



Orange County Auditor-Controller Internal Audit



Internal Control Audit:
County Executive Office/
County Procurement Office
Procurement Processes

For the Year Ended
March 31, 2017

Audit Number 1521
Report Date: April 30, 2018



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
I N T E R N A L A U D I T

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1521

April 30, 2018

TO: Frank Kim
County Executive Officer

SUBJECT: Internal Control Audit:
County Executive Office/County Procurement Office Procurement Processes

We have completed our Internal Control Audit of County Executive Office/County Procurement Office (CPO) Procurement Processes for the year ended March 31, 2017. Our final report is attached for your review.

An **Audit Status Report** is submitted quarterly to the Audit Oversight Committee (AOC) and to the Board of Supervisors (BOS) detailing any critical or significant audit findings released in reports during the prior quarter 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 AOC and BOS.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

A handwritten signature in blue ink that reads "Eric H. Woolery".

Eric H. Woolery, CPA
Auditor-Controller

Attachments

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Michelle Aguirre, Chief Financial Officer
Rob Richardson, County Procurement Officer
Foreperson, Grand Jury
Robin Stieler, Clerk of the Board of Supervisors
Macias Gini & O'Connell LLP, County External Auditor



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CPO Procurement Processes
Audit No. 1521*

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Internal Auditor's Report

Audit No. 1521

April 30, 2018

TO: Frank Kim
County Executive Officer

FROM: Eric H. Woolery, CPA
Auditor-Controller

SUBJECT: Internal Control Audit:
County Executive Office/County Procurement Office Procurement Processes

OBJECTIVES

We have completed our Internal Control Audit of County Executive Office/County Procurement Office (CPO) Procurement Processes for the year ended March 31, 2017. We performed this audit in accordance with the FY 2017-18 Audit Plan and Risk Assessment developed by the Auditor-Controller Internal Audit Division and approved by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS) to assist management in evaluating and enhancing internal control and the effectiveness and efficiency of the selected areas under audit. Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board. The objectives of this audit were to:

1. Determine if internal control is effective to ensure sole source and request for proposals (RFP) contracts were awarded and/or renewed by the CPO in compliance with the 2012 Contract Policy Manual (CPM).
2. Determine if internal control is effective to ensure retroactive contract requests were properly approved by the CPO and were in compliance with the CPM.
3. Determine if internal control is effective to ensure reviews conducted by the Compliance Review Team were consistently performed and that issues identified were properly reported, addressed, and discussed with the recipient department.
4. Determine if internal control is effective to ensure contract increase requests processed by the CPO were properly approved and were in compliance with the CPM.
5. Determine if internal control is effective to ensure sole source contract requests from other departments were properly approved by the CPO and were in compliance with the CPM.
6. Determine if revisions to the CPM were properly planned, coordinated with appropriate parties, and approved.



Internal Auditor's Report

RESULTS

Objective No. 1

We found that internal control was generally effective to ensure sole source and RFP contracts were awarded and/or renewed by the CPO in compliance with the 2012 CPM; however, we noted the following:

Three (3) Control Findings

Ensure Conflict of Interest Statements Are Obtained

Finding No. 1

Ensure Evaluation Scores Are Properly Dispositioned

Finding No. 2

Ensure the Memorandum of Recommendation Is Properly Prepared

Finding No. 3

Objective No. 2

We found that internal control was generally effective to ensure retroactive contract requests were properly approved by the CPO and were in compliance with the CPM; however, we noted the following:

Three (3) Control Findings

Clarify Authority for Retroactive Sponsorship Agreements

Finding No. 4

Ensure Purchase Order Vendor Names and Payment Addresses Agree to Retroactive Contract Requests

Finding No. 5

Ensure Retroactive Contract Approvals Are Disclosed

Finding No. 6

Objective No. 3

We found that internal control was generally effective to ensure reviews conducted by the Compliance Review Team were consistently performed and that issues identified were properly reported, addressed, and discussed with the recipient department; however, we noted the following:

Two (2) Control Findings

Revise the Compliance Review Population Methodology

Finding No. 7

Revise the Compliance Review Sample Size Methodology

Finding No. 8

Objective No. 4

We found that internal control was generally effective to ensure contract increase requests processed by the CPO were properly approved and were in compliance with the CPM; however, we noted the following:

One (1) Control Finding

Ensure Contract Increase Request Forms Are Uploaded to CAPS+

Finding No. 9



Internal Auditor’s Report

RESULTS (CON’T)

Objective No. 5

We found that internal control was generally effective to ensure sole source contract requests from other departments were properly processed by the CPO and were in compliance with the CPM; however, we noted the following:

One (1) Control Finding

Implement Sole Source Review Form

Finding No. 10

Objective No. 6

We found that revisions of the Contract Policy Manual were generally properly planned, coordinated with appropriate parties, and approved.

BACKGROUND

The County Procurement Office (CPO) is a Division of the County Executive Office (CEO) that provides corporate-level procurement support to the County. The County Procurement Officer, as head of the CPO, is responsible for implementing and enforcing Board of Supervisors (BOS) and CEO policies pertaining to County procurement.

CPO’s mission is “to provide County leadership in procurement through effective collaboration, teamwork, training and oversight to ensure a procurement process that is fair, cost effective, efficient and in accordance with Board policy as well as state and local statutes.”

