



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: Sheriff-Coroner Purchasing & Contracts

For the Year Ended September 30, 2019

Audit No. 1912

Report Date: February 1, 2021

Number of Recommendations

0

**Critical Control
Weaknesses**

0

**Significant Control
Weaknesses**

4

Control Findings

OC Board of Supervisors

CHAIRMAN ANDREW DO
1st DISTRICT

VICE CHAIRMAN DOUG CHAFFEE
4th DISTRICT

VACANT
2nd DISTRICT

SUPERVISOR DONALD P. WAGNER
3rd DISTRICT

SUPERVISOR LISA A. BARTLETT
5th DISTRICT



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
Sheriff-Coroner Purchasing & Contracts

February 1, 2021

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an Internal Control Audit of Sheriff-Coroner's (OCSD) purchasing and contracts process for the year ended September 30, 2019.	
RESULTS	<ul style="list-style-type: none">We concluded OCSD's internal control over the purchasing and contracts process was 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 recorded.We concluded that the purchasing process is generally efficient.	
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none">Inconsistent application of management directives.Unnecessary appropriations reserve funds that could be made available for other uses.Inappropriate system role assignments and delays in the requisition process.Potential appearance of conflict of interest.	
NUMBER OF RECOMMENDATIONS	Opportunities for enhancing internal control include:	
0	CRITICAL CONTROL WEAKNESSES	<ul style="list-style-type: none">Documenting internal policy and procedures.Ensuring encumbrance balances are periodically reviewed and adjusted as necessary.Conducting documented, periodic reviews of OC Expediter user roles.Implementing procedures to document the hiring of County employees for services.
0	SIGNIFICANT CONTROL WEAKNESSES	
4	CONTROL FINDINGS	

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



INTERNAL AUDIT DEPARTMENT

Audit No. 1912

February 1, 2021

To: Don Barnes
Sheriff-Coroner

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

Subject: Internal Control Audit: Sheriff-Coroner Purchasing & Contracts

We have completed an Internal Control Audit of Sheriff-Coroner's (OCSD) Purchasing & Contracts process for the year ended September 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.

OCSD concurred with all our recommendations, and the Internal Audit Department considers OCSD'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 OCSD'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
- Sheriff-Coroner Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Eide Bailly LLP, County External Auditor

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RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS

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

- ✓ The Purchasing Unit follows policy established by the County Procurement Office's (CPO) Contract Policy Manual and participates in annual compliance reviews.
- ✓ The entire purchasing cycle is documented on the County's internal OC Expediter requisition system. The requisition captures approvals and actions from Program, Budget, and Purchasing staff including the assigned Deputy Purchasing Agent (DPA).
- ✓ All procurement solicitations are posted in BidSync, the County's vendor notification system. Communication such as solicitation packet instructions and winning bidder notices are published for vendor access.
- ✓ DPAs conduct a vendor sanction screening and security vetting process and confirm proper insurance prior to vendor selection. Potential vendors performing work unescorted in jail facilities must also pass a background check prior to vendor selection.
- ✓ Purchasing authorization limits are well-documented and appear reasonable based on position titles.
- ✓ Vendor procurement folders are organized by CPO's assigned numbering structure in a secured storage room for a five-year period in accordance with the County's retention policy.
- ✓ Vendor folders are well-organized and use a Compliance Review checklist to document contract details and inclusion of specific forms and support.
- ✓ OCSD's Research & Development Unit maintains well-organized, documented construction policy and procedures.

FINDING NO. 1

User Access Review

OC Expediter has an excessive number of users with the Final Approver permission. In addition, OCSD Purchasing does not perform routine reviews of user access roles for appropriateness.

OC Expediter access levels vary by user role, such as Budget Approver, Final Approver, and Department Buyer. We noted 221 of 271 (82%) active users were assigned as Final Approvers.

CATEGORY

Control Finding



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RISK	Lack of periodic user access reviews and excessive user roles increases the risk of inappropriate role assignments, which can delay requisitions routed to an unintended user or lead to unauthorized transactions.
RECOMMENDATION	OCSD management: A. Limit OC Expediter user roles to staff actively performing those duties and select backup personnel only. B. Perform documented, periodic reviews of OC Expediter user access roles for appropriateness.
MANAGEMENT RESPONSE	Concur. OCSD has reviewed the "Final Approver" user roles in OC Expediter. As a result, the number of users assigned the "final approver" roles was reduced to approximately 95. OCSD will conduct periodic, documented reviews of OC Expediter's user roles to ensure the list is current and appropriate for the operational needs of OCSD.

