



# INTERNAL AUDIT DEPARTMENT



## Internal Control Audit: OC Public Works Purchasing & Contracts

For the Year Ended November 30, 2019

Audit No. 1911

Report Date: October 21, 2020

### Number of Recommendations

0

**Critical Control  
Weaknesses**

0

**Significant Control  
Weaknesses**

3

**Control Findings**

## OC Board of Supervisors

CHAIRWOMAN MICHELLE STEEL  
2nd DISTRICT

VICE CHAIRMAN ANDREW DO  
1st DISTRICT

SUPERVISOR DONALD P. WAGNER  
3rd DISTRICT

SUPERVISOR DOUG CHAFFEE  
4th DISTRICT

SUPERVISOR LISA A. BARTLETT  
5th DISTRICT



# INTERNAL AUDIT DEPARTMENT

Internal Control Audit:  
OC Public Works Purchasing & Contracts

October 21, 2020

## AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an Internal Control Audit of OC Public Works (OCPW) purchasing and contracts process for the year ended November 30, 2019.	
RESULTS	<ul style="list-style-type: none"><li>We concluded that OCPW's internal control over the purchasing and contracting process is generally effective to ensure requisitions and purchase of goods and services are executed in accordance with management's directives; adequately supported and properly authorized; and properly recorded.</li><li>We concluded that the purchasing process is generally efficient.</li></ul>	
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"><li>Unauthorized access or changes to requisitions.</li><li>Increased risk of liability over accidents or lawsuits.</li><li>Inconsistent methods of purchasing.</li></ul>	
NUMBER OF RECOMMENDATIONS	<p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none"><li>Performing timely user access reviews to ensure system access is only granted to authorized personnel.</li><li>Ensuring insurance contracts contain required endorsements.</li><li>Developing internal policy and procedures regarding purchasing.</li></ul>	
0	CRITICAL CONTROL WEAKNESSES	
0	SIGNIFICANT CONTROL WEAKNESSES	
3	CONTROL FINDINGS	

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to 714.834.3608



## INTERNAL AUDIT DEPARTMENT

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Audit No. 1911

October 21, 2020

To: James Treadway  
OC Public Works Director

From: Aggie Alonso, CPA, CIA, CRMA  
Internal Audit Department Director

Subject: Internal Control Audit: OC Public Works Purchasing & Contracts

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We have completed an Internal Control Audit of OC Public Works (OCPW) Purchasing & Contracts process for the year ended November 30, 2019. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

OCPW concurred with all our recommendations and the Internal Audit Department considers OCPW's management response appropriate to the recommendations in this report.

We will include the results of this audit in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. In addition, we will request your department complete a Customer Survey of Audit Services, which you will receive shortly after the distribution of our final report.

We appreciate the courtesy extended to us by OCPW's personnel during our audit. If you have any questions regarding our audit, please contact me at 714.834.5442 or Assistant Director Scott Suzuki at 714.834.5509.

### Attachments

#### Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- County Executive Office Distribution
- OC Public Works Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Eide Bailly LLP, County External Auditor

## RESULTS

### **BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS**

Business process and internal control strengths noted during our audit include:

- ✓ Requisitions are completed and approved by appropriate staff for every purchase.
- ✓ Procurement files are kept in folders with assigned numbers and retained for seven years as required.
- ✓ Procurement management run a weekly Workload Report to check the status of each requisition.
- ✓ Solicitations are posted in the BidSync system.
- ✓ Bids are scored by an evaluation panel. Panel members sign off on the scoring and a recommendation memo.
- ✓ Board approval, if applicable, is obtained prior to execution of a contract award.
- ✓ Selected vendors go through a sanction screening and security vetting process.
- ✓ OCPW participates in the County Procurement Office's annual compliance review process.





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<b>FINDING No. 1</b>	<b>User Access</b> <p>We noted several issues with user provisioning and deprovisioning in the OC Expediter system and OCPW network.</p> <p>During our testing, we noted five of 14 employees that retained roles within OC Expediter when access was no longer required.</p> <p>Furthermore, we noted the supervisors for three of five separating employees did not submit the "OCPW Separating Employee Checklist for IT Services" timely within a reasonable timeframe to Human Resource Services (HRS) after the employee's exit date from the department. This resulted in these three employees retaining network access after their separation.</p> <p>Subsequent to our review, OCPW disabled the OC Expediter and network accounts.</p> <p>OCPW performs a review of OC Expediter Final Approval role to verify user access is correctly assigned to staff. Discrepancies are reported back to the user and their Final Approval role is removed. We noted that, although OCPW does have an informal periodic user access review process, there is currently no standard scheduled procedure.</p> <p>With respect to disabling accounts when employees separate, OCPW Purchasing and OCIT depend on HRS to promptly notify them of employee separations to ensure timely removal of OC Expediter and network access.</p>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RISK</b>	Given the heightened risk associated with cybersecurity, not disabling inactive accounts increases the risk of unauthorized access to sensitive information. This can also cause delays in processing requisitions if they are routed to incorrect personnel.
<b>RECOMMENDATION</b>	OCPW management should perform a documented, periodic review of user access roles within OC Expediter and ensure employees separations are reported within in a reasonable timeframe to HRS.
<b>MANAGEMENT RESPONSE</b>	<b>Concur with recommendation.</b> OCPW management will formalize the OC Expediter user access review process to include periodic reviews of both the Final Approver and Budget Approver roles. The revised policy and procedure will be approved and implemented by April 30, 2021. OCPW management will ensure supervisors engage HRS during employee separations to foster timely reporting.



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<b>FINDING No. 2</b>	<b>Insurance Endorsements</b>  Endorsements in contractor's insurance policies did not consistently name the County when required.  We noted three out of 13 (23%) contracts where the waiver of subrogation in the insurance policy did not contain the County of Orange as an endorsement. Subsequent to our review, the insurance policies were updated to include the appropriate endorsement.
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RISK</b>	Lack of proper endorsement as stated on contract may increase the risk the County could be exposed for financial loss if the contractor's insurance company issues a claim and opts to pursue subrogation against the County.
<b>RECOMMENDATION</b>	OCPW management ensure contracts contain the County of Orange as an endorsement on the waiver of subrogation.
<b>MANAGEMENT RESPONSE</b>	<b>Concur with recommendation.</b> OCPW Procurement Services will ensure contract templates are updated, by December 1, 2020, to contain the County of Orange as an endorsement on the waiver of subrogation.

<b>FINDING No. 3</b>	<b>Internal Policy and Procedures</b>  OCPW does not have internal written policy and procedures (P&Ps) that directs OCPW's purchasing process, such as requisitions and request for proposals.  Although OCPW closely follows the Contract Policy Manual when processing requisitions, OCPW would benefit from providing uniform guidance for purchasing within their department. OCPW is currently in process of creating their own P&Ps.
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RISK</b>	Not having internal policy and procedures could result in inconsistent methods of purchasing and an increased risk of non-compliance with County P&Ps.
<b>RECOMMENDATION</b>	OCPW management ensure internal policy and procedures regarding purchasing are properly established, distributed, and trained on.



# INTERNAL AUDIT DEPARTMENT

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<b>MANAGEMENT RESPONSE</b>	<b>Concur with recommendation.</b> OCPW Procurement Services will continue to adhere to County Procurement Office policies for the procurement of commodities and services. OCPW will create internal policies and procedures, aligned with CPO, for the distribution to and training of appropriate staff by April 30, 2021.
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<b>AUDIT TEAM</b>	Scott Suzuki, CPA, CIA, CISA, CFE Michael Dean, CPA, CIA, CISA Zan Zaman, CPA, CIA, CISA Stephany Pantigoso Gabriela Cabrera	Assistant Director Senior Audit Manager Audit Manager Senior Auditor Senior Auditor
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## APPENDIX A: ADDITIONAL INFORMATION

<b>OBJECTIVES</b>	<p>Our audit objectives were to:</p> <ol style="list-style-type: none"> <li>1. Evaluate the effectiveness of internal control over the purchasing and contracting process to ensure requisitions and purchase of goods are executed in accordance with management's directives; adequately supported and properly authorized; and properly recorded.</li> <li>2. Review the purchasing and contracting process for efficiency.</li> </ol>
<b>SCOPE &amp; METHODOLOGY</b>	<p>Our audit scope was limited to internal control over the OCPW purchasing and contracts process for the year ended November 30, 2019. Our methodology included inquiry, observation, and examination of documentation.</p>
<b>EXCLUSIONS</b>	<p>Our audit scope did not include a review of CAPS+ or other IT Systems. In addition, our scope did not include contracts governed by the DCPM (Design and Construction Procurement Policy Manual) as these are audited by a third-party vendor.</p>
<b>PRIOR AUDIT COVERAGE</b>	<p>We have not issued any audit reports for OCPW with a similar scope within the last ten years.</p>
<b>BACKGROUND</b>	<p>OCPW's Procurement Services Division within Administrative Services is comprised of the Commodities &amp; Services, A-E &amp; Public Works, and Operations unit.</p> <p>The Commodities &amp; Services unit oversees contracts that follow the Contract Policy Manual, e.g., purchase of heavy equipment, vehicles, software for use by OCPW. The A-E &amp; Public Works unit process contracts that follow the DCPM. The Operations unit is responsible for compliance and quality control.</p> <p>During the audit period, the total order amount of purchasing activity by the OCPW Procurement Services Division was approximately <b>\$407 million</b>.</p> <p><b>County Contract Policy Manual (CPM)</b>  The CPM was adopted by the Board of Supervisors (Board) on March 27, 2007. It provides general procurement policy and standards that govern the conduct of the County's procurement activities and of personnel engaged in these activities. The CPM was updated and adopted by the Board on July 24, 2012; June 6, 2017; June 26, 2018; and most recently on August 13, 2019. The 2018 CPM, which was effective July 1, 2018 and the 2019 CPM, which became effective October 1, 2019 was used as the criteria for this audit.</p>





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<b>PURPOSE &amp; AUTHORITY</b>	We performed this audit in accordance with the Annual Risk Assessment & Audit Plan for FY 2019-20 approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
<b>PROFESSIONAL STANDARDS</b>	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.
<b>FOLLOW-UP PROCESS</b>	<p>In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report in order to facilitate the follow-up audit process.</p>
<b>MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL</b>	In accordance with the Auditor-Controller's County Accounting Manual Section 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 internal controls 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 department management's continuing emphasis on control activities and monitoring of control risks.
<b>INTERNAL CONTROL LIMITATIONS</b>	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 the department's operating procedures, accounting practices, and compliance with County policy.



## APPENDIX B: FINDING TYPE CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
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 <b>Critical Control Weaknesses</b> brought to its attention immediately.	These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. <b>Significant Control Weaknesses</b> require prompt corrective actions.	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. <b>Control Findings</b> are expected to be addressed within our follow-up process of six months, but no later than twelve months.



## APPENDIX C: OC PUBLIC WORKS MANAGEMENT RESPONSE



County Administration South  
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(714) 667-8800

info@ocpw.ocgov.com

OCPublicWorks.com



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Services



OC Development  
Services



OC Facilities Design  
& Construction  
Management



OC Facilities  
Maintenance  
& CUF



OC Fleet Services



OC Construction



OC Environmental  
Resources



OC Operations &  
Maintenance



OC Infrastructure  
Programs



OC Survey

## ORANGE COUNTY OC Public Works MEMORANDUM

**To:** Aggie Alonso, CPA, CIA CRMA, Internal Audit Department  
**From:** James Treadaway, Director of Public Works  
**Date:** October 13, 2020  
**Subject:** Response to Draft Report – Purchasing & Contract Audit No. 1911

OC Public Works has received and reviewed the draft form of the Internal Audit Department's audit of Purchasing & Contracting and hereby provides the following responses to the recommendations:

### Finding No. 1 – User Access

**Recommendation:** OCPW management should perform a documented, periodic review of user access roles within OC Expediter and ensure employees separations are reported within a reasonable timeframe to HRS.

**Response: Concur with recommendation.** OCPW management will formalize the OC Expediter user access review process to include periodic reviews of both the Final Approver and Budget Approver roles. The revised policy and procedure will be approved and implemented by April 30, 2021. OCPW management will ensure supervisors engage HRS during employee separations to foster timely reporting.

### Finding No. 2 – Insurance Endorsements

**Recommendation:** OCPW management ensure contracts contain the County of Orange as an endorsement on the waiver of subrogation.

**Response: Concur with recommendation.** OCPW Procurement Services will ensure contract templates are updated, by December 1, 2020, to contain the County of Orange as an endorsement on the waiver of subrogation.

### Finding No. 3 – Internal Policy and Procedures

**Recommendation:** OCPW management ensure internal policy and procedures regarding purchasing are properly established, distributed, and trained on.

**Response: Concur with recommendation.** OCPW Procurement Services will continue to adhere to County Procurement Office policies for the procurement of commodities and services. OCPW will create internal policies and procedures, aligned with CPO, for the distribution to and training of appropriate staff by April 30, 2021.

Should you have any questions, please contact James Treadaway by telephone at (714) 667-9700 and/or email at [James.Treadaway@ocpw.ocgov.com](mailto:James.Treadaway@ocpw.ocgov.com).

# INTERNAL AUDIT DEPARTMENT

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Response to Draft Report – Purchasing & Contract Audit No. 1911

October 13, 2020

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cc: Scott Suzuki, CPA, CIA, CISA, CFE, Assistant Director, Internal Audit Department  
Michael Dean, CPA, CIA, CISA, Senior Audit Manager, Internal Audit Department  
Lala Ragen, Deputy Chief Operating Officer, County Executive Office  
Tim Corbett, Chief Deputy Director, OCPW  
Ron Vienna, Deputy Director of Administrative Services, OCPW  
Joseph Sly, Procurement Services Manager, OCPW  
Tam Vu, Revenue Streams Manager, OCPW

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