



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: Social Services Agency Purchasing & Contracts

For the Year Ended August 31, 2020

Audit No. 2016

Report Date: September 23, 2021

Number of Recommendations

0

**Critical Control
Weaknesses**

0

**Significant Control
Weaknesses**

3

Control Findings

OC Board of Supervisors

CHAIRMAN ANDREW DO
1st DISTRICT

VICE CHAIRMAN DOUG CHAFFEE
4th DISTRICT

SUPERVISOR KATRINA FOLEY
2nd DISTRICT

SUPERVISOR DONALD P. WAGNER
3rd DISTRICT

SUPERVISOR LISA A. BARTLETT
5th DISTRICT



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
Social Services Agency Purchasing & Contracts

September 23, 2021

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of Social Services Agency (SSA) purchasing and contracts process for the year ended August 31, 2020.
RESULTS	<ul style="list-style-type: none"> SSA's internal control over the purchasing and contracts 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 recorded. SSA's purchasing and contracts process is generally efficient.
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> Increased risk of duplication or alteration of documents. Inconsistent system role assignments or changes to requisitions. Inconsistent methods of purchasing.
NUMBER OF RECOMMENDATIONS	<p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none"> Accepting digital signatures for procurement document approvals. Conducting documented, periodic reviews of purchasing system user roles. Updating internal policy and procedures to reflect the most current Contract Policy Manual.
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

Audit No. 2016

September 23, 2021

To: Debra J. Baetz
Social Services Agency Director

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

Subject: Internal Control Audit: Social Services Agency Purchasing & Contracts

We have completed an internal control audit of Social Services Agency (SSA) purchasing and contracts process for the year ended August 31, 2020. 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.

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

INTERNAL AUDIT DEPARTMENT

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 purchasing system. The system captures requisition-related approvals and actions from Program, Budget, and Purchasing staff, including the assigned deputy purchasing agent (DPA).
- ✓ DPAs and Program end-users collaborate on solicitation packet details prior to advertising the request for goods/services in BidSync, the County's vendor notification system.
- ✓ Purchasing management encourages DPAs to optimize purchase options and pricing by considering both pre-approved and new regional cooperative agreements (RCAs).
- ✓ Purchasing management thoroughly reviews sole source requests to ensure justification for use is appropriate and confirms that an alternate vendor is not available.
- ✓ Administrative managers, supervising procurement contract specialists, and procurement contract specialists are the only roles granted to approve contracts.
- ✓ Program end-users monitor vendor performance and quickly communicate any issues to the assigned DPA for necessary action.
- ✓ Purchasing folders include a contract summary sheet with important details such as vendor and SSA primary contacts, recorded encumbrances, and paid invoices.
- ✓ Encumbrances are reviewed according to the Auditor-Controller's fiscal mid-year and year-end schedules to ensure only appropriate balances remain open.
- ✓ Prior to the COVID-19 pandemic, SSA established a Department Operations Center (DOC) as part of its business continuity plan. The DOC is a department-specific response team including staff from different units (e.g., finance, operations) to allow streamlined collaboration in urgent circumstances.



INTERNAL AUDIT DEPARTMENT

FINDING No. 1	Wet Signature Approvals <p>SSA's process for review and approval of procurement documents requires wet signatures.</p> <p>SSA implemented a remote telework policy allowing staff to minimize in-person contact due to the COVID-19 pandemic. Staff schedules were staggered for necessary in-office work, therefore, not all procurement supervisors were onsite to provide wet signatures as documentation became available for review. This resulted in some files being signed by any available in-office supervisor, instead of the assigned supervisor who would be most knowledgeable about that specific solicitation.</p> <p>Departments must maintain physical procurement folders per the CPO. However, there is no requirement for wet signatures.</p> <p>Subsequent to and as a result of our audit, the Purchasing Unit began using electronic signatures to provide documentation approvals.</p>
CATEGORY	Control Finding
RISK	Use of wet signatures when not required results in inefficient use of staff time. Electronic signatures are more secure and less susceptible to forgery.
RECOMMENDATION	SSA management: <ul style="list-style-type: none">A. Implement use of electronic signatures for procurement document approvals, unless otherwise required.B. Develop policy and procedures for the use of electronic signatures, including any necessary restrictions.
MANAGEMENT RESPONSE	Concur. SSA concurs with this finding. The recommendation relating to the use of electronic signatures for procurement document approvals, unless otherwise required, has been implemented. During the evaluation period, OCIT facilitated a six (6) month workgroup to better identify the best digital signature solution for the entire agency. In April 2021, SSA Procurement started using DocuSign for digital signatures and a policy and procedure will be finalized by December 31, 2021.



INTERNAL AUDIT DEPARTMENT

FINDING NO. 2	Purchasing System User Permissions & User Account Review <p>SSA Purchasing does not perform routine reviews of user access roles in the County Purchasing system.</p> <p>Access levels vary by user role, such as Budget Approver, Final Approver, and Department Buyer. We noted 147 of 227 (65%) active users (not including initiators) were assigned as Final Approvers. Final Approvers are specific users who have authority to approve and update the requisition with status "Final Approval". These users are usually department designees by the department head.</p>
CATEGORY	Control Finding
RISK	Lack of periodic user role reviews increases the risk of inappropriate access and can lead to unauthorized transactions.
RECOMMENDATION	SSA management perform documented, periodic reviews of purchasing system user access roles for appropriateness.
MANAGEMENT RESPONSE	Concur. SSA concurs with the finding. SSA will implement an annual review of OC Expediter users by December 31, 2021. The SSA OC Expediter Governance representative will maintain documentation records of the annual review.

FINDING NO. 3	Internal Policy and Procedures <p>Several Purchasing Unit policy and procedures (P&Ps) are outdated in this otherwise well-detailed document.</p> <p>We noted six P&Ps with last revision dates ranging from 2014 to 2018 that reference outdated policy from prior Contract Policy Manuals. These internal P&Ps are intended to provide standard guidance to Purchasing staff.</p>
CATEGORY	Control Finding
RISK	Outdated policy and procedures could lead to inconsistent practices resulting in errors and inefficiencies, as well as increased risk of non-compliance with current County policy.
RECOMMENDATION	SSA management update all internal policy and procedures regarding purchasing and align them with current County policy.



INTERNAL AUDIT DEPARTMENT

MANAGEMENT RESPONSE

Concur. SSA concurs with the finding. The County Procurement Office released the Procurement Purchasing Manual (PPM) on July 1, 2021 for all county agencies to use. The PPM includes P&Ps for every aspect of the purchasing process. The SSA Procurement Manager has been part of the PPM development workgroup since 2019. SSA will update all the purchasing policies to align with the PPM by June 30, 2022.

AUDIT TEAM

Scott Suzuki, CPA, CIA, CISA, CFE	Assistant Director
Michael Dean, CPA, CIA, CISA	Senior Audit Manager
Zan Zaman, CPA, CIA, CISA	Audit Manager
Gabriela Cabrera	Senior Auditor
Stephany Pantigoso	Senior Auditor
Mari Elias, DPA	Administrative Services Manager



INTERNAL AUDIT DEPARTMENT

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 contracts process 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.2. Review the purchasing process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control over SSA's purchasing and contracts process for the year ended August 31, 2020. Our methodology included virtual inquiry and observation, as well as physical examination of documentation.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of administration over Health and Human Service contracts; leases, which are managed by CEO Real Estate; or Public Works and Architecture & Engineering contracts, which are managed by OC Public Works. In addition, our scope did not include a review of CAPS+ or other IT systems or user access controls.</p>
PRIOR AUDIT COVERAGE	<p>We have not issued any audit reports for SSA with a similar scope within the last ten years.</p>
BACKGROUND	<p>The Social Services Agency's (SSA) mission is "to deliver quality services that are accessible and responsive to the community, encourage personal responsibility, strengthen individuals, preserve families, and protect vulnerable adults and children." SSA's operations are carried out by four divisions including the Administrative Services Division. Within Administrative Services, the Contracts & Procurement team is responsible for contract administration.</p> <p>During the audit period, SSA's recorded contracts totaled an order amount of approximately \$171 million.</p> <p>County Contract Policy Manual</p> <p>The County Contract Policy Manual (CPM) was adopted by the Board of Supervisors 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 2019 CPM, which was effective October 1, 2019, was used as the criteria for this audit.</p> <p>Purchasing System</p> <p>SSA utilizes the County Purchasing system for day-to-day purchasing activities. The common name of the system has been omitted from this report for information security purposes.</p>



INTERNAL AUDIT DEPARTMENT

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).
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.



INTERNAL AUDIT DEPARTMENT

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.



INTERNAL AUDIT DEPARTMENT

APPENDIX C: SOCIAL SERVICES AGENCY MANAGEMENT RESPONSE

DocuSign Envelope ID: FEB16E8E-23BF-49EB-92EC-914DFCFBF33A



M E M O

September 16, 2021

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

FROM: Debra J. Baetz, Social Services Agency Director

SUBJECT: Response to Draft Report-Audit No. 2016, Internal Control Audit: Social Services Agency Purchasing & Contracts

The OC Social Services Agency has received and reviewed in draft form, the Internal Audit Department's audit of internal controls of the Social Services Agency's Purchasing and Contracts for the year ended August 31, 2020.

OC Social Services Agency hereby provides the following responses to the Internal Audit Department's Recommendations:

FINDING 1: WET SIGNATURE APPROVALS

RECOMMENDATION: SSA management to A) Implement use of electronic signatures for procurement document approvals, unless otherwise required, and B) Develop policy and procedures for the use of electronic signatures, including any necessary restrictions.

SSA MANAGEMENT'S RESPONSE: SSA concurs with this finding. The recommendation relating to the use of electronic signatures for procurement document approvals, unless otherwise required, has been implemented. During the evaluation period, OCIT facilitated a six (6) month workgroup to better identify the best digital signature solution for the entire agency. In April 2021, SSA Procurement started using DocuSign for digital signatures and a policy and procedure will be finalized by December 31, 2021.

FINDING 2: PURCHASING SYSTEM USER PERMISSIONS & USER ACCOUNT REVIEW

RECOMMENDATION: SSA management to perform documented, periodic reviews of purchasing system user.

SSA MANAGEMENT'S RESPONSE: SSA concurs with the finding. SSA will implement an annual review of OC Expediter users by December 31, 2021. The SSA OC Expediter Governance representative will maintain documentation records of the annual review.



INTERNAL AUDIT DEPARTMENT

DocuSign Envelope ID: FEB16E8E-23BF-49EB-92EC-914DFCFBF33A

FINDING 3: INTERNAL POLICY AND PROCEDURES

RECOMMENDATION: SSA management update all internal policy and procedures regarding purchasing and align them with current County policy.

SSA MANAGEMENT'S RESPONSE: SSA concurs with the finding. The County Procurement Office released the Procurement Purchasing Manual (PPM) on July 1, 2021 for all county agencies to use. The PPM includes P&Ps for every aspect of the purchasing process. The SSA Procurement Manager has been part of the PPM development workgroup since 2019. SSA will update all the purchasing policies to align with the PPM by June 30, 2022.

DocuSigned by:
Debra J. Baetz
667F02FFE75F423...

9/20/2021

Debra J. Baetz, Social Services Agency Director

Date

