval on May 7, 2013, the contract was made effective as of the expiration date of the previous contract, as clearly stated in the City Council letter and which was approved as to form by the City Attorney.

While not an excuse, issues beyond the control of the Department can, at times, interfere with standard practice and protocol, creating untenable scenarios. As the services being provided are indeed emergency services, atypical action was required to protect public safety. Extending the expiring contract was an option that should have been pursued in parallel with efforts to authorize a new contract. The Auditor's recommendation is well noted.

Finding 2. Subcontractors are not vetted by the City

Recommendation 2:

The Bureau should determine if SLS is actually performing the board-up work or subcontracting to another party. In addition, the Bureau needs to establish a process to vet critical components associated with the use of a subcontractor to ensure the subcontractor is viable and competitive, which will improve transparency and reduce the potential of fraud. In addition, the Bureau should verify the subcontractor has proper insurance to reduce the potential for liability.

The Department maintains that it confirmed proper license and insurance for both the general contractor and subcontractor. Indeed, it was the issue of insurance that resulted in the rapid change in service providers, as detailed in the Audit. The question is raised as to why OPC was unable to obtain needed insurance coverage when smaller firms could. OPC advises that the insurance coverage they would need to buy would cover their entire business operations and were completely out of proportion to the minimal service fee they received. A smaller company is able to insure far fewer employees, resulting in a much smaller premium.

While the Department agrees that thorough vetting is ideal, it may not always be practical, particularly regarding services that generate invoices less than \$100,000 per year.

As mentioned earlier, rather than subcontracting for emergency board-up services, a separate competitive RFP process for these services would serve to address many of the Auditor's concerns.

Finding 3. Contractor rates increased only two months after the contract was executed

Recommendation 3:

When it is known that a primary contractor intends to subcontract 100 percent of a project or on-going service, the RFP response should include subcontractor pricing and be subject to the same terms as the primary contractor.

The Department concurs with the Auditor's finding and recommendation. While in practice this recommendation will require more time - intensive review, in principle, it is in the best interest of the City and its residents.

Finding 4. Billing cycle averages 218 days

Recommendation 4:


Reduce the billing cycle time by establishing contract language that requires invoicing from the contractor to the City within 45 days of service. Staff should set a guideline of another 45 days from receipt of invoice to billing the property owner. Lastly, Billings & Collections should send accounts receivable reports at least quarterly to the Assess Management Bureau with information on collection efforts and outstanding accounts.

The Department acknowledges the protracted billing cycle. The City processes the payment to the contractor on an average of 66 days. The Department believes this is reasonable in light of the workload it manages. However, 82 days, on average, to confirm with the requesting Department that the service was requested, secure ownership and mailing information regarding the property involved, and transmitting the information to Billings & Collection, is unreasonably long. The Department will work to reduce that time frame to mirror the 60-day timeframe of the prior steps. The Department welcomes accounts receivable reports from Billings & Collections, although the Department does not have a role in that effort.

The Department applauds the 78% collection rate by Billings & Collections.

Conclusion

The Department appreciates the time and effort of the Office of the City Auditor. The Audit presents opportunities for the Department to improve, and as such, the Department welcomes the Findings and Recommendations.



Michael P. Conway
Director