

Internal Audit Department

O R A N G E C O U N T Y

FIRST FOLLOW-UP AUDIT:

AUDIT ALERT: COUNTY PROCUREMENT OFFICE POLICY ON SOLE SOURCE CONTRACTS

ORIGINAL AUDIT No. 2766-5

AS OF FEBRUARY 15, 2009

The County Procurement Office successfully implemented corrective action for three of four of our audit recommendations. The one remaining recommendation is still in development.

The original Audit Alert contained four (4) recommendations to strengthen the policy over the County's sole source contracting.

AUDIT NO: 2829-L
REPORT DATE: MARCH 11, 2009

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Letter from Dr. Peter Hughes



Transmittal Letter



Audit No. 2829-L March 11, 2009

TO: Ron Vienna, County Purchasing Agent
County Procurement Office

FROM: Dr. Peter Hughes, CPA
County Internal Auditor

SUBJECT: First Follow-Up Audit: Audit Alert –
County Procurement Office
Policy on Sole Source Contracts,
Original Audit No. 2766-5,
Issued July 17, 2008

We have completed a First Follow-Up Audit of the Audit Alert issued to the County Procurement Office regarding Policy on Sole Source Contracts. Our audit was limited to reviewing, as of February 15, 2009, actions taken to implement the four (4) recommendations made in our original Audit Alert.

The results of our Follow-Up Audit are discussed in the **OC Internal Auditor's Executive Report** following this transmittal letter. Because there is one recommendation pending implementation, we have attached a *Second Follow-Up Audit Report Form*. Your department should complete this template when our audit recommendation is implemented. When we perform our Second Follow-Up Audit, we will need to obtain the completed document to facilitate our review.

Each month I submit an **Audit Status Report** to the Board of Supervisors (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.

Attachment

Other recipients of this report listed on the **OC Internal Auditor's Executive Report** on page 4.

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Audit Alert – County Procurement Office
Policy on Sole Source Contracts
(Original Audit No. 2766-5)
Audit No 2829-L*

As of February 15, 2009

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OC Internal Auditor's Executive Report



Audit No. 2829-L

March 11, 2009

TO: Ron Vienna, County Purchasing Agent
County Procurement Office

FROM: Dr. Peter Hughes, CPA 
County Internal Auditor

SUBJECT: First Follow-Up Audit: Audit Alert – County Procurement
Office, Policy on Sole Source Contracts, Original Audit No.
2766-5, Issued July 17, 2008

Scope of Review

We have completed a First Follow-Up Audit of the Audit Alert issued to the County Procurement Office regarding Policy on Sole Source Contracts. Our audit was limited to reviewing, as of February 15, 2009, actions taken to implement the four (4) recommendations made in our original Audit Alert.

Background

In November 2007, the County's Audit Oversight Committee (AOC) directed the Internal Audit Department to audit expenditures incurred by Sheriff-Coroner Administration. We conducted a Compliance Audit of Sheriff-Coroner Administration Sole Source Procurements and Related Contract Payments (see audit report #2766-4). During the course of that audit, we noted issues regarding the County's *Contract Policy Manual* on sole source contracts. We reported the issues to the County Procurement Office in the aforementioned Audit Alert.

Results

The original Audit Alert contained four (4) recommendations to strengthen the policy over the County's sole source contracting. The County Procurement Office successfully implemented corrective action for three of four of our audit recommendations. The one remaining recommendation is still in development. We believe the remaining recommendation is still appropriate and further efforts should be made to fully implement it. All of the original recommendations are noted below with a comment on their status.



1. **Recommendation No. 1 – Evaluation and Revision of Contract Policy Manual** (Control Finding)

County Procurement Office evaluate and revise the *Contract Policy Manual* Section 4.4 – *Sole Source and Proprietary Requests* – for additional clarification and guidance on sole source requests, which should include examples of documentation requirements to justify sole source and specific criteria for issuing subsequent contracts with sole source vendors.

Current Status: **In Process.** The County Procurement Office (CPO) engaged the National Institute of Government Purchasing (NIGP) to conduct a review of County procurement policies and procedures, including the *Contract Policy Manual*. A draft report was issued by the NIGP in January 2009. As a result of the review, the *Contract Policy Manual* is being replaced by two documents – a *Procurement Procedures Manual* and an *Ordinance Manual*.