FINDING No. 2	Internal Policy and Procedures OCSD's Purchasing Unit does not have certain documented internal policy and procedures (P&P). While OCSD closely follows P&Ps established by the County Procurement Office, the Purchasing Unit performs the following additional best practices that would benefit from written documentation: <ul style="list-style-type: none">• Analysis of OC Expediter user workload reports to consider Deputy Purchasing Agent (DPA) availability for solicitation assignment.• Monitoring vendor details to identify upcoming action needed from Purchasing management and DPAs.• Monitoring active encumbrances to ensure only appropriate balances remain open based on anticipated business needs.
CATEGORY	Control Finding
RISK	Lack of documented policy and procedures could lead to inconsistent practices resulting in ineffective workload distribution, missed critical action dates, and soliciting vendor services past their contract period.
RECOMMENDATION	OCSD management ensure internal policy and procedures regarding purchasing are completely documented.
MANAGEMENT RESPONSE	Concur. OCSD currently adheres to the County Procurement Office Contract Policy Manual, however OCSD Purchasing will document internal purchasing procedures to ensure consistency and accuracy in the execution of procurement assignments.



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FINDING NO. 3	Encumbrance Review <p>The Purchasing Unit does not routinely review older encumbrances to determine which are still needed and which can be canceled as required by County policy.</p> <p>We reviewed 164 encumbrances recorded between July and December 2018 and noted \$692,575 of \$718,290 (96%) remained open.</p>
CATEGORY	Control Finding
RISK	In addition to non-compliance with County policy, unnecessary appropriations reserve funds that could be made available for other uses. Furthermore, payments could be unintentionally remitted from old encumbrances outside of current contract terms.
RECOMMENDATION	OCSD management ensure encumbrance balances are periodically reviewed and adjusted as necessary.
MANAGEMENT RESPONSE	Concur. OCSD Purchasing's Unit does not review encumbrance balances however OCSD's Accounts Payable Team reviews the encumbrance list provided by the Auditor Controller's Office and this listing is finalized and approved by the Financial Officer and adjustments are processed as necessary.

FINDING NO. 4	Professional Services Provided by County Employees <p>We noted one County employee was hired via a five-year contract totaling \$3,400 to provide specialized training courses.</p> <p>The contract and invoice documentation reviewed did not disclose that the contractor was a current County employee or certify that work was not performed on County time.</p> <p>OCSD stated employees are occasionally hired as subject matter experts and use vacation or personal hours on training days. Although this is not expressly prohibited, OCSD does not have a formal policy to ensure transparency in the purchasing documents.</p>
CATEGORY	Control Finding
RISK	Reputational impact to the County due to a conflict of interest where a County employee is paid under contract to perform duties expected as part of their County employment, and inappropriate use of public funds if work performed is executed as part of the employee's paid work time.



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RECOMMENDATION	OCSD management implement a policy permitting professional services by County employees and procedures on how to properly document when a County employee is hired to provide professional services to ensure there is no conflict of interest.
MANAGEMENT RESPONSE	Concur. OCSD Purchasing will coordinate with PSD to ensure future requisitions comply with County policy and Contract documentation reflects there is no conflict of interest.

AUDIT TEAM	Scott Suzuki, CPA, CIA, CISA, CFE Michael Dean, CPA, CIA, CISA Gianne Morgan, CIA Gabriela Cabrera Stephany Pantigoso Mari Elias, DPA	Assistant Director Senior Audit Manager Audit Manager Senior Auditor Senior Auditor Administrative Services Manager
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APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objectives were to:</p> <ol style="list-style-type: none"> 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. 2. Review the purchasing process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control over OCSD's purchasing and contracts process for the year ended September 30, 2019. Our methodology included inquiry, observation, and examination of documentation.</p>
EXCLUSIONS	<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; and contracts not administered by the Purchasing unit, such as leases and public works.</p>
PRIOR AUDIT COVERAGE	<p>We have not issued any audit reports for OCSD with a similar scope within the last ten years.</p>
BACKGROUND	<p>OCSD's contracts are largely administered by two units within the Financial/Administrative Services Division: Purchasing (non-construction) and Law Enforcement Contract Services/Real Estate (construction-related). In addition, the Facilities Planning unit within the Research & Development Division oversees OCSD's construction contracts.</p> <p>During the audit period, OCSD's total contract order amount was approximately \$107 million.</p> <p>County Contract Policy Manual (CPM)</p> <p>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, was used as the criteria for this audit.</p>



