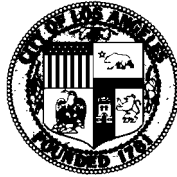


CITY OF LOS ANGELES
CALIFORNIA

DEPARTMENT OF
GENERAL SERVICES

TONY M. ROYSTER
INTERIM GENERAL MANAGER AND
CITY PURCHASING AGENT

OFFICE OF
PURCHASING AGENT
ROOM 110, CITY HALL SOUTH
111 EAST FIRST STREET
LOS ANGELES, CA 90012



ANTONIO R. VILLARAIGOSA
MAYOR

RECEIVED MAY 27 2009

May 21, 2009

Rushmore D. Cervantes, Acting City Controller
Office of the City Controller
200 North Main Street, Room 300
Los Angeles, California 90012

ATTENTION: Farid Saffar
Director of Auditing

RESPONSE TO AUDIT REPORT—SC FUELS CONTRACT REVIEW

In reference to your audit report dated May 12, 2009 for the SC Fuels Audit, contract #58601, the City of Los Angeles continues to ensure that this contract is managed and carried out in a consistent manner and that the contractor complies with contract requirements. The following are our responses to each of these findings:

Finding #1: Freight Charges More than the Contract's Stated Allowable Adjustment.

Response: We concur with this finding. As stated in your report, the original freight rate has been restored effective May 1, 2009. We will: 1) continue to monitor diesel prices and consider the impact of volatility in freight rates when considering adjustments for delivery charges; 2) look into the feasibility of applying a fuel surcharge that is tied to the variable cost of diesel fuel to accommodate suppliers' requests for increases, and; 3) review freight rates and, where appropriate, renegotiate for sites with higher than anticipated usage.

Finding #2: No Reliable Method to Validate Quantity of Fuel Delivered.

Response: We will inform site personnel on proper procedures of accepting fuel. However, we do not agree with the finding that there is no reliable method to validate quantity of fuel delivered. In addition to the manifest and the stick gauge readings from the vendor, we have installed the Fuel Automation System (FAS) that automatically provides a printed report called the "Fuel Receipt by Site Report" each time fuel is offloaded to a tank to further confirm that the correct amount of fuel is delivered to a City site.

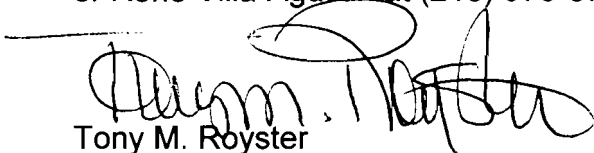


In a small number of cases, there may be instances where City staff is not available or present for the delivery of fuel. These cases mostly apply to Fire Stations and Recreation and Parks Yards where Fire personnel are out on a call or Yard personnel are out maintaining the parks. Although these instances are the exception, we have no other choice than to pay these invoices absent the site personnel's acknowledgement of delivery signature.

Finding #3: Contract Oversight and Quality Assurance.

Response: It was noted that periodic laboratory testing is not cost-effective. As already stated in your report, we will amend the language on the renewal of the contract to remove the word "periodic," as testing should only be done as needed. There also seems to be some confusion between performance reviews and performance hearings, the latter of which is complaint-driven. We will look into revising the language for performance reviews to state that they will be conducted as needed or on a regular basis only for the larger contracts.

Should you need additional information, please contact Alfred Lopez at (213) 928-9520 or Rene Villa-Agustin at (213) 978-3795.



Tony M. Royster
General Manager and City Purchasing Agent
General Services Department