CPO created a draft *Procurement Procedures Manual* and *Ordinance Manual*. We reviewed the draft manuals and noted the existing policy for sole source requests was included with some additional policy enhancements. We did not observe any examples of justification documentation requirements and specific criteria for issuing subsequent contracts to sole source vendors as recommended in our Audit Alert. We were informed that the CPO intends to add examples of documentation requirements and specific criteria for subsequent contracts with sole source vendors in the final versions of the *Procurement Procedures Manual* and an *Ordinance Manual*.

Planned Action From Management: It is anticipated the CPO will execute a new *Procurement Procedures Manual* during the next several months. In addition, CPO may ask the Board of Supervisors to consider a new ordinance concerning procurement. We will ensure there are examples of sole source justification requirements and additional guidance on issuing subsequent sole source contracts in the final version of the *Procurement Procedures Manual*.

2. **Recommendation No. 2 – Training** (Control Finding)

County Procurement Office provide periodic training to departments and agencies on sole source procurements.

Current Status: **Implemented.** The CPO provides quarterly *Contract Policy Manual* Review training. CPO recently added an area to the training regarding sole source procurements. The County Executive Officer issued a memo to the Board of Supervisors on February 13, 2009, stating the County Purchasing Agent would “continue to train DPA’s and County personnel on sole source procedures. The training will provide guidelines to assist agencies and departments in proper procurement processes and selection methods.” The CPO prepared a *2009 Training Catalog* containing course descriptions and dates.



Since the CPO has been providing training to departments and agencies on sole source procurements, and has been directed to continue DPA training on sole source procurements, we consider this recommendation implemented.

3. Recommendation No. 3 – Review and Approval of Sole Source Contracts by County Procurement Office (Control Finding)

County Procurement Office consider establishing a threshold by which the County Procurement Office would review and approve certain high-dollar sole source procurements prior to Board of Supervisors' approval.

Current Status: **Implemented.** In NIGP's draft report, one recommendation is to "delegate authority to the Chief Procurement Officer to review and approve all sole source procurements up to a certain collar threshold (\$500,000) and that an intermediate threshold be delegated to the County Executive Office for approval. Designate Board approval for sole source procurements over \$1,000,000."

On February 13, 2009, the County Executive Officer issued a memo to the Board of Supervisors regarding sole source contracts. The memo states the County Purchasing Agent shall, "review/approve all Sole Source Requests that exceed \$50,000 annually." According to the existing policy, the Board of Supervisors approve sole source contracts exceeding \$50,000 annually; therefore, these contracts will be reviewed and approved by the CPO prior to the Board's approval. In addition, CPO is in process of implementing a new online bidding system. This system has been configured where the Buyers across the County will be required to send all sole source requests over \$50,000 to the CPO for review and approval. Since a threshold has been established for CPO review and approval of sole source contracts, we consider this recommendation implemented.

4. Recommendation No. 4 – Tracking and Oversight of Sole Source Usage (Control Finding)

County Procurement Office consider establishing a process by which all department/agency sole source contracts are periodically reported to the County Procurement Office and to the Board of Supervisors for tracking and oversight of sole source usage in the County.

Current Status: **Implemented.** The CPO recently began generating reports of all sole source activity. In February 2009, the CPO ran a report of all active sole source service contracts as of January 21, 2009. The County Executive Officer issued a memo to the Board of Supervisors on February 13, 2009, regarding sole source contracts. The memo was accompanied by the January 21, 2009 report of all active sole source service contracts.



The memo states that the CPO will “conduct regular Compliance Reviews and monitor sole source activity regularly to identify excessive use of sole source contracts.” CPO intends to run reports of sole source activity quarterly, and to select departments/agencies with significant sole source activity to include in its Compliance Reviews. CPO will continue to provide updates regarding sole source usage to the Board of Supervisors upon request.

Since a process has been established by which the CPO is using reports of sole source activity for tracking and oversight of sole source usage, we consider this recommendation implemented.

We appreciate the cooperation and assistance extended to us by the personnel of the County Procurement Office during our Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Bob Franz, Deputy CEO, Chief Financial Officer
Maria Pirona, Manager, County Procurement Office
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors