

Internal Audit Department

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

FINAL CLOSE-OUT**SECOND FOLLOW-UP AUDIT:****AUDIT ALERT:
COUNTY PROCUREMENT OFFICE
POLICY ON SOLE SOURCE CONTRACTS****ORIGINAL AUDIT No. 2766-5****AS OF AUGUST 31, 2009**

Our Second Follow-Up Audit found the County Procurement Office fully implemented the remaining recommendation from our original Audit Alert containing four (4) recommendations. Three (3) of the recommendations were implemented in our First Follow-Up Audit report dated March 11, 2009. We issued the Audit Alert in conjunction with our audit of Sheriff-Coroner Administration's sole source procurements for Fiscal Years 2006-2007 and 2005-2006.

AUDIT No: 2928-B
REPORT DATE: SEPTEMBER 16, 2009

Director: Dr. Peter Hughes, MBA, CPA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
Audit Manager: Michael Dean, CPA, CIA

 ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

RISK BASED AUDITING

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

2009 Association of Certified Fraud Examiners' Hubbard Award
For the Most Outstanding Article of the Year

2008 Association of Local Government Auditors' Bronze Website Award

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



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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes
Director

Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE
Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
E-mail: peter.hughes@iad.ocgov.com



Eli Littner
Deputy Director

CPA, CIA, CFE, CFS, CISA
Certified Fraud Specialist (CFS)
Certified Information Systems Auditor (CISA)

Michael Goodwin
Senior Audit Manager

CPA, CIA

Alan Marcum
Senior Audit Manager

MBA, CPA, CIA, CFE

Autumn McKinney
Senior Audit Manager

CPA, CIA, CISA, CGFM
Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 2928-B September 16, 2009

TO: Ron Vienna, County Purchasing Agent
County Procurement Office

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

SUBJECT: **Second and Final Close-Out** Follow-Up
Audit of Audit Alert: County Procurement
Office Policy on Sole Source Contracts,
Original Audit No. 2766-5, Issued July
17, 2008

We have completed a Second Follow-Up Audit of the Audit Alert issued to the County Procurement Office (CPO) regarding policy on sole source contracts. Our audit was limited to reviewing, as of August 31, 2009 actions taken to implement one (1) recommendation remaining from our First Follow-Up Audit report dated March 11, 2009 (Audit No. 2829-L). We conducted this Second Follow-Up Audit in accordance with the *FY 08-09 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our Second Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for the one remaining audit recommendation, **this report represents the 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 4.

Table of Contents



***Second and Final Close-Out Follow-Up Audit of
Audit Alert: County Procurement Office
Policy on Sole Source Contracts
Audit No. 2928-B***

As of August 31, 2009

Transmittal Letter	i
OC Internal Auditor's Report	1

OC Internal Auditor's Report



Audit No. 2928-B

September 16, 2009

TO: Ron Vienna, County Purchasing Agent
County Procurement Office

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

SUBJECT: **Second and Final Close-Out** Follow-Up Audit of 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 Second Follow-Up Audit of the Audit Alert issued to the County Procurement Office (CPO) regarding policy on sole source contracts. Our audit was limited to reviewing, as of August 31, 2009 actions taken to implement one (1) recommendation remaining from our First Follow-Up Audit report dated March 11, 2009 (Audit No. 2829-L).

Background

In November 2007, the County's Audit Oversight Committee directed the OC 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. The original Audit Alert contained four (4) recommendations. Three (3) recommendations were implemented and one (1) recommendation was in process of being implemented during our First Follow-Up Audit.

Results

Our Second Follow-Up Audit indicated the CPO fully implemented the one (1) remaining recommendation. **As such, this report represents the final close-out of the original audit.** Based on the two Follow-Up Audits we conducted, the following is the implementation status of the four original recommendations:

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: Implemented. The CPO engaged the National Institute of Government Purchasing (NIGP) to conduct a review of County procurement policies and procedures, including a review of the *Contract Policy Manual* and policy on sole source contracting. Although completion of the NIGP report has been delayed, CPO has implemented additional oversight controls over sole source procurements.

County policy now requires all sole source contracts to be entered into BidSync, the County's On-Line Bidding System. This enables the CPO to monitor all sole source requests. All sole source requests over \$50,000 are now reviewed and approved by the CPO prior to approval by the Board of Supervisors. This review includes evaluating the adequacy of information provided on sole source justification requests.

In addition, the CPO recently modified the "*Sole Source/Proprietary Request*" form. This form is utilized by Deputy Purchasing Agents in departments/agencies to document and submit sole source requests. The CPO improved the *Sole Source/Proprietary Request* form in the following ways:

- County policy on sole source contracts is cited on the form (*CPM Section 4.4*).
- Instructions to complete the form were recently added and expanded.
- Questions were added to provide detailed descriptions of contract types and services/supplies to be provided by the vendor.
- For each question on the form, there is a description of acceptable responses.
- A requirement was added for requesting subsequent sole source contracts or changes to existing contracts with sole source vendors (including renewals and amendments), and providing proper sole source information to justify each request.

Our recommendation required an evaluation and revision of the *Contract Policy Manual* addressing sole source policy enhancements. Although the CPM has not been revised, we found the CPO has provided additional clarification and guidance on sole source requests by modifying the *Sole Source/Proprietary Request* form, which is available on the CPO intranet site. Therefore, we consider this recommendation as implemented.

2. **Training (Control Finding)**

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

Current Status: Implemented (First Follow-Up Audit). The CPO provides quarterly *Contract Policy Manual* Review training. The CPO 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. **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 (First Follow-Up Audit). 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. Since a threshold has been established for CPO review and approval of sole source contracts, we consider this recommendation implemented.

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 (First Follow-Up Audit). The CPO 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.

OC Internal Auditor's Report



We appreciate the cooperation and assistance extended to us by the personnel of the County Procurement Office during our Second 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 of Policy Administration & Asset Management, CPO
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors