

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

FINAL CLOSE-OUT

FIRST FOLLOW-UP INTERNAL CONTROL & COMPLIANCE AUDIT:

OC PUBLIC WORKS SOLE SOURCE CONTRACTS

AS OF OCTOBER 24, 2014

Our First Follow-Up Audit found that OC Public Works implemented all four (4) recommendations from our original audit report dated February 19, 2014.

We audited OC Public Works' sole source contracts to ensure compliance with the County's Contract Policy Manual and OC Public Works' policies and procedures. OCPW/Procurement Services awarded twenty-three (23) purchase order sole source contracts totaling \$941,000, and thirty-five (35) master agreement sole source contracts totaling \$2.7 million during the original three-year audit period.

AUDIT No: 1225-C-F1
(REFERENCE 1429)
ORIGINAL AUDIT No. 1225-C

REPORT DATE: DECEMBER 30, 2014

Director: Dr. Peter Hughes, MBA, CPA, CIA
Assistant Director/Senior Audit Manager: Michael Goodwin, CPA, CIA
Audit Manager: Winnie Keung CPA, CIA

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. 1225-C F1 December 30, 2014

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 Sole Source Contracts, Original Audit No.1225-C, Issued February 19, 2014

We have completed a First and Final Close-Out Follow-Up Internal Control & Compliance Audit of OC Public Works Sole Source Contracts. Our audit was limited to reviewing, as of October 24, 2014, actions taken to implement the **four (4) 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 all four (4) 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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OC Public Works Sole Source Contracts
Audit No. 1225-C-F1*

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OC Internal Auditor's Report



Audit No. 1225-C-F1

December 30, 2014

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 Sole Source Contracts, Original Audit No. 1225-C, Issued
February 19, 2014

Scope of Review

We have completed a First Follow-Up Audit of OC Public Works (OCPW) Sole Source Contracts. Our audit was limited to reviewing actions taken, as of October 24, 2014, to implement the **four (4) recommendations** from our original audit report.

Background

We conducted an Internal Control & Compliance Audit of OCPW's sole source contracts that included evaluating internal controls over sole source contract procurements; determining compliance with the County's Contract Policy Manual and OCPW policies and procedures; and evaluating process efficiencies and effectiveness. The County's policy is to solicit competitive bids and proposals for its procurement requirements. Sole source procurements should only be used when there is clear and convincing evidence that only one source exists to fulfill the County's requirements. During the original three-year audit period, OCPW awarded **twenty-three (23) purchase order sole source contracts totaling \$941,000, and thirty-five (35) master agreement sole source contracts totaling \$2.7 million.** Subsequent to our original audit, OCPW issued **four (4) sole source contracts** and purchase orders totaling **\$199,500.**

Results

Our First Follow-Up Audit found that OCPW has **implemented all four (4) recommendations.** As such, this report represents the **final close-out of the original audit.** Based on our First Follow-Up Audit, the following is the implementation status of the four (4) original recommendations:

1. **Missing Sole Source Justification Forms (Control Finding)**

OC Public Works ensure procedures are in place to ensure Sole Source Justification Forms are prepared and approved prior to sole source contract approval.

Current Status: Implemented. Our First Follow-Up Audit found that OCPW developed a new procurement operating procedures for Sole Source and Proprietary Requests that went into effect in October 2014. Along with the establishment of the new procedures, a checklist was developed to guide and assist OCPW Procurement staff to be in compliance with the newly established procedures. All OCPW/Procurement staff were informed of the new operating procedures and checklist requirement.

Based on our review of the new procedures, OCPW has established adequate procedures for sole source and proprietary requests to ensure Sole Source Justification Forms are prepared and approved prior to sole source contract approval. In addition, we found the checklist is an effective tool that will enhance controls over the Sole Source contract requisition process in OCPW.



In our First Follow-Up Audit, we tested **three (3) sole source contracts** totaling **\$193,695** and found each had a Sole Source Justification Form included. Since OCPW has established written procedures for sole source and proprietary requests to ensure Sole Source Justification Forms are prepared and approved, and we found no exceptions in our testing, we determined the recommendation has been implemented.

2. **Sole Source Justification Criteria Not Clearly Explained** (Control Finding)

OC Public Works ensure that sole source justification is clearly explained for researching and comparing vendor's prices or fees to determine if they are offered within market guidelines for comparable services and supplies.

Current Status: **Implemented.** Our First Follow-Up Audit found that OCPW developed a new procurement operating procedures for Sole Source and Proprietary Requests that went into effect in October 2014, along with the establishment of a new checklist. The new procedure addresses documentation requirements when comparable services/items are available in the general market. OCPW Procurement now ensures that additional explanation or quotes for comparable services/items are provided by the requesting division/end-user, which is also noted on the new checklist.

We tested **three (3) sole source contracts totaling \$193,695** to determine if there was adequate explanation or quotes for comparable services documented on the Sole Source Justification Forms. Based on our testing, we noted that that the sole source justification explained and/or compared vendor's prices to determine if they are offered within market guidelines for comparable services and supplies. Since OCPW has established a written procedure for sole source and proprietary requests for researching and comparing vendor's prices or fees to determine if they are offered within market guidelines for comparable services and supplies, and we found no exceptions in our testing, we determined the recommendation has been implemented.

3. **Sole Source Contract Authorization Forms** (Control Finding)

OC Public Works evaluate converting their existing manual Authorized Signature Lists for sole source authorization to the CAPS+ Access Request Forms, and establish policies and procedures to update the Access Request Forms in a timely manner when an employee's duties and responsibilities change.

Current Status: **Implemented.** Our original audit found that OCPW was using manual Authorized Signature Lists to document individuals authorized to process, review and approve contract procurements and payments instead of using CAPS+ Access Request Forms (ARFs). In our First Follow-Up Audit, we were informed that on June 24, 2014, the Board of Supervisors approved the restructuring of the OCPW, effective July 1, 2014. The reorganization plan included centralizing department-wide procurement activities to Administrative Services and consolidating the existing divisions into ten service areas.

OCPW started the ARF update conversion project in July 2014 and identified about 96 employees with CAPS+ signature authority permissions and manual duties that needed to be converted. OCPW/Centralized Quality Assurance is overseeing the conversion project. In October 2014, the Auditor-Controller implemented a CAPS+ Access Request Application (ARA) for identifying user roles in various County business areas, including procurement. ARA replaces the paper-based CAPS+ ARFs. OCPW modified their ARF conversion project to meet the new ARA requirements.



As of December 2014, there were 19 OCPW employees remaining to be updated in ARA, and OCPW anticipates having the entire project completed by the end of January 2015.

It should be noted that the Sole Source/Proprietary Request Form is a manual document that is not workflowed in CAPS+ for approval. Instead, OCPW developed a new procurement operating procedure for Sole Source and Proprietary Requests that went into effect October 2014. The new procedure requires approval from the OCPW Director for all Sole Source/Proprietary Request Forms. OCPW Executive Managers shall sign only in the Director's absence. All OCPW Procurement staff were informed of the new operating procedure and requirements.

Because OCPW has undertaken a comprehensive project for identifying and updating approval roles in CAPS+ and has established a written procurement operating procedure to address the approval of the Sole Source/Proprietary Request Form, we determined that this recommendation has been implemented.

4. **County Procurement Office Approval Not Obtained (Control Finding)**

OC Public Works establish policies and procedures to ensure contracts exceeding \$50,000 are properly forwarded in Bidsync for County Procurement Office approval.

Current Status: Implemented. In our original audit, we found one (1) sole source contract exceeding \$50,000 that was not submitted to the CPO via Bidsync for review and approval as required by the Contract Policy Manual. Our First Follow-Up Audit found that the new procurement operating procedure and checklist requires all sole source contracts exceeding \$50,000 to obtain approval from County Procurement Office via Bidsync. Of the three sole source contracts we tested, only one exceeded \$50,000. We found this contract was submitted to the County Procurement Office for review and approval via Bidsync.

Since OCPW developed internal procedures and checklists to ensure sole source contracts exceeding \$50,000 are submitted to the County Procurement Office for review and approval, and our testing disclosed no exceptions, 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:

Members, Board of Supervisors
Members, Audit Oversight Committee
Michael B. Giancola, County Executive Officer
Mark Denny, Chief Operating Officer
Jessica O'Hare, Assistant to the Chief Operating Officer
Robyn Uptegraff, Assistant Director, OCPW
Mary Fitzgerald, Director, Administrative Services, OCPW
Allegra Pajot, Compliance Services Manager, Centralized Quality Assurance, OCPW
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors
Macias Gini & O'Connell LLP, County External Auditor