The BOS delegates the authority to procure all goods and services to the County Procurement Officer. This authority is then delegated to Deputy Purchasing Agents (DPAs) located at each department. Under direction of the CEO, the CPO ensures that proper safeguards are in place for maintaining a procurement system of quality and integrity by providing procurement support, training, and oversight countywide.

County Procurement Office

CPO has 21 authorized positions providing countywide procurement functions and procurement support to County departments. In addition, it is responsible for procuring goods and services for some budget units within the CEO’s office. Our audit focus was on reviewing the following areas:

County Purchasing Policy

The Contract Policy Manual (CPM) was established to provide general rules and procedures for procuring goods and services for the County. The CPO is responsible for updating the CPM and revisions of the CPM are done on an as-needed basis. Note, the BOS adopted the revised CPM in June 2017 which became effective on August 1, 2017. Because our audit period is for the year ended March 31, 2017 and our scope includes contracts and purchasing activities subject to requirements prior to the adoption of the 2017 CPM, we will follow the policy and criteria stated in the 2012 CPM; see Scope and Methodology on page 5.



Internal Auditor's Report

Compliance Review

2012 CPM, Section 1.5 ~ Compliance Monitoring states that "It shall be the duty of the County Purchasing Agent to review, on an annual basis, the procurement records and processes of all County agencies/departments. This monitoring will be done on a sample basis". CPO conducts these compliance reviews annually. During our audit period, CPO completed 20 reviews.

Sole Source Contract Request

2012 CPM Section 4.4-101 ~ Policy states, "It is the policy of the County of Orange to solicit competitive bids and proposals for its procurement requirements. Sole source procurement shall not be used unless there is clear and convincing evidence that only one source exists to fulfill the County's requirements." CPO is responsible to review and approve certain sole source contract requests from County departments. During our audit period, CPO approved 86 requests, totaling \$65,132,771.

Retroactive Contract Request

In general, retroactive contracts or contract overruns are not permitted. If they occur, they are invalid unless ratified by the BOS. The BOS approves retroactive contracts valued at \$10,000 or more. Other retroactive contracts below this threshold are handled by staff in accordance with the CPM. The County Procurement Officer and the CFO approve retroactive contracts with a total value of \$500 and more, but less than \$10,000. During our audit period, CPO received 45 requests.

Contract Increase Request

Departments are required to submit a Contract Increase Request Form to CPO for an increase in excess of 30% of the original contract amount for commodity contracts or 10% of the original contract amount or \$10,000 (whichever is less) for service contracts. During our audit period, CPO received 176 requests.

Procurement and Contract Administration

The Internal Operations Team within the CPO acts as a buyer and oversees procurement of goods and services for the following 17 budget units in the CEO. User units are responsible for other contracts, e.g., architect-engineer, public works, human services, lease/real estate.

Table 1. Requisition of Goods and Services Summary

Budget Unit	Description	Requisition Amount
017-1050	County Executive Office	\$59,434.33
017-1100	Administration	322,367.48
017-1200	Communications	338,836.66
017-1300	Special Projects	79,941.00
017-1400	Legislative Program	686,179.07
017-2051	Human Resource Director	2,433.93
017-3050	Information & Technology	1,197.00
017-5050	County Financial Office	0
017-5100	Fiscal Services	137,162.95
017-5200	Procurement	129,493.56
017-5300	Public Finance	468,575.61
017-5500	CEO - Budget Office	14,920.82
017-6050	CEO Real Estate	77,983.72
017-6100	Corporate Real Estate	415,870.59
017-6200	Land Development	482,328.00
017-7050	Chief Operating Officer	0
017-7100	Chief Operating Officer Services	244.38
Total		\$3,216,969.10

Source: CAPS+



Internal Auditor's Report

SCOPE AND METHODOLOGY

Our audit covered the year ended March 31, 2017, and evaluated the internal control over processes at CPO to oversee certain County procurement activities.

Our scope and methodology included:

1. Contract Policy Manual (CPM): Obtain an understanding of CPO processes from reviewing the 2012 CPM through the recommendation of implementing the 2017 CPM to determine if the revision was properly planned, coordinated with appropriate parties, and approved.
2. Compliance Review Program: Obtain an understanding of internal control and processes from planning through the issuance of a final discovery report to determine if reviews were consistently performed, and issues identified were properly addressed to the corresponding department or countywide.
3. Sole Source Contract, Retroactive Contract, and Contract Increase Requests: Obtain an understanding of each process to determine if requests received by CPO during the audit period were reviewed and approved properly, and in compliance with the 2012 CPM.
4. Award of Sole Source and Request for Proposal (RFP) Contracts for CEO: Obtain an understanding of the process from user request through the award of the contract for all requisitions pertaining to sole source and RFP contracts issued during our audit period to determine if they were awarded or renewed in accordance with the 2012 CPM.

Scope Exclusions

Our audit scope excluded reviews of the contract payment process and systems used for procurement operations, e.g., OC Expediter and BidSync.

FOLLOW-UP PROCESS

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the AOC and the BOS. Our **First Follow-Up Audit** will generally begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will generally begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. We bring to the AOC's attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. Such open issues appear on the AOC agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed form to facilitate our review.



Internal Auditor's Report

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL

In accordance with the Auditor-Controller's County Accounting Manual S-2 *Internal Control Systems*: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls..." Control systems shall be continuously evaluated by management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for the CEO's continuing emphasis on control activities and self-assessment of control risks.

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in CEO's operating procedures, accounting practices, and compliance with County policy.

The Auditor-Controller Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel of the County Procurement Office during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-2456, or Scott Suzuki, Director of Internal Audit, at (714) 834-5509.



