

Internal Audit Department

O R A N G E County in the USA
6th Largest County in the USA

FINAL CLOSE-OUT

FIRST FOLLOW-UP INTERNAL CONTROL & COMPLIANCE AUDIT:

OC PUBLIC WORKS BID & PROPOSAL PROCESSES

AS OF APRIL 30, 2015

Our First Follow-Up Audit found that OC Public Works has implemented the three (3) recommendations from our original audit report dated February 19, 2014.

We audited OC Public Works' bid & proposal processes for public works and A-E service contracts that exceeded \$1 million when awarded to determine compliance with the County's Contract Policy Manual and OC Public Works' policies and procedures. During the original audit period, 15 public works contracts totaling \$144 million and 16 A-E service contracts totaling \$39 million were awarded between July 1, 2009 and June 30, 2012.

AUDIT NO: 1225A-F1
(REFERENCE 1429)
ORIGINAL AUDIT NO. 1225-A

REPORT DATE: JUNE 24, 2015

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RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach

 ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010, 2013

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1225A-F1 June 24, 2015

TO: Shane Silsby, Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: **First and Final Close-Out** Follow-Up
Internal Control & Compliance Audit:
OC Public Works Bid & Proposal Processes,
Original Audit No. 1225-A,
Issued February 19, 2014

We have completed a First and Final Close-Out Follow-Up Internal Control & Compliance Audit of OC Public Works Bid & Proposal Processes. Our audit was limited to reviewing, as of April 30, 2015, actions taken to implement the **three (3) recommendations** from our original audit report. We conducted this First Follow-Up Audit in accordance with the *FY 14-15 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. We are pleased to report that our First Follow-Up Audit found that OC Public Works has **implemented the three (3) recommendations** from our original audit report. **As such, this report represents the final close-out of the original audit.**

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 3.

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Audit No. 1225A-F1*

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OC Internal Auditor's Report



Audit No. 1225A-F1

June 24, 2015

TO: Shane Silsby, Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: **First and Final Close-Out** Follow-Up Internal Control & Compliance Audit:
OC Public Works Bid & Proposal Processes, Original Audit No. 1225-A
Issued February 19, 2014

Scope of Review

We have completed a First Follow-Up Audit of OC Public Works (OCPW) Bid & Proposal Processes. Our audit was limited to reviewing actions taken, as of April 30, 2015, to implement the **three (3) recommendations** from our original audit report.

Background

Our original audit included evaluating selected processes, policies and procedures pertaining to bids & proposals for public works and architect-engineering (A-E) service contracts that exceeded \$1 million when awarded, including the Request for Proposal process; conducting limited testing of contract awards for compliance with selected County's Contract Policy Manual and OCPW policies and procedures; and evaluating associated process efficiencies and effectiveness. During the original audit period, **15 Public Works contracts totaling \$144 million and 16 A-E Service contracts totaling \$39 million** were awarded between July 1, 2009 and June 30, 2012.

Our audit identified **three (3) Control Findings** where OCPW could enhance their controls to ensure ongoing compliance with the County's Contract Policy Manual including formalizing their delegated responsibility and technical qualifications for the staff assigned to procure public works contracts and providing additional central oversight by OCPW/Administrative Services.

Subsequent to our original audit, the Board of Supervisors (BOS) approved the OCPW restructuring plan effective July 1, 2014. The plan included centralizing department-wide procurement activities to Procurement Service within OCPW/Administrative Services. In January 2015, the BOS approved to delegate authority for the procurement of all County A-E and Public Works construction contracts to either the Director of OC Public Works, Sheriff-Coroner, or the Director of John Wayne Airport, or their designees, and approved OCPW's 2015 Design and Construction Procurement Policy Manual, which contains standardized policies and procedures over these types of contracts. Due to these recent changes, we conducted our follow-up audit based on the new organizational structure, and used the 2015 Design and Construction Procurement Policy Manual, in addition to the County Contract Policy Manual, as a guideline.

Results

Our First Follow-Up Audit indicated OCPW has **implemented all three (3) recommendations**. Based on our First Follow-Up Audit, the following is the implementation status of the three (3) original recommendations:



1. Memorandums of Recommendation (Summary Scoring Sheets) Missing Required Evaluation Committee Signatures

OC Public Works ensure Memorandums of Recommendation for proposals are signed by the entire evaluation committee and made part of the contract file as required by the Contract Policy Manual.

Current Status: **Implemented.** We found that OCPW Procurement Services conducts monthly Procurement Team meetings and communicated the requirement that all evaluation committee members are required to sign the Memorandums of Recommendation (summary scoring sheets). These requirements are also stated in newly created Design and Construction Procurement Policy Manual.

We selected three public works contracts and reviewed the corresponding Memorandums of Recommendation to evaluate if they were signed by all evaluation committee members and were made part of the contract file. Our testing found that all evaluation committee members signed the Memorandums of Recommendation and no exceptions were noted. Because OCPW took corrective action and enhanced its process to ensure compliance in this area, we determined that this recommendation has been implemented.

2. Need to Formalize the Required Qualifications for Employees Appointed to Procure Public Works Contracts

OC Public Works establish the requirements and qualifications for staff assigned the primary role for procuring Public Works contracts and retain evidence that staff assigned this role meet these qualifications in order to facilitate a subsequent review from either OCPW Administration or a third party such as Internal Audit.

Current Status: **Implemented.** The recent OCPW restructuring plan, effective on July 1, 2014, significantly changed its divisions. The plan included centralizing department-wide procurement activities under OCPW/Administrative Services to increase consistency and balance workload between procurement of goods and services, architect-engineering services and public works construction contracts. Procurement Services is a work unit within Administrative Services and consists of 35 positions responsible for procurement of commodities & services, public works and architect-engineering contracts.

Further, on January 27, 2015, the BOS adopted Resolution No. 15-004 to delegate authority to the Director of OC Public Works, Sheriff-Coroner, and Director of John Wayne Airport, or their designees to enter into architect-engineering (A-E) service contracts and public works contracts on behalf of all County departments and the OC Flood Control District up to the limits set by State Law. In addition, the BOS approved the 2015 Design & Construction Procurement Policy Manual (DCP) and authorized the Director of OC Public Works or designee to execute and implement the DCP.

The 2012 Contract Policy Manual does not require Deputy Purchasing Agents (DPAs) to be primarily responsible for procuring Public Works contracts. Instead, OCPW division personnel with knowledge of the project's statutory and technical requirements have the primary role. As part of the approved restructuring plan, all A-E and public works contracts will go through OCPW/Procurement Services, which has DPAs that will be overseeing these procurements. DPAs receive trainings on procurement principles, best practices and County policies and will add benefit to the process. However, because public works contracts require special technical knowledge, OCPW/Procurement Services will continue to work with end-users/subject-matter experts in the various divisions and in other County departments/agencies.



Based on the recent reorganization, the procurement of A-E service and public works contracts is now centralized under OCPW/Procurement Services. OCPW/Procurement Services is staffed with DPAs and will continue to use technical knowledge experts as needed. Because of these actions taken, we determined that this recommendation has been implemented.

3. **Limited Oversight and Monitoring by OCPW/Administrative Services**

OC Public Works evaluate whether Administrative Services should provide additional monitoring and oversight of the bid & proposal process for Public Works and A-E Service contracts.

Current Status: Implemented. The restructuring of OCPW in July 2014 centralized procurement services for County public works and A-E service contracts to Procurement Services, within OCPW/Administrative Services. This action results in providing oversight of the bid & proposal process for public works and A-E service contracts. Because of the actions taken by OCPW, we determined that this recommendation has been implemented.

We appreciate the assistance extended to us by OC Public Works personnel during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Michael Goodwin, Assistant Director/Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Randi Dunlap, Administrative Manager II, Centralized Quality Assurance/OCPW
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