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PURPOSE & AUTHORITY	We performed this audit in accordance with the Annual Risk Assessment & Audit Plan for FY 2020-21 approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
PROFESSIONAL STANDARDS	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.
FOLLOW-UP PROCESS	<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>
MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL	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.
INTERNAL CONTROL LIMITATIONS	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 Critical Control Weaknesses 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. Significant Control Weaknesses 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. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



APPENDIX C: SHERIFF-CORONER MANAGEMENT RESPONSE

ORANGE COUNTY SHERIFF'S DEPARTMENT

EXTERNAL MEMO

To: Director Aggie Alonso, Orange County Internal Audit Department
From: Director Noma M. Crook, Financial/Administrative Services Division
Date: January 25, 2021
RE: Internal Control Audit: Sheriff-Coroner Purchasing and Contracts #1912



As requested, attached is the response to the Internal Control Audit: Sheriff-Coroner Purchasing and Contracts Draft Audit Report and the Management Representation Letter.

If you have any questions or require additional information, please contact Monique Vansuch, Audit Manager at (714) 834-3201 or me at (714) 834-6681 for further assistance.

c: Executive Director Brian Wayt, Administrative Services Command
Sharon Tabata, Assistant Director, Financial/Administrative Services Division
Lisa Watanabe, Financial Officer, Financial/Administrative Services Division
Linh Vuong, Cost/Audit Manager, Financial/Administrative Services Division
Lyle Rossow, Purchasing Manager, Financial/Administrative Services Division
Scott Suzuki, Assistant Director, Orange County Internal Audit Department
Michael Dean, Senior Audit Manager, Orange County Internal Audit Department

Integrity without compromise | Service above self | Professionalism in the performance of duty | Vigilance in safeguarding our community



Internal Control Audit: Sheriff-Coroner Purchasing and Contracts #1912

Sheriff-Coroner Response

Finding # No. 1:

User Access Review

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OC Expediter access levels vary by user role, such as Budget Approver, Final Approver, and Department Buyer. We noted 221 of 271 (82%) active users were assigned as Final Approvers.

Recommendation:

OCSD management:

- A. Limit OC Expediter user roles to staff actively performing those duties and select backup personnel only.
- B. Perform documented, periodic reviews of OC Expediter user access roles for appropriateness.

Response:

Concur. OCSD has reviewed the “Final Approver” user roles in OC Expediter. As a result, the number of users assigned the “final approver” roles was reduced to approximately 95. OCSD will conduct periodic, documented reviews of OC Expediter’s user roles to ensure the list is current and appropriate for the operational needs of OCSD.

Finding No. 2:

Internal Policy and Procedures

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While OCSD closely follows P&Ps established by the County Procurement Office, the Purchasing Unit performs the following additional best practices that would benefit from written documentation:

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- Monitoring vendor details to identify upcoming action needed from Purchasing management and DPAs.
- Monitoring active encumbrances to ensure only appropriate balances remain open based on anticipated business needs.

Recommendation:

OCSD management ensure internal policy and procedures regarding purchasing are completely documented.

Internal Control Audit: Sheriff-Coroner Purchasing and Contracts #1912

Sheriff-Coroner Response

Response:

Concur. OCSD currently adheres to the County Procurement Office Contract Policy Manual, however OCSD Purchasing will document internal purchasing procedures to ensure consistency and accuracy in the execution of procurement assignments.

Finding No. 3:

Encumbrance Review

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We reviewed 164 encumbrances recorded between July and December 2018 and noted \$692,575 of \$718,290 (96%) remained open.

Recommendation:

OCSD management ensure encumbrance balances are periodically reviewed and adjusted as necessary.

Response:

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Recommendation:

OCSD management implement a policy permitting professional services by County employees and procedures on how to properly document when a County employee is hired to provide professional services to ensure there is no conflict of interest.

Internal Control Audit: Sheriff-Coroner Purchasing and Contracts #1912
Sheriff-Coroner Response

Response:

Concur. OCSD Purchasing will coordinate with PSD to ensure future requisitions comply with County policy and Contract documentation reflects there is no conflict of interest.