Detailed Findings, Recommendations, and Management Responses

SOLE SOURCE AND REQUEST FOR PROPOSAL (RFP) PROCESS

CPO uses OC Expediter for all requisitions, which are routed for review and approval in a workflow. See Table 2 for CPO issued purchasing documents during the audit period.

Table 2. CPO Contracts Summary

Procurement Type	Master Agreement Purchase Order Contract Count	Active Contract Amount
COOP-County	3	\$53,676.44
COOP-RCA	64	920,476.04
One (1) Quote	17	77,958.64
Request for Bids - RFB	9	122,443.14
Request for Proposals - RFP	29	1,689,623.93
Sole Source	5	352,790.91
Total	127	\$3,216,969.10

Source: CAPS+

Business Process & Internal Control Strengths

We found that internal control was generally effective to ensure sole source and RFP contracts were awarded and/or renewed by the CPO in compliance with the 2012 CPM. Business process and internal control strengths noted during our review included:

- ✓ Duties of contract administration, award of contract or contract amendments, and monitoring are adequately segregated.
- ✓ Requisitions are reviewed and approved in OC Expediter.
- ✓ Processes and procedures are in place to ensure continuity of services.
- ✓ A contract file is maintained for each agreement and is updated regularly for proper documentation.
- ✓ Processes and procedures are in place to solicit and review quotes/proposals.
- ✓ CPO follows the CPM to procure goods and services.

The following areas are where we believe sole source and RFP processes and controls should be enhanced:

Finding No. 1 – Ensure Conflict of Interest Statements Are Obtained (Control Finding)

We found that Conflict of Interest Statements for two services contracts were not on file. CPO received seven proposals for these two contracts, and each was evaluated by a committee comprised of five members.

The 2012 CPM 4.2-111 (1)(c) states that *“All proposals shall be evaluated by an evaluation committee comprised of 3 or more members who have no conflict of interest with the selection process. All members of the evaluation committee must sign a form certifying, under penalty of perjury, that they have no conflict of interest with the selection process.”* Note, the 2017 CPM has the same requirement.



Detailed Findings, Recommendations, and Management Responses

Recommendation No. 1:

We recommend CPO establish a policy to perform supervisory review to ensure Conflict of Interest Statements are obtained for the corresponding contract.

County Executive Office Management Response:

Agree (Concur). CPO will establish an internal policy requiring the CPO Operations Manager and Supervisor to review files for each solicitation requiring conflict of interest (COI) forms to verify COI forms have been obtained.

Finding No. 2 – Ensure Evaluation Scores Are Properly Dispositioned (Control Finding)

We found five contract files contained the evaluators' individual scores for each proposal with notes.

The 2012 CPM Section 4.2-115 (1) ~ Evaluation Scores states that *“Evaluators shall initially score proposals individually. Evaluators’ individual scores will be discussed with the entire evaluation panel and combined and tallied. The final scores will be recorded on an individual finalized score sheet and the initial score sheets containing the evaluators notes and comments shall remain in the possession of the individual evaluators, and at no time shall this information become part of the permanent purchasing file or retained as County record.”* Note, the 2017 CPM has the same requirement.

Recommendation No. 2:

We recommend CPO review contract files and remove all evaluators' individual scores and notes from the files. Also, CPO should establish a policy and procedure to ensure documents are properly retained and/or removed from the contract file as required by the CPM.

County Executive Office Management Response:

Agree (Concur). CPO will establish an internal policy requiring the CPO Operations Manager and Supervisor to use checklists for each solicitation to ensure only appropriate documents are retained in the contract file.

Finding No. 3 – Ensure the Memorandum of Recommendation is Properly Prepared (Control Finding)

We found one Memorandum of Recommendation (Memo) was improperly prepared as it did not include the ranking of all proposals, improperly included the names of all five evaluators, and the Memo was issued by the Buyer and not by the Evaluation Committee.

The 2012 CPM Section 4.2-115 (2) ~ Evaluation Scores states that *“After scores have been tallied and discussed by the panel of evaluators and a recommended proposal(s) determined, a Memorandum of Recommendation that includes the ranking of all proposals based on the aggregate scores, will be signed by the evaluators and made part of the purchasing file”.* Note, the 2017 CPM has the same requirement. Additionally, the Evaluation Committee issues the Memo to the CPO and due to confidentiality, evaluators sign the Memo, but their names are not disclosed on the document.



Detailed Findings, Recommendations, and Management Responses

Recommendation No. 3:

We recommend CPO establish written policy and procedures to standardize the Memorandum of Recommendation form to ensure all required elements are included and are prepared the same way countywide. Also, CPO should provide training to buyers on how to properly prepare the Memo.

County Executive Office Management Response:

Agree (Concur). CPO will establish an internal policy requiring the CPO Operations Manager and Supervisor to establish and use a checklist for each solicitation requiring a Memorandum of Recommendation (MOR) to verify the MOR has been obtained, properly completed and filed. Related training will be conducted periodically by the Manager and Supervisor of the CPO Operations Unit.

A template depicting the uniform format for the Memorandum of Recommendation has been provided to all County of Orange Deputy Purchasing Agents. This was accomplished as part of the RFP Training conducted during 2017 and will be repeated periodically via DPA trainings. The templates are in the RFP Manual located on the CPO Intranet Site.

RETROACTIVE CONTRACT REQUEST REVIEW AND APPROVAL PROCESS

CPO established a detailed written procedure, including a standard form, for County departments to submit a retroactive contract request through the OC Procurement Support Center, an electronic ticketing system. All approved requests will be reported to the BOS twice a year and posted onto the County's Financial Transparency website.

Business Process & Internal Control Strengths

We found that internal control was generally effective to ensure retroactive contract requests were properly approved by the CPO and were in compliance with the CPM. Business process and internal control strengths noted during our review included:

- ✓ Policy and procedures are in place to ensure the process is consistently done, e.g., standard form and supporting documents are required.
- ✓ A system is in place to track each departmental request, from receiving to closing, in the OC Procurement Support Center.
- ✓ CPO notifies County departments of any updates on requesting a retroactive contract payment.

The following areas are where we believe retroactive contract processes and controls should be enhanced:

Finding No. 4 – Clarify Authority for Retroactive Sponsorship Agreements (Control Finding)

The BOS has delegated authority to the County Procurement Officer to procure goods and services on behalf of the County. The Retroactive Contract Approval Request Form instructions state that *“Retroactive contracts are defined as unauthorized purchase or commitment made to a supplier/vendor without an approved written contract in place prior to delivery of any goods and/or services”*.



Detailed Findings, Recommendations, and Management Responses

In September 2016, CPO approved a Retroactive Contract Approval Request from OC Community Resources, in the amount of \$1,500. We found that this request pertained to a sponsorship payment for an event that had already occurred. Since a retroactive sponsorship is not a result of prior delivery of any goods and/or services, it appears that CPO did not have proper authority to approve the request.

Recommendation No. 4:

We recommend CPO seek clarification with County Counsel on its authority to approve retroactive sponsorship agreements.

County Executive Office Management Response:

Agree (Concur). CPO will seek clarification from County Counsel concerning any future sponsorship item submitted for review by County departments.

Finding No. 5 – Ensure Purchase Order Vendor Names and Payment Addresses Agree to Retroactive Contract Requests (Control Finding)

Once the approval is obtained for a retroactive contract request, departments are required to prepare and forward a purchase order (PO) to CPO to close the ticket (request). We found one instance where the vendor name and payment address on the Retroactive Contract Approval Request form were inconsistent with the payee information on the PO and on the actual check. Also, we noted this request was misclassified as a commodity contract on the PO and in CAPS+ as it did not meet the definition of a commodity contract as stated in the 2012 CPM.

While CPO is not responsible to ensure the accuracy of the vendor payment, a valid PO is required to close a request. CPO can enhance its current process to verify the PO information against the approved request.

Failure to detect inconsistent vendor information could result in the creation of an invalid contract and subsequent unauthorized vendor payment.

Recommendation No. 5:

We recommend CPO enhance its current process to include verifying the payment information on the purchase order, e.g., amount, payee, with the Retroactive Contract Approval Request Form and follow-up with the requesting department on any discrepancies identified prior to closing the ticket.

County Executive Office Management Response:

Agree (Concur). CPO will require departments to make sure that the vendor name (payee) and amount to be paid match before submittal of payment to the Auditor-Controller. The Retroactive Contract Approval request form will be modified to make this requirement clear and this notice will be transmitted to the submitting departments following approval by the CPO and CFO. DPAs will receive training on this topic.



Detailed Findings, Recommendations, and Management Responses

Finding No. 6 – Ensure Retroactive Contract Approvals Are Disclosed (Control Finding)

We found one retroactive contract approval request (for two invoices totaling \$5,503) was not posted on the County's Financial Transparency website.

It is the County policy to report to the BOS twice a year all retroactive contracts with a total value of \$500 and over (but less than \$10,000) and that applicable records are posted on the County's Financial Transparency website.

Recommendation No. 6:

We recommend CPO ensure the missing record is included in the next batch to upload to the County's Financial Transparency website. Also, CPO should enhance its current procedures to ensure all approved requests are posted accordingly.

County Executive Office Management Response:

Agree (Concur). The County Procurement Office and the CPO Procurement Training and Administration Manager will meet before annual postings of approved Retroactive Contract Requests to validate that all required items are posted.

COMPLIANCE REVIEW

CPO has a process in place to conduct compliance reviews of County departments, including the CEO. A sample of 15 contract folders is selected for each review and a standardized Compliance Review Form is used to document the review and a Final Discovery Report is issued. Discoveries identified during the compliance review will be used as lessons learned and common discoveries identified from different reviews will be used as an indicator of additional training needs.

Business Process & Internal Control Strengths

We found that internal control was generally effective to ensure reviews conducted by the Compliance Review Team were consistently performed and that issues identified were properly reported, addressed, and discussed with the recipient department. Business process and internal control strengths noted during our review included:

- ✓ Processes and procedures are in place to ensure training is provided to participants to conduct the reviews.
- ✓ Processes and procedures are in place to ensure the Compliance Review Form is updated timely to address new requirements in the CPM and other new policy and procedures.
- ✓ Processes and procedures are in place to ensure that discoveries are discussed with the corresponding department.
- ✓ Processes are in place to provide further assistance to departments with significant or many discoveries.
- ✓ Processes are in place to ensure Final Discovery Reports are reviewed and approved by the CPO.
- ✓ CPO maintains a checklist to ensure all the steps in conducting a compliance review are completed.



Detailed Findings, Recommendations, and Management Responses

The following areas are where we believe compliance review processes and controls should be enhanced:

Finding No. 7 – Revise the Compliance Review Population Methodology (Control Finding)

We found CPO includes all active contracts from the beginning of 2016 through the current review date in the review population for each department. Since the review is done annually, this methodology could result in data overlap from the prior review period. CPO reviews the data and filters out contracts that were selected from the prior review to avoid duplication. This requires extra effort to identify and eliminate duplicate data from the sample. Also, we were informed inactive contracts are excluded from the population, as active contracts allow departments to make corrections for discoveries identified, while corrections cannot be made for inactive contracts. Since one of the review objectives is policy clarification, issues/discoveries identified from inactive contracts (as well as active contracts) are equally important as lessons learned and to address conditions that may have a countywide impact.

The current methodology requires additional effort to identify and eliminate duplicate data from the sample selection. Also, excluding inactive contracts from the population eliminates an opportunity to identify conditions that may have a countywide impact.

Recommendation No. 7:

We recommend CPO modify the current practice to ensure the compliance review population includes all relevant data/transactions within a specific time period for each department.

County Executive Office Management Response:

Agree (Concur). This recommendation has been implemented.

Finding No. 8 – Revise the Compliance Review Sample Size Methodology (Control Finding)

CPO selects 15 contract files for each review regardless of department size, transaction volume, or total contract amount.

Since the compliance review is conducted on a sample basis, the sample size should be determined systemically, which can be determined by risk, population size, or amount. As such, the methodology to determine sample size should be modified to enhance the effectiveness of the compliance reviews.

Recommendation No. 8:

We recommend CPO modify the current practice of a fixed sample size for compliance reviews and consider other risk factors when determining sample sizes.

County Executive Office Management Response:

Agree (Concur). CPO will review the number and mix of contracts reviewed by department. This review will be conducted during 2018 in the context of available CPO staff and departmental resources to address this proposed modification.



Detailed Findings, Recommendations, and Management Responses

CONTRACT INCREASE REQUEST REVIEW AND APPROVAL PROCESS

CPO created a written procedure, including a Contract Increase Request Form, for County departments to submit a contract increase request through the OC Procurement Support Center.

Business Process & Internal Control Strengths

We found that internal control was generally effective to ensure contract increase requests processed by the CPO were properly approved and were in compliance with the CPM. Business process and internal control strengths noted during our review included:

- ✓ CPO has established and maintains a system to ensure all contract increase requests are reviewed and are in compliance with Board policy.
- ✓ A system is in place to track and close each request in the OC Procurement Support Center.
- ✓ Managers who review and approve the requests are knowledgeable about the policy.

The following area is where we believe contract increase processes and controls should be enhanced:

Finding No. 9 – Ensure Contract Increase Request Forms Are Uploaded to CAPS+ (Control Finding)

Contract Cost Increase Policy & Procedure, pg. 2 ~ Procedure, requires that *“Upon approval or denial of the contract increase request from CPO, the original form must be placed in the contract file and a copy must be attached to the applicable contract document in CAPS+.”*

This requirement is also stated in the Instructions for Completing the Contract Increase Request Form ~ No. 22, requires that *“Upon receipt of the signed form from CPO, the requesting agency/department must:*

1. *Place the original in the agency/department contract file.*
2. *Attach a copy to the appropriate contract document in CAPS+.”*

We found five instances where requesting departments did not attach the approved Contract Increase Request Form to the appropriate contract document in CAPS+. Although departments are primarily responsible to be in compliance with County policy, CPO can enhance its process to verify the status.

Recommendation No. 9:

We recommend CPO enhance its process to verify the approved Contract Increase Request Forms are attached to the appropriate contract document in CAPS+.

County Executive Office Management Response:

Agree (Concur). The Contract Increase Request Form was implemented by the CPO and is included as Section 3.3-112 (2) of the Contract Policy Manual and formalizes an internal process to review contract increases for services that are below the threshold for Board of Supervisors consideration. The CPO will continue training County departments on the use of this form in our regular DPA Best Practices trainings and at the Procurement Council. The Contract Increase Request Form was modified during the IAD filed review to include in bold red type:



Detailed Findings, Recommendations, and Management Responses

APPROVAL FORM MUST BE UPLOADED TO CAPS+.

The responsibility to post to CAPS+ must be carried out by each department and reviewed by Auditor-Controller staff before processing payment.

Additionally, CPO will add language in the Orange County Procurement Support Center (OCPSC) ticket response transmitting Contract Increase Approvals to departments stating that the approval requires uploading the form to CAPS+ to enable payment. Training will also continue with the Procurement Council and the DPA Best Practices meetings. CPO staff will meet with Auditor-Controller staff to review the CPM requirement and review other enhancements.

SOLE SOURCE CONTRACT REQUEST REVIEW AND APPROVAL PROCESS

CPO established a detailed written procedure, including a Sole Source Justification Form, for County departments to submit sole source contract requests in BidSync. CPO reviews the request to ensure it is completed and the justifications provided are reasonable to support that only one source exists to fulfill the County's requirements.

Business Process & Internal Control Strengths

We found that internal control was generally effective to ensure sole source contract requests from other departments were properly approved by the CPO and were in compliance with the CPM. Business process and internal control strengths noted during our review included:

- ✓ A system is in place to ensure all sole source contract requests meeting the requirements in the CPM are being reviewed and in compliance with Board policy.
- ✓ Process and procedures are in place to identify and follow up on sole source contracts not submitted to CPO for approval.
- ✓ Managers who review and approve the requests are knowledgeable about the policy.

The following area is where we believe sole source processes and controls should be enhanced:

Finding No. 10 – Implement Sole Source Review Form (Control Finding)

During our audit, we noted that a manager uses a review form (Form) to document the review and approval of sole source contract requests. We found this Form is useful to facilitate the review and justify the approval; however, using the Form is not required by the CPO and is at the manager's discretion when reviewing the request.

A sole source contract is against BOS policy unless there is clear and convincing evidence that only one source exists to fulfill the County's requirements. The requesting department submits the Justification Form to be compliant with BOS policy. Since sole source contracts are a high risk and justification for each request is unique, the review process should be enhanced to ensure the decision making process is objective and uniform to the extent possible and approval is properly documented. We found that the Form is value added for conducting and documenting the review. It contains key points to support the decision, e.g., "*Question #2 ~ Does SS form contain sufficient information and justification?... Question #5 ~ Can you confirm that there is in fact only one vendor that can perform?*"



Detailed Findings, Recommendations, and Management Responses

As such, using the Form would increase the effectiveness of approving a request. Therefore, CPO should evaluate the need to consistently use a standard review form to document the review.

Recommendation No. 10:

We recommend CPO evaluate the need to implement a standard review form to document the review of each sole source request.

County Executive Office Management Response:

Agree (Concur). CPO agrees with the recommendation to conduct the review; however, after further review by CPO staff, it was determined that the internal form suggested as a standard form was only used internally and was required by a previous County purchasing agent and is no longer needed and is a duplication of effort.

REVISION OF 2012 CONTRACT POLICY MANUAL

On July 24, 2012, the BOS adopted the 2012 County of Orange Contract Policy Manual (2012 CPM). On August 20, 2013, the BOS established a Board subcommittee for procurement. Since then, the CPO has been working with the committee members on procurement policies and has planned to review and revise the CPM every two years. The revision of the 2012 CPM began in 2014. On June 6, 2017 the BOS adopted the 2017 CPM effective August 1, 2017.

In 2015, the BOS approved the Design and Construction Procurement Policy Manual which replaced the Public Works and Architect-Engineering sections in the 2012 CPM. In addition, CPO issued the latest revision of the Procurement Ethics Guide in March 2016.

Business Process & Internal Control Strengths

We found that revisions of the 2012 CPM were generally properly planned, coordinated with appropriate parties, and approved. Business process strengths noted during our review included:

- ✓ The revised CPM went through proper planning, review, and approval processes to address issues previously noted in a Performance Audit Report and a Grand Jury Report.
- ✓ During the revision process, CPO solicited input from user departments and conducted a benchmark survey with other government agencies.
- ✓ During the revision process, CPO worked collaboratively with County Counsel to ensure the revisions were in compliance with applicable laws and regulations.
- ✓ CPO provided training to all DPAs of the revised CPM and a system is in place to identify DPAs who did not attend the training and to provide makeup training sessions.

We did not identify any areas where we believe CPM revision processes should be enhanced.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings and recommendations, we will classify audit report items into three distinct categories:

Critical Control Weaknesses	Significant Control Weaknesses	Control Findings
<p>These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to its attention immediately.</p>	<p>These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.</p>	<p>These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: County Executive Office Management Responses



County of Orange

April 5, 2018

Mr. Scott Suzuki, CPA, CIA, CISA
Director of Internal Audit
12 Civic Center Plaza, Room 200
Santa Ana, CA 92701

Dear Mr. Suzuki,

The Auditor-Controller Internal Audit Division completed the audit of internal control of County Executive Office/County Procurement Office (CPO) Procurement Processes for the year ended March 31, 2017 (Audit No. 1521) and provided a draft report, which includes 10 separate findings and recommendations in resolving the noted items. The CEO's Office has reviewed the Internal Auditor's Report, Detailed Findings and Recommendations and concurs with the recommendations provided in the report. As requested, below are responses of corrective actions in progress and planned for Findings 1 through 10.

Finding No. 1 – Ensure Conflict of Interest Statements Are Obtained (Control Finding)

We found that Conflict of Interest Statements for two services contracts were not on file. CPO received seven proposals for these two contracts, and each was evaluated by a committee comprised of five members.

2012 CPM 4.2-111 (1)(c) states that *“All proposals shall be evaluated by an evaluation committee comprised of 3 or more members who have no conflict of interest with the selection process. All members of the evaluation committee must sign a form certifying, under penalty of perjury, that they have no conflict of interest with the selection process.”* Note, the 2017 CPM has the same requirement.

Recommendation No. 1:

We recommend CPO establish a policy to perform supervisory review to ensure Conflict of Interest Statements are obtained for the corresponding contract.



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ATTACHMENT B: County Executive Office Management Responses (cont.)

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County Executive Office Management Response:

Agree. CPO will establish an internal policy requiring the CPO Operations Manager and Supervisor to review files for each solicitation requiring conflict of interest (COI) forms to verify COI forms have been obtained.

Finding No. 2 – Ensure Evaluation Scores Are Properly Dispositioned (Control Finding)

We found five contract files contained the evaluators' individual scores for each proposal with notes.

2012 CPM Section 4.2-115 (1) ~ Evaluation Scores states that *"Evaluators shall initially score proposals individually. Evaluators' individual scores will be discussed with the entire evaluation panel and combined and tallied. The final scores will be recorded on an individual finalized score sheet and the initial score sheets containing the evaluators notes and comments shall remain in the possession of the individual evaluators, and at no time shall this information become part of the permanent purchasing file or retained as County record."* Note, the 2017 CPM has the same requirement.

Recommendation No. 2:

We recommend CPO review contract files and remove all evaluators' individual scores and notes from the files. Also, CPO should establish a policy and procedure to ensure documents are properly retained and/or removed from the contract file as required by the CPM.

County Executive Office Management Response:

Agree. CPO will establish an internal policy requiring the CPO Operations Manager and Supervisor to use checklists for each solicitation to ensure only appropriate documents are retained in the contract file.

Finding No. 3 – Ensure the Memorandum of Recommendation is Properly Prepared (Control Finding)

We found one Memorandum of Recommendation (Memo) was improperly prepared as it did not include the ranking of all proposals, improperly included the names of all five evaluators, and the Memo was issued by the Buyer and not by the Evaluation Committee.

CPM Section 4.2-115 (2) ~ Evaluation Scores states that *"After scores have been tallied and discussed by the panel of evaluators and a recommended proposal(s) determined, a Memorandum of Recommendation that includes the ranking of all proposals based on the aggregate scores, will be signed by the evaluators and made part of the purchasing file."* Note, the 2017 CPM has the



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ATTACHMENT B: County Executive Office Management Responses (cont.)

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same requirement. Additionally, the Evaluation Committee issues the Memo to the CPO and due to confidentiality, evaluators sign the Memo, but their names are not disclosed on the document.

Recommendation No. 3:

We recommend CPO establish written policy and procedures to standardize the Memorandum of Recommendation form to ensure all required elements are included and are prepared the same way countywide. Also, CPO should provide training to buyers on how to properly prepare the Memo.

County Executive Office Management Response:

Agree. CPO will establish an internal policy requiring the CPO Operations Manager and Supervisor to establish and use a checklist for each solicitation requiring a Memorandum of Recommendation (MOR) to verify the MOR has been obtained, properly completed and filed. Related training will be conducted periodically by the Manager and Supervisor of the CPO Operations Unit.

A template depicting the uniform format for the Memorandum of Recommendation has been provided to all County of Orange Deputy Purchasing Agents. This was accomplished as part of the RFP Training conducted during 2017 and will be repeated periodically via DPA trainings. The templates are in the RFP Manual located on the CPO Intranet Site.

Finding No. 4 – Clarify Authority for Retroactive Sponsorship Agreements (Control Finding)

The BOS has delegated authority to the County Procurement Officer to procure goods and services on behalf of the County. The Retroactive Contract Approval Request Form instructions state that *“Retroactive contracts are defined as unauthorized purchase or commitment made to a supplier/vendor without an approved written contract in place prior to delivery of any goods and/or services.”*

In September 2016, CPO approved a Retroactive Contract Approval Request from OC Community Resources, in the amount of \$1,500. We found that this request pertained to a sponsorship payment for an event that had already occurred. Since a retroactive sponsorship is not a result of prior delivery of any goods and/or services, it appears that CPO did not have proper authority to approve the request.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: County Executive Office Management Responses (cont.)

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Recommendation No. 4:

We recommend CPO seek clarification with County Counsel on its authority to approve retroactive sponsorship agreements.

County Executive Office Management Response:

Agree. CPO will seek clarification from County Counsel concerning any future sponsorship item submitted for review by County departments.

Finding No. 5 – Ensure Purchase Order Vendor Names and Payment Addresses Agree to Retroactive Contract Requests (Control Finding)

Once the approval is obtained for a retroactive contract request, departments are required to prepare and forward a purchase order (PO) to CPO to close the ticket (request). We found one instance where the vendor name and payment address on the Retroactive Contract Approval Request form were inconsistent with the payee information on the PO and on the actual check. Also, we noted this request was misclassified as a commodity contract on the PO and in CAPS+ as it did not meet the definition of a commodity contract as stated in the 2012 CPM.

While CPO is not responsible to ensure the accuracy of the vendor payment, a valid PO is required to close a request. CPO can enhance its current process to verify the PO information against the approved request.

Failure to detect inconsistent vendor information could result in the creation of an invalid contract and subsequent unauthorized vendor payment.

Recommendation No. 5:

We recommend CPO enhance its current process to include verifying the payment information on the purchase order, e.g., amount, payee, with the Retroactive Contract Approval Request Form and follow-up with the requesting department on any discrepancies identified prior to closing the ticket.

County Executive Office Management Response:

Agree. CPO will require departments to make sure that the vendor name (payee) and amount to be paid match before submittal of payment to the Auditor-Controller. The Retroactive Contract Approval request form will be modified to make this requirement clear and this notice will be transmitted to the submitting departments following approval by the CPO and CFO. DPAs will receive training on this topic.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: County Executive Office Management Responses (cont.)

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Finding No. 6 – Ensure Retroactive Contract Approvals Are Disclosed (Control Finding)

We found one retroactive contract approval request (for two invoices totaling \$5,503) was not posted on the County's Financial Transparency website.

It is County policy to report to the BOS twice a year all retroactive contracts with a total value of \$500 and over (but less than \$10,000) and that applicable records are posted on the County's Financial Transparency website.

Recommendation No. 6:

We recommend CPO ensure the missing record is included in the next batch to upload to the County's Financial Transparency website. Also, CPO should enhance its current procedures to ensure all approved requests are posted accordingly.

County Executive Office Management Response:

Agree. The County Procurement Office and the CPO Procurement Training and Administration Manager will meet before both annual postings of approved Retroactive Contract Requests to validate that all required items are posted.

Finding No. 7 – Revise the Compliance Review Population Methodology (Control Finding)

We found CPO includes all active contracts from the beginning of 2016 through the current review date in the review population for each department. Since the review is done annually, this methodology could result in data overlap from the prior review period. CPO reviews the data and filters out contracts that were selected from the prior review to avoid duplication. This requires extra effort to identify and eliminate duplicate data from the sample. Also, we were informed inactive contracts are excluded from the population, as active contracts allow departments to make corrections for discoveries identified, while corrections cannot be made for inactive contracts. Since one of the review objectives is policy clarification, issues/discoveries identified from inactive contracts (as well as active contracts) are equally important as lessons learned and to address conditions that may have a countywide impact.

The current methodology requires additional effort to identify and eliminate duplicate data from the sample selection. Also, excluding inactive contracts from the population eliminates an opportunity to identify conditions that may have a countywide impact.



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Recommendation No. 7:

We recommend CPO modify the current practice to ensure the compliance review population includes all relevant data/transactions within a specific time period for each department.

County Executive Office Management Response:

Agree. This recommendation has been implemented.

Finding No. 8 – Revise the Compliance Review Sample Size Methodology (Control Finding)

CPO selects 15 contract files for each review regardless of department size, transaction volume, or total contract amount.

Since the compliance review is conducted on a sample basis, the sample size should be determined systemically, which can be determined by risk, population size, or amount. As such, the methodology to determine sample size should be modified to enhance the effectiveness of the compliance reviews.

Recommendation No. 8:

We recommend CPO modify the current practice of a fixed sample size for compliance reviews and consider other risk factors when determining sample sizes.

County Executive Office Management Response:

Agree. CPO will review the number and mix of contracts reviewed by department. This review will be conducted during 2018 in the context of available CPO staff and departmental resources to address this proposed modification.

Finding No. 9 – Ensure Contract Increase Request Forms Are Uploaded to CAPS+ (Control Finding)

Contract Cost Increase Policy & Procedure, pg. 2 ~ Procedure, requires that *“Upon approval or denial of the contract increase request from CPO, the original form must be placed in the contract file and a copy must be attached to the applicable contract document in CAPS+.”*

This requirement is also stated in the Instructions for Completing the Contract Increase Request Form ~ No. 22, requires that *“Upon receipt of the signed form from CPO, the requesting agency/department must:*

1. *Place the original in the agency/department contract file.*
2. *Attach a copy to the appropriate contract document in CAPS+.”*



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We found five instances where requesting departments did not attach the approved Contract Increase Request Form to the appropriate contract document in CAPS+. Although departments are primarily responsible to be in compliance with County policy, CPO can enhance its process to verify the status.

Recommendation No. 9:

We recommend CPO enhance its process to verify the approved Contract Increase Request Forms are attached to the appropriate contract document in CAPS+.

County Executive Office Management Response:

Agree. The Contract Increase Request Form process was implemented by the CPO and is included as Section 3.3-112 (2) of the Contract Policy Manual and formalizes an internal process to review contract increases for services that are below the threshold for Board of Supervisors consideration. The CPO will continue training County departments on the use of this form in our regular DPA Best Practices trainings and at the Procurement Council. The Contract Increase Request Form was modified during the IAD field review to include in bold red type:

APPROVED FORM MUST BE UPLOADED TO CAPS+.

This responsibility to post to CAPS+ must be carried out by each department and reviewed by Auditor-Controller staff before processing payment.

Additionally, CPO will add language in the Orange County Procurement Support Center (OCPSC) ticket response transmitting Contract Increase Approvals to departments stating that the approval requires uploading the form to CAPS+ to enable payment. Training will also continue with the Procurement Council and the DPA Best Practices meetings. CPO staff will meet with Auditor-Controller staff to review the CPM requirement and review other enhancements.

Finding No. 10 – Implement Sole Source Review Form (Control Finding)

During our audit, we noted that a manager uses a review form (Form) to document the review and approval of sole source contract requests. We found this Form is useful to facilitate the review and justify the approval; however, using the Form is not required by the CPO and is at the manager's discretion when reviewing the request.

A sole source contract is against BOS policy unless there is clear and convincing evidence that only one source exists to fulfill the County's requirements. The requesting



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department submits the Justification Form to be compliant with BOS policy. Since sole source contracts are a high risk and justification for each request is unique, the review process should be enhanced to ensure the decision making process is objective and uniform to the extent possible and approval is properly documented. We found that the Form is value added for conducting and documenting the review. It contains key points to support the decision, e.g., "Question #2 ~ Does SS form contain sufficient information and justification?...Question #5 ~ Can you confirm that there is in fact only one vendor that can perform?" As such, using the Form would increase the effectiveness of approving a request. Therefore, CPO should evaluate the need to consistently use a standard review form to document the review.

Recommendation No. 10:

We recommend CPO evaluate the need to implement a standard review form to document the review of each sole source request.

County Executive Office Management Response:

Agree. CPO agrees with the recommendation to conduct the review; however, after further review by CPO staff, it was determined that the internal form suggested as a standard form was only used internally and was required by a previous County purchasing agent and is no longer needed and is a duplication of effort.

Should you have questions or require additional information, please do not hesitate to contact Rob Richardson at 714-834-3481.

Sincerely,

Frank Kim
County Executive Officer

cc: Michelle Aguirre, Chief Financial Officer
Rob Richardson, County Procurement